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Future Hegemonic Rivalry between China and the West?

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ABSTRACT

Currently, there is a unipolar distribution of power. The United States reigns supreme. Russia's economic power will remain insufficient to underwrite a renewed attempt to establish global leadership. While the European Community still commands sufficient resources for exercising global leadership, it lacks the political foundation for unitary action. Moreover, the European addiction to the welfare state undermines European competitiveness. Japan is too much of a 'trading state' and unlikely to become a first-rate military power, before she is overtaken by China in economic size. So, count Russia, Europe and Japan out as conceivable challengers to United States hegemony. China is the only plausible candidate. Its economic growth rate is nothing less than spectacular. Moreover, the Chinese government seems capable of extracting the necessary resources for waging a hegemonic rivalry from a society that is likely to remain quite poor for at least another generation. There are a number of conceivable scenarios for the emerging American-Chinese relationship. The future will depend on the relative speed of the American decline and the rise of China as well as on the openness of the global economy. The more open the global economy, the better the prospects for rising per capita incomes in China become, the better the prospects for some mellowing or even democratization of the Chinese regime. Only if the West sticks together under American leadership and if creeping capitalism in China leads to creeping democratization later, is hegemonic rivalry likely to remain benign and peaceful.

[Page 1]

1. From Bipolarity to Unipolarity

Economic decline has been the root cause of the collapse of communism in the Soviet Union and elsewhere in Central and Eastern Europe. As has been noted by two German economists (1), the end of the cold war, caused by the collapse of communism, is a kind of corroboration of some Marxist propositions. For Marxists, the political and ideological superstructure depends on the underlying economic forces. If the economy declines, if politics and ideology become fetters for the development of productive forces, then the superstructure is swept away. This has happened.

Communism has persistently been a failure in the production of consumer goods. Communism was never good at providing incentives, or at inventing new processes and products, or at efficiently allocating resources. Still, the Soviet Union and its allies were capable of competing with the more populous and more affluent West in the arms race for decades (2). While Soviet economic performance eroded over time (3), the external challenge simultaneously became more serious. Because of the American rearmament during the first Reagan administration and the strategic defense initiative (SDI), the Soviet Union had to face the possibility that the United States and the West might start to participate in a serious rather than leisurely way in the arms race. An implication of this possibility - which, under worst case assumptions, however, must have looked like a real prospect to Soviet leaders - was the conclusion that economic decline endangers the technological basis [Page 2]

of military power in the long run, and that therefore the deficiencies of the Soviet economy had to be remedied. Seriously thinking about the causes of Soviet economic troubles had to undermine the ruling ideology, i.e., the root cause of the troubles.

Although economic decline and renewed American pressure under Reagan promised a dark future to the Soviet Union, there was little reason to panic. The nuclear balance of terror, the military strength of the Soviet Union, and the democratic character of Soviet adversaries provided military security for the Soviet Union for some time to come. Instead of seeking relief by means of military adventures - obviously a dangerous strategy in the nuclear age - the USSR could consider domestic reform. For the USSR faced not only economic decline and Reagan's challenge epitomized by SDI, but also an easily appeasable opponent. As Deudney and Ikenberry (4) have put it, "a world dominated by liberal states affords remaining illiberal states both a need and an opportunity to liberalize".

Under Gorbachev the Soviet Union has attempted three modes of remedial action: perestroika, glasnost, and 'new thinking'. Out of these, the restructuring of the economy has been the most timid at the beginning and the least successful. The Soviet or Russian economy could not improve without first reintroducing scarcity prices as well as private property rights, i.e., nothing less than the substance of capitalism. Glasnost and the semi-free elections in spring 1989 may have changed the Soviet Union from a totalitarian and fully repressive system of government to semi-democratic and semi-repressive one. In general, semi-repressiveness promotes violence and political instability (5). The southern periphery of the Soviet Union soon illustrated this relationship quite forcefully. Moreover, glasnost has made it more difficult to hide the ills of the Soviet economy and the lack of tangible progress of perestroika.

Already in 1988, Brzezinski predicted that domestic reforms in the Soviet Union would result in a major crisis: "Unintentionally ... Gorbachev's policies are thus contributing to the buildup of a [Page 3]

potentially revolutionary situation. His reforms are creating

constituencies for change. They are unleashing hopes that are almost fated to be disappointed. They are creating dislocations that, in the meantime, are actually worsening the quality of life for the average person. They are also reducing the level of political fear - even as they raise the level of social frustration. Such a combination is inherently explosive." (6) In another respect, Brzezinski's prediction was as true as the one above, but much more precise, namely: "To decentralize a state-owned economy, one has to decentralize the political system as well. ... In effect, that is tantamount to the dissolution of the empire." (7)

Although the 'new thinking' in the Soviet Union looked suspect to many observers (including myself) at the beginning, it ultimately led to an understanding of the Soviet national interest "as a search for relief from burdens" (8) and to the replacement of the Breshnev doctrine by the Sinatra doctrine that permitted former Soviet clients to do it their way.

Jaruzelski could compromise with Solidarnosc and permit a semi-free election in Poland that the Communists decisively lost to Solidarnosc. Thus, in summer 1989 Poland replaced a Communist government by a non-Communist government. The protracted struggle of the Polish people against Communism throughout the 1980s had paid off. This was an extremely powerful demonstration that protests against Communism need not be in vain.

Instead of protecting ruling Communists against the local peoples, the Soviet Union occasionally came closer to pushing them aside. At [Page 4]

the very least, Gorbachev's visit to East Germany in fall 1989 clearly documented his lack of interest in maintaining a regime which was installed and maintained by Soviet troops. When demonstrators challenged the East German Communist government, Soviet troops remained in their barracks. The Soviets permitted revolutionary change in spite of the ready availability of about 380,000 troops to put it down. Soviet inactivity in East Germany and elsewhere in Eastern Europe was a litmus test demonstrating some truly 'new thinking'. Under Gorbachev the Soviet Union no longer wanted to overburden itself by continuing confrontation and an arms race against the United States, Western Europe and Japan. In order to end the Cold War, the Soviet Union has given up its Central and East European empire.

The failed coup in August 1991, the break-up of the Soviet Union, and Yeltsin's succession to power in the Russian core of the former Soviet Union testify to the democratic progress which Russia and some other parts of the former Soviet Union have made. But this progress remains vulnerable. Democracy might still fail with economic reform. By and large, you need a capitalist economy and a high standard of living in order to make democratic rule feasible and stable (9). It is hard to see how Russian democracy can be stabilized on the basis of persisting poverty and falling standards of living.

For 1991, the World Bank estimates that the purchase power corrected Russian GDP per capita was 31.3% of the American value.

Few, if any, experts believe that it has improved since then, or is [Page 5]

likely to significantly improve in the coming years. The Russian population was 58.5% of the American. Thus, the economic size of Russia was about 18.4% of the American (10). This economic size together with political and economic turmoil is clearly insufficient for a renewed Russian challenge to the West. Given the ample stocks in nuclear and other weapons, Russia could be a valuable partner in a coalition, but on its own Russia cannot make it. If allied to the United States, Russia would become a junior partner. If allied to China, Russia would start as an equal and become a junior partner quite soon. An alliance with a united Europe looks inconceivable to me.

Russia would matter most if it were allied to Germany. This would be a challenger coalition of the losers of World War II and of the Cold War, a kind of super-Rapallo. In some respects the contemporary European order looks like an invitation to a combined Russian-German challenge. Never in the last three centuries were the borders of the two most populous countries in Europe and their states, i.e., of Russia and Germany (or Prussia before 1871), so unfavorable to both of them at the same time.

While Hitler planned and began large scale ethnic cleansing in Eastern Europe at the expense of Poles and Russians to provide room for German settlements, World War II ended with more than 10 million Germans becoming victims of large-scale ethnic cleansing for the benefit of Poles, Czechs and (in northern East Prussia or Kaliningrad oblast) Russians. Russians did not (or not yet?) suffer a similar fate in the newly independent republics which formerly belonged to the Soviet Union. But many of them live under [Page 6] 'foreign' rule and resent it. Moreover, Russian nationalists are not yet resigned to the loss of the Ukraine which contains what some regard as the birthplace of 'Russian' political identity, i.e., Kiev, and the Crimea with a Russian majority and important naval bases, and the loss of much of the coastline of the Baltic Sea.

On top of these potential demands for correction of the misfortunes of recent history, there is the issue of northern East Prussia or Kaliningrad oblast. A look at the map demonstrates that this Russian exclave is unlikely to endure as it is. Either the Russians might want to reconnect it with their mainland, i.e., by annexation of Belarus and the Baltic states, or they might offer it (against some kind of compensation) to Germany. In either case it is hard to imagine this happening peaceably.

Although causes for resentment may drive Russians and Germans into each other's arms, such a coalition would suffer from imbalance and mutual suspicion from the beginning. Russia could contribute military power and Germany economic power. After sharing the spoils of reexpansion in Eastern Europe, renewed suspicion, or even hostility, would be almost inevitable.

Both sides would know it and might therefore be deterred from trying such a policy. Although Russians - especially those who voted for Zhirinovskiy in the December 93 elections - may be

desperate enough for such a coalition (11), prosperity or gentle decline is likely to protect Germans from this temptation. Moreover, even a German-Russian spoiler combination would not suffice for a serious challenge to American hegemony. Such a coalition becomes most likely if the German and the Russian economy [Page 7] experience grave difficulties at the same time, which, of course, thereby reduces the weight of the challenge. This spoiler combination may produce war or speed the decline of the West. It cannot replace American hegemony.

2. Potential Challengers to American Hegemony

a. Europe

Since the collapse of the Soviet Union, the United States has achieved military hegemony by default. Economically, the American situation still is quite comfortable. A few years ago, Samuel Huntington (12) reassured his fellow Americans: "If hegemony means producing 20 to 25 percent of the world product and twice as much as any other individual country, American hegemony looks quite secure." He added: "The most probable challenge to this prediction could come from a united European Community. The European Community, if it were to become politically cohesive, would have the population, resources, economic wealth, technology and actual and potential military strength to be the preeminent power of the 21st century. Japan, the United States and the Soviet Union have specialized respectively in investment, consumption and arms. Europe balances all three." This is not a prediction. It merely is Huntington's second best guess, if his expectation of continuing American hegemony turns out to be wrong. Still, the European Community that has renamed itself 'European Union' is a candidate hegemon to be discussed. It exceeds the United States in [Page 8] population, in GDP, in exports, and even in active armed forces (13).

Essential to all scenarios of renewed European greatness is European unity, i.e., a unity that overcomes bickering about agricultural subsidies, and who pays for them, and replaces it by a unity of political purpose and a unified, but purely European (rather than NATO) military structure. It is quite certain that this transcendence is not going to happen within a decade. It is uncertain whether it will ever happen, or whether even a unified Western Europe will be sufficient in the 2020s. Although I am very skeptical about European readiness to unite politically and militarily, another reason why I cannot imagine European hegemony is that a unified Europe is likely to decline even faster than a Europe of nation-states.

In my view (14), the rise of Europe compared to the great Asian civilizations over the past 500 years owes more to political fragmentation and the resultant limitation of governmental power than to any other single cause. In contrast to the great Asian civilizations which were often united under imperial rule, like China, Europe was politically disunited. There were interstate

rivalry and wars. The mere existence of an interstate system contributed to the limitation of governmental power over subjects and to decent government. If a European ruler or government was more superstitious in religious, ideological or philosophical affairs, or, in particular, more inclined to confiscate the property of merchants and producers than other European governments were, then the misgoverned territory tended to lose people, talent

[Page 9]

and capital to neighboring countries, some of whom were always hostile and ready to welcome refugees and their financial as well as human capital. Competition and hostility among European rulers provided an opportunity for exit to subjects. Therefore, European rulers had to resist their exploitative and kleptocratic desires and to concede relatively secure property rights to their subjects, in particular to merchants and to urban people. Therefore, private property rights were always safer in Europe than in the great Asian civilizations.

Limited government, private property rights and markets are essential to promote economic growth for a number of reasons. First, they provide producers with an incentive to work hard by establishing a link between effort and reward. By contrast, kleptocracy or socialism merely elicit shirking. Second, private property rights and markets permit the exploitation of knowledge which is scattered over thousands and millions of heads. No ruling authority has ever known or can ever know who knows what, or how to produce which goods or services most effectively. Third, private property rights promote innovation by protecting private decision-making from social or political interference. As Chinese explorers of the high seas and overseas merchants learned in the 15th century, when the Ming court outlawed overseas exploration and trade, governmental coercion can suppress innovation. A consensus requirement would be nearly as bad (15).

If all inventions and their applications had depended on social consent, we might still be in the stone age. Fourth, there can be no scarcity prices and, therefore, there can be no efficient

[Page 10]

resource allocation without a large number of independent property owners and traders.

In principle, a united Europe on the one hand and limited government, private property rights and market exchange at freely established scarcity prices on the other could be compatible with each other. Observation of political practice makes one suspicious, however. The common agricultural policy is still the most costly endeavour of the European Community or Union. It always has been an orgy of interventionism, inefficiency and injustice. By establishing minimum prices, the European Union guarantees overproduction. Price supports benefit rich farmers more than poor farmers.

Simultaneously, high food prices hurt poor consumers more than rich consumers. Moreover, exports of European farm products at subsidized prices hurt American farmers and thereby burden transatlantic relations, and hurt Third World or East European farmers, thereby reducing the chances of poor countries catching up

with the rich countries. In a nutshell, professional economists would be hard pressed to invent a policy doing as much harm for as little good as the European common agricultural policy. The more general point is that the Europeanization of economic policy -making establishes the opportunity to commit policy errors on a much grander scale than has been possible in most of European history. Politicians might exploit such opportunities.

European agricultural policies are also useful to make another point. Decisions are made to serve special interest groups or distributional coalitions, not to serve anything like national, [Page 11]

European, or cosmopolitan interests. According to Olson (16), aging political regimes in general, and aging democracies in particular, are likely to become prisoners of interests groups and to pursue ever less efficient economic policies. Governments intervene in the market, distort prices, transfer income - and interfere with efficient resource allocation. The older an established regime - for example, a democracy - becomes, the more it suffers from institutional sclerosis and declining economic growth.

Although empirical support for this proposition has been quite weak where American states have been compared with each other (17), Olson's proposition received fairly strong and consistent support where industrialized democracies have been analyzed (18). Moreover, economic decline was further reinforced by high government revenues, expenditures, or transfer payments (19). Some European countries, like Britain and Sweden, suffer from being old democracies (and therefore afflicted with strong distributional coalitions) and having high government expenditures simultaneously; others suffer from at least one of these ailments. Since European nations are still fairly close to the leading edge in technology, there is also little room to boost growth rates by capturing the 'advantages of backwardness'. Thus, Europe is likely to be outperformed by more dynamic regions elsewhere (20). If you add slowly declining economies and a proven record of not being capable of collective action in the security field, then the prospect of European hegemony displacing American hegemony looks poor.

[Page 12]

If a united Europe is not a plausible contender for hegemony what about its strongest component, Germany? I cannot take Germany seriously as a contender. First, on the eve of the reunification of Germany, the West German share of the European Community's GNP was about 25%. Even if East Germany were to become as productive as the West, the German share in the European Community GNP would not exceed 30%. Second, Germany has seriously mismanaged economic unification thereby postponing recovery in the East (21). Third, since purchase power-corrected average incomes in West Germany in 1991 were slightly less than 90% of American incomes, and since the entire German population was slightly less than 32% of the American population (22), it is hard to see how German GNP can even touch a third of the American GNP in the foreseeable future. Even a fairly desperate challenger coalition of Germany and Russia would find it difficult to exceed 50% of American economic size within

this century (23).

b. Japan

Japan is another candidate for hegemony. Since the end of World War II, it has outperformed all other industrialized economies. The Japanese economy is larger than any other, except for the American economy. Trend extrapolation seems to give Japan some chance of overtaking the United States early in the 21st century.

Nevertheless, one might suspect that Japan cannot sustain its past performance: some of the past success of Japan has to be attributed to the catch-up phenomenon. Japan could imitate best practices from more advanced countries, especially the United States, and

[Page 13]

therefore grow faster than other developed countries.

Moreover, Japan still had a large agricultural sector in the 1950s and 1960s. By reallocating labor from less productive agriculture to more productive industry, Japan could boost its growth rate. But these sources of enhanced growth are largely exhausted. So is the comparative weakness of distributional coalitions. In the post-World War II world, Japan's democracy was one of the youngest. According to Olson's theory (24), institutional sclerosis should have been a less effective brake on growth in Japan than elsewhere. Over time, this Japanese advantage should diminish. Finally, Japan largely avoided the welfare state trap. The greyer Japan becomes, the more difficult it will be to avoid this European disease. Therefore, I think that extrapolation overestimates Japan's potential (25). Moreover, currently (in 1993-94) the American economy does better than the Japanese.

Even if Japan could sustain its past growth rates, Japan is not yet a first-rate military power. It still lives under the American nuclear umbrella. Increasing defense expenditures in any way other than by stealth has been difficult in post-World War II Japan because of a growing economy and an allocation of about one percent of GNP to the military. Although Japan may have the capability to become a great power, it has yet to develop the will to become one (26). In my view, the Japanese face a fast-closing window of opportunity. While Japan still commands a larger economy

than China, China grows much faster and is likely to overtake Japan and the United States, if it can sustain current growth rates for another decade or two. Once China has overtaken Japan in economic

[Page 14]

size, a peaceable and underarmed Japan will find it difficult to acquire nuclear arms against its protector's (i.e. American) objection, and its nearby potential rival's (i.e. China's) objection (27). Japan is likely to remain richer than its giant Chinese neighbor, just as Switzerland is richer than larger France or Germany. High average incomes combined with military inferiority are not the stuff to make a candidate for hegemony.

c. China

According to the World Bank and the Economist (28), in 1991 China was already number three in the world GDP league, placed about halfway between Japan and Germany. Of course, GDP per head was only between eight and nine percent of Japanese or German incomes, and

less than eight percent of American incomes. But three characteristics make China a serious contender: first, the sheer weight of numbers; second, its spectacular economic growth rate; and, third, its military power that already includes possession of nuclear weapons.

Since China (29) had about 4.55 times the population of the United States and 0.076 times its GDP per head in 1991, it already has more than 35 percent of the economic size of the United States. By the way, this is approximately twice the size of the Russian economy. Other sources estimate the size of the Chinese economy to be between 45 and 60% of the American (30). Still, this would be a poor economic base to challenge the United States, if Chinese and

[Page 15]

American growth rates were similar in order of magnitude, or if Chinese and American state capabilities and willingness to impose burdens on their peoples were closely matched.

Neither of these conditions applies. For the 1980 -91 period the World Bank reports a Chinese per capita growth rate of 5.8 percent, and an American growth rate of 1.7 percent. Looking to GDP growth rates (31), China scores 9.4, while the United States scores 2.6. If the Chinese advantage in growth rates persists, the Economist expects the Chinese economy to match the American in size by 2010 (32).

Of course, it is risky to make growth predictions for nearly two decades. Political turmoil after Deng Xiaoping's death may throw the Chinese economy back for decades. After all, Communist -ruled China did suffer from terrible policy mistakes and turmoil in the past. The great leap forward in the late 1950s, the people's communes, and the resulting mass starvation cost between 15 and 40 million lives. Later, the cultural revolution killed at another 2 or 3 million people or more. Adding together all those who lost their lives because of Chinese Communism yields estimates up to the order of magnitude of 60 to 80 million victims (33). Thus, persistent Communist rule does permit the repetition of tragedy. But a case for optimism can be made. Charismatic, powerful and evil dictators - murdering people by the millions, like Hitler, Stalin, and Mao Zedong - are rare. Without being struck by a calamitous leadership twice in a short period of history, China stands a chance of catching up with the United States in economic size within a generation or less.

[Page 16]

Of course, a tacit assumption in any scenario where China prospers is political stability. Stability is not easily maintained in a country with significant regional disparities (34), where about hundred million people have left the countryside for uncertain work and housing prospects in the cities and tens of millions more are ready to go. Moreover, there is inflation, a succession crisis to come, and some depletion of regime legitimacy (35). Therefore, 'optimism' about China's future, political stability, and economic prospects in no way rules out future impositions of stability by brute force and repression, as in 1989.

Even now, the China-United States economic size ratio is comparable

to the Soviet-American ratio during the Cold War. This in itself demonstrates that a Communist dictatorship with between a third and half the economic power base of a democratic hegemon can mount a serious challenge. Remember Luttwak's dictum, according to which Communist leaders may be five times as effective as the West in getting military power out of an economy (36). While China does not overburden itself by an arms race in the same way as the late Soviet Union did, China's military spending and arms acquisition do certainly indicate a serious interest in great power status. Starting as a nuclear power and with real military spending recently growing at double digit rates (37), China builds the basis for a future challenge now.

The prospects of a Chinese bid for hegemony depend mainly on two factors. First, will China be capable of continuing its spectacular [Page 17]

economic growth for another decade or two (38)? Ruling out another period of government-imposed folly, as during the great leap forward or the cultural revolution, the prospects are good. Part of the extraordinary growth rate of China may be accounted for by the advantages of backwardness, i.e., by the possibilities to imitate best practices already applied in more advanced countries and to reallocate labor from agriculture to more productive industries. This source of growth is unlikely to be exhausted soon. Another widely accepted source of economic growth is human capital formation. Primary school enrollment is universal, and secondary school enrollment is better than it was in South Korea in 1970 or than it currently is in Thailand. Thus, human capital formation is sufficient to underwrite a continuation of the Chinese economic miracle. Another widely accepted source of growth is investment. Chinese gross domestic investment was significantly higher than elsewhere in the 1980s, and its growth rate has been surpassed only by South Korea (39). Again, investment provides no reason why the Chinese economic miracle should run out of steam soon.

The more difficult issues affecting the growth prospects of China are private property rights, competition, innovation, the size of the public sector, price distortions, openness and export-orientation of the economy. It has been argued that a chief reason why imperial China was overtaken by the West was the insecurity of property rights in China because of an arbitrary government (40). The Communists, of course, did not respect private property rights in the first decades of their rule. They [Page 18]

expropriated and massacred millions of rich peasants and capitalists deemed to be adversaries of the revolution. Then they forced peasants into cooperatives, and later into people's communes, thereby thinning out property rights and reducing incentives to work.

Since 1979, however, the ruling Communists under the competent stewardship of Deng Xiaoping did again decentralize property rights and return rights to work the land to individuals, families, or small groups of families (41). Thus, work incentives were reestablished in countryside. Since the overwhelming majority of the Chinese population lived in the countryside and worked the fields in the 1980s, and since rural incomes grew three-fold

in only eight years (42), this was the beginning of the Chinese economic miracle. However, while later reforms did permit the establishment of private manufacturing enterprises, and while private enterprises significantly outperform state-owned industrial giants (43), the security of private property rights must remain under suspicion in a regime still nominally committed to socialism.

Concerning competition, the situation is much better for two reasons. The weight of agriculture in the economy does guarantee competition between many producers, i.e., between peasants. Moreover, the devolution of economic power to the provincial or district or township levels itself reinforces competition. Where a township, village or rural district owns a textile factory, it has to compete with similar enterprises owned by other local governments, collectives, or private entrepreneurs. Often the

[Page 19]

competition is ferocious. In contrast to central-government-owned enterprises, local-government-owned enterprises are subject to hard budget constraints. To some degree, decentralized decision-making and competition in themselves foster innovation. Moreover, China can adopt innovations made elsewhere. The large population of overseas Chinese in Southeast Asia and elsewhere may serve as a transmission belt. Private property, competition, and openness tend to undermine price distortions. Although China still suffers from state-controlled prices and distortions, and although there is not yet a free (i.e., hire and fire) labor market, the situation did markedly improve in the last 15 years.

The most successful economies in the Chinese neighborhood, including Mainland China's hostile small brother Taiwan, grew by export-orientation (44). How export-oriented is China? According to World Bank data, the Chinese GDP in 1991 was 1.67 times the size of the Indian GDP. In general, larger economies trade less than smaller ones. Nevertheless, the ratio between Chinese and Indian exports in the same year was 3.12 (not somewhat less than 1.67, as could be expected). By this measure, China's orientation towards global markets is nearly twice as strong as India's. And India is the only country comparable to China in population, poverty, and potential market size. Moreover, in the 1970s the growth rate of China's exports was already twice as high as India's, although only about half as high as Taiwan's. In the 1980-91 period, however, the gap (ratio) between China's and India's export growth rates somewhat narrowed because of a big Indian improvement and a lesser, although still encouraging, Chinese improvement.

[Page 20]

In this more recent period the Chinese export growth rate fell between the Taiwanese and South Korean rates. Moreover, in 1991 China was the second largest recipient of foreign direct investment, after Mexico, which of course benefits from the closeness of the United States. By contrast, India received less than the World Bank's reporting threshold of one million dollars (45). Moreover, investor interest in China seems to grow. In the first half of 1993 direct foreign investment pledges were four times as high as they were in the corresponding period of 1992 (46). While these are all fairly crude indicators, they provide no reason to doubt that China can sustain the growth rates which it

experienced in the 1980s.

In order to realize its potential for growth, China has to reestablish macroeconomic stability. The central government's deficit is large and growing. Of course, this is related to provincial self-assertion and to inefficient and subsidy-dependent state enterprises. Too much of the budgetary shortfall is financed by the printing press and therefore fuels inflation. High and accelerating inflation generates distortions and dissatisfaction. Moreover, it is likely to reduce growth. But a serious attempt to reduce inflation cannot avoid hurting powerful interest groups: the military, if defense spending is cut; former urban workers with state enterprises who have to be laid off, if their enterprises try to become profitable - or if they fail and go bankrupt; or even businesses with close family links to the top party leadership, if credit availability is reduced. If the central government fails to stand up to special interests and gets the macroeconomic fundamentals wrong, then the prospects for China are darkened (47). [Page 21]

3. Alternative Scenarios for the New Age of Sino-American Bipolarity

Although American decline has been bemoaned too early and too often, the ascendance of China would imply some relative decline. Permanent unipolarity is an illusion and new great powers will arise (48). In my view, China is by far the most plausible candidate. Even if the economic size of China and the United States will be about equal, American per capita incomes may still be about five times as high as the Chinese. Thus, even then China will still enjoy some 'advantages of backwardness' and grow much more rapidly than the United States. If the United States is not ready for the management of decline, there will be only a single obvious option: Western unity, perhaps some kind of confederation between North America and Europe. There is a common cultural background and a common historical heritage (49). A Western or North Atlantic Union in, say, 2010 would almost immediately reestablish Western leadership (50). Moreover, Western unity might reassure the West sufficiently to make possible constructive engagement with China.

The rise and decline of great powers has always been difficult to manage peaceably (51). In the nuclear age we have to try. Even a Sino-American cold war would be a catastrophe. The United States and the West could not rely on winning once more. The Chinese might not oblige by mismanaging their economy, as the Soviets did. There [Page 22]

would be another arms race and another chance for nuclear deterrence to fail (52). Moreover, another cold war would almost certainly rule out a collaborative effort to mitigate the environmental problems that might urgently require action in the early 21st century. In fact, the economic rise of China and neighboring Asian countries by itself may well double the pollution problem (53).

A united and secure West would enjoy the margin of safety to choose collaboration rather than confrontation with China. In the 21st as in the 20th century prosperity will rest on free trade and a global

division of labor. Only free trade (or preferential market access, because free trade has been more likely within alliances, such as the America-centered alliance system, than between alliances) permitted Germany and Japan to recover after World War II. Only free trade permitted South Korea and Taiwan to outgrow poverty. Without free trade, especially without access to the American market, even Mainland China will stand little chance.

There is a reason why I refer to the two major losers of World War II and to the major small tigers of East Asia. By now, all of these countries are secure democracies. Who would have dared to predict so in the 1950s? These countries benefited from a causal chain running from free trade to prosperity, from prosperity to democracy, and from democracy to peace with other democracies (54). The dominant task for humankind in the 21st century will be to let China trade its way to prosperity (55), to let prosperous Chinese establish democracy on the Mainland (56), as prosperous Chinese did in the late 1980s and early 1990s on Taiwan, and to

[Page 23]
 establish some kind of democratic peace between the West and China - just as there has been a secure peace for a long period between the British and the American democracies. Thereafter, maybe in a century, even the decline of the West need not be more worrisome than the decline of Britain compared to the United States was in the 20th century.

Admittedly, free trade with China is a risky policy, especially if it succeeds in promoting capitalism and prosperity without producing democracy. I do understand why Betts (57) worries: "With only a bit of bad luck in the evolution of political conflict between China and the West, such high economic development (in China, E.W.) would make the old Soviet military threat and the more recent trade frictions with Japan seem comparatively modest challenges." Only Atlantic unity can give the West the strength and self-confidence to help China grow rich and prosperous by free trade. The rise of Asia in general, and of China in particular, makes ever closer ties between the United States and (Western) Europe more rather than less important. It is the only insurance we can buy.

Notes

1. Gerlinde und Hans-Werner Sinn: Kaltstart. Volkswirtschaftliche Aspekte der deutschen Vereinigung. München: Beck (dtv), 1993 (3rd ed.), pages 1-5.

[Page 24]

2. See Edward N. Luttwak: The Grand Strategy of the Soviet Union (New York: St. Martin's Press 1983), p. 115, for an evaluation of this achievement: "Somewhat mechanistically, we may estimate the 'power efficiency' of the Soviet empire by its ability to convert GNP into power. By that standard, we may say that the Soviet system is roughly five times as efficient as the alliance that embraces the United States, NATO Europe and Japan, since the combined GNPs of those countries are roughly five times as great as the Soviet, while their conjoint power is at best equal." Luttwak's 'power', of course, refers to military power only.

3. See Peter Murrell and Mancur Olson: "The Devolution of Centrally Planned Economies", *Journal of Comparative Economics* 15, 1991, 239-265.
4. Daniel Deudney and G. John Ikenberry: "The International Sources of Soviet Change", *International Security* 16(3), 1991-92, 74-118.
5. See Edward N. Muller: "Income Inequality, Regime Repressiveness, and Political Violence", *American Sociological Review* 50, 1985, 47-61; Erich Weede: "Some New Evidence on Correlates of Political Violence", *European Sociological Review* 3, 1987, 97-108.
6. Of course, a book published in 1989 must have been written no later than 1988. See Zbigniew Brzezinski: *The Grand Failure. The Birth and Death of Communism in the Twentieth Century*. New York: Charles Scribner's Sons, 1989, pp. 100-101.
[Page 25]
7. Op. cit., page 99. Some observers attribute even a willingness to destroy Communism to Gorbachev. See Charles H. Fairbanks: "The Nature of the Beast", *National Interest* 31, Spring 1993, 46-57, especially page 57: "Gorbachev, the leader of the country's communists, forced his own movement to commit suicide... The Bolshevik tradition inspired Gorbachev. The institutions and customs of democratic centralism empowered him. With that inspiration, and that power, he destroyed the state that he commanded."
8. See Stephen Sestanovich: "Inventing the Soviet National Interest", *National Interest* 20, Summer 1990, 3-16, page 14.
9. For a summary of the evidence, see Peter L. Berger: *The Capitalist Revolution* (New York: Basic Books, 1986) and the literature quoted there.
10. For numbers, see World Bank: *World Development Report 1993* (New York: Oxford University Press), pages 239 and 297. Although these numbers are outdated, they almost certainly exaggerate the economic size of Russia in 1993 or 1994. Recently, the *Economist* (Vol. 329, No. 7841, December 11, 1993, page 23) wrote: "Russia's output has fallen more in the past three years than America's did during the Great Depression..."
11. Zhirinovskiy seems ready to offer to Germany the territories that Germany lost in the two world wars - without asking Poles or Czechs for their opinion. See Jacob W. Kibb: "The Zhirinovskiy Threat". *Foreign Affairs* 73(3), May-June 1994, 72-86.
[Page 26]
12. Samuel P. Huntington: "The U.S. - Decline or Renewal?" *Foreign Affairs* 67(2), 1988/89, 76-96, quotes from pages 84 and 93.
13. "Survey: The European Community". *The Economist* (vol. 328, No. 7818, July 3rd, 1993).
14. See Erich Weede: *Wirtschaft, Staat und Gesellschaft* (Tübingen: Mohr, 1990) or "Ideas, Institutions and Political Culture in

Western Development", *Journal of Theoretical Politics* 2(4), 1990, 369-389. My thinking has been very much influenced by Eric Jones: *The European Miracle* (Cambridge: University Press, 1981) and Friedrich August von Hayek: *The Constitution of Liberty* (Chicago: University Press, 1960).

15. See Nathan Rosenberg and L.E. Birdzell: *How the West Grew Rich* (New York: Basic Books, 1986), page 310.

16. See Mancur Olson: *The Rise and Decline of Nations* (New Haven, CT: Yale University Press, 1982), also Murrell and Olson, op. cit. note 3.

17. See Virginia Gray and David Lowery: "Interest Group Politics and Economic Growth in the US States." *American Political Science Review* 52(1), 1988, 109-132. Clark Nardinelli, Miles S. Wallace and John T. Warner: "Explaining differences in state growth: Catching-up versus Olson." *Public Choice* 52, 1987, 210-213. Richard Vedder and Lowell Gallaway: "Rent-seeking, distributional coalitions, taxes, relative prices and economic growth." *Public Choice* 51, 1986, 93-100. John J. Wallis and Wallace E. Oates: "Does Economic Sclerosis Set in with Age?" *Kyklos* 41(3), 1988, 397-417. [Page 27]

18. See Peter Bernholz: "Growth of Government, Economic Growth and Individual Freedom." *Journal of Institutional Economics* 142, 1986, 661-683. Kwang Choi: "A Statistical Test of Olson's Model". Pp. 57-78 in Dennis C. Mueller, ed.: *The Political Economy of Growth* (New Haven, CT: Yale University Press, 1983). Jan-Erik Lane and Svante Errson: "Political Institutions, Public Policy and Economic Growth." *Scandinavian Political Studies* 9, 1986, 19-34. Erich Weede: "The impact of state power on economic growth rates in OECD countries." *Quality and Quantity* 25, 1991, 421-438.

19. See Bernholz and Weede, op. cit.; see also Fred C. Pampel and John B. Williamson: *Age, Class, Politics, and the Welfare State* (Cambridge: University Press, 1989) for an analysis of the welfare state and its defects.

20. The EC share in world manufacturing exports has been falling since 1980. Then it was above 22%. Now it is below 18%. "Survey: The European Community." *The Economist* (vol. 328, No. 7818, July 3rd, 1993, page 12).

[Page 28]

21. For the numbers as well as the evaluation of unification policies, see Sinn and Sinn, op. cit. note 1, esp. page 4. Also: Erich Weede: "The Politics and Economics of German Reunification: Are There Lessons for Korea?" *Korea and World Affairs* XVII (4), 1993, 648-670.

22. For numbers, see *World Development Report 1993*, op.cit. note 10, pages 239 and 297.

23. For Russia see the calculations at the end of the first section of this paper.

24. Op.cit., note 16.

25. At first glance, a more optimistic reading of the Japanese future is possible. See J. Bradford De Long and Lawrence H. Summers: "Equipment Investment and Economic Growth". Quarterly Journal of Economics 106, 1991, 445-502. They argue (page 455) "that differences in equipment investment account for essentially all of the extraordinary growth performance of Japan relative to other countries." The prediction that Japan might overtake the United States can be based on the fact that "the absolute level of industrial investment in the United States has fallen below that of Japan". See Wayne Sandholtz et al.: The Highest Stakes. The Economic Foundations of the Next Security System (New York: Oxford University Press, 1992, page 8). In my view, equipment investment itself is likely to fall, as Japan becomes more similar to European rent-seeking societies.
[Page 29]

26. See Peter J. Katzenstein and Nobuo Okawara: "Japan's National Security: [Page 30] Structures, Norms and Policies." International Security 17(4), 1993, 84-118. Or Thomas U. Berger: "From Sword to Chrysanthemum: Japan's Culture of Anti-Militarism." International Security 17(4), 1993, 119-150. Even if Japan developed the will, it may be argued that Japan suffers from a comparative disadvantage in international security rivalries. See Michael M. May: "Japan as Superpower?" International Security 18(3), 1993-94, 182-187. Moreover, even those who take Japan to be a very serious challenger have to admit that competitive defense production in Japan still lies 10 to 25 years in the future. See Sandholtz et al., op. cit., page 67.

27. For an extreme scenario see: "A World History, Chapter 13: The disastrous 21st century". The Economist (Vol. 325, No. 7791, December 26th, 1992, pages 17-19).

28. The Economist (Vol. 328, No. 7819, July 10th, 1993, page 63: Economic giants).

29. See World Development Report 1993, op.cit. note 10, pages 238-239 and 296-297.

30. The Economist (Vol. 325, No. 7787, November 28th, 1992. Survey: When China Wakes, esp. page 5). See also William H. Overholt: The Rise of China (New York: Norton, 1993).

31. See World Development Report 1993, pages 240-241.
[Page 30]

32. If you add Hongkong and Taiwan to the PRC, then the economic size of China may match the United States already in 2002. "Survey: Asia. A billion consumers". The Economist (vol. 329, No. 7835, October 30th, 1993, page 16). Or Nicholas D. Kristof: "The Rise of China". Foreign Affairs 72(5), 1993, 59-74, especially page 61. For a more pessimistic evaluation of Chinese prospects, see "Economic Focus: China". The Economist (vol. 331, No. 7861, April 30th, 1994, page 77).

33. See Jürgen Domes: The Government and Politics of the PRC (Boulder, CO: Westview, 1985) and Jürgen Domes and Marie-Luise Nath: Geschichte der Volksrepublik China (Mannheim: B.I.-Taschenbuch, 1992). The lower estimates come from the earlier

book (pages 38, 49 and 212); the higher numbers come from the more recent book (pages 46, 62 and 121). Somewhat lower figures are provided by Lowell Dittmer: *China Under Reform* (Boulder, CO: Westview, 1994), pages 14, 72.

34. Although per capita income in the richest region is about seven times as high as in the poorest province, it is a gross and misleading simplification to say that some coastal provinces boom and the interior does not. In the 1985-91 period, the fastest growing province was Xinjiang, in the northwest of China. Moreover, Yunnan in the southwest grew as fast as much advertised Guangdong. For relevant data and further reasons why a territorial disintegration of China is unlikely, see Overholt: *The Rise of China*, op. cit. note 30, especially chapter II. Another recent discussion of regional autonomy and conceivable disintegration is Gerald Segal: "China's Changing Shape". *Foreign Affairs* 73(3), May-June 1994, 43-58.

[Page 31]

35. See Gerrit W. Gong: "China's Fourth Revolution". *The Washington Quarterly* 17(1), Winter 1994, 29-43. Or, Eric Jones: "Asia's Fate: A Response to the Singapore School". *The National Interest* 35, Spring 1994, 18-28. Or, Dittmer: *China Under Reform*, op. cit. note 33.

36. See Luttwak: *The Grand Strategy of the Soviet Union*, op.cit. note 2, page 115. More generally, it has been found that Marxist regimes are capable of imposing twice to three times as high military burdens on their peoples as non-Marxist regimes. See James L. Payne: *Why Nations Arm* (Oxford: Blackwell 1989), esp. page 111.

37. See: "Asia's Arms Race: Gearing up". *The Economist* (Vol. 326, No. 7799, February 20th, 1993, pages 21-24). Or Kristof, op. cit. note 32. Or Desmond Ball: "Arms and Affluence: Military Acquisitions in the Asia-Pacific Region". *International Security* 18(3), 1993-94, 78-112.

38. Some estimates for 1993 run as high as 14%. See: "China's perpetual revolution". *The Economist* (Vol. 328, No. 7824, August 14th, 1993, pages 53-54).

[Page 32]

39. All of this information comes from the data appendix of the *World Development Report 1993*, op.cit. note 10. For reasons why I focus in these variables, see, for example, *World Bank: The East Asian Miracle* (New York: Oxford University Press, 1993).

40. See Eric Jones: *The European Miracle* (Cambridge: University Press, 1981). Tai-Shuenn Yang: *Property Rights and Constitutional Order in Imperial China* (Bloomington, IN: Workshop in Political Theory and Policy Analysis, 1987).

41. For information on these issues, see Domes or Domes and Nath, op.cit. note 33. But "the state retains ownership and has adamantly refused to forswear the possibility of eventual resumption of control, despite the chronic insecurity this arouses among peasants." Quoted from Dittmer: *China Under Reform*, op. cit. note 33, page 201.

42. "Survey: When China Wakes". The Economist (vol. 325, no. 7787, November 28th, 1992, page 4).

43. Inefficient and loss-making state firms still employ about 107 million people. Moreover, these firms simultaneously constitute welfare systems for workers. Their deficits contribute to the central government's deteriorating finances and inflationary pressure. See "China's perpetual revolution." The Economist (vol. 328, no. 7824, August 14th, 1993, pages 53 -54). In contrast to Soviet-type economies, managers at Chinese state - owned enterprises are rewarded or punished for their performance . If unsuccessful, they may lose about half of their salary. While factory workers have jobs for life, managers may be demoted or fired. See "Survey: When China Wakes". The Economist (Vol. 325, No. 7787, November 28th, 1992, page 15). Moreover, the size of public sector in total employment in the PRC should not be exaggerated. It is [Page 33]

44. See World Bank, op.cit. note 39. World Bank: World Development Reports 1987 and 1991 (New York: Oxford University Press, 1987 and 1991). David Dollar: "Outward-oriented Developing Economies Really Do Grow More Rapidly: Evidence from 95 LDCs". Economic Development and Cultural Change 40(3), 1992, 523 -544. Somewhat disagreeing: Robert Wade: Governing the Market (Princeton: University Press, 1990).

45. For the numerical information, see the data appendix of World Bank: World Development Report 1993 (New York: Oxford University Press, 1993).

46. "China's perpetual revolution". The Economist (Vol. 328, No. 7824, August 14th, 1993, pages 53 -54).

47. For a very pessimistic evaluation, see Richard Hornik: "Bursting China's Bubble". Foreign Affairs 73(3), May -June 1994, 28-42.

48. Compare Christopher Layne: "The Unipolar Illusion: Why New Great Powers Will Rise." International Security 17(4), 1993, 5 -51. In contrast to me, however, Layne takes Germany and Japan seriously as potential challengers.

[Page 34]

49. On the importance of these matters, see Samuel P. Huntington: "The Clash of Civilizations?" Foreign Affairs 72(3), 1993, 22 -49.

50. It is the comparative decline of the West on both sides of the Atlantic that necessitates North Atlantic cooperation vis -a-vis dynamic East Asia. It is absolutely essential that Western Europe and the United States are not lured by strategic trade theory into mercantilism and a 'cult of the economic offensive'. See Michael Borrus, Steve Weber, and John Zysman, with Joseph Willihnganz: "Mercantilism and Global Security". The National Interest 29, Fall 1992, 21-29. On the political economy of strategic trade theory see Jagdish Bhagwati: The World Trading System at Risk (London: Harvester and Wheatsheaf), or Paul Krugman: "Is free trade pass,?" Journal of Economic Perspectives 1(2), 1987, 131 -144.

51. See A.F.K. Organski and Jacek Kugler: *The War Ledger*. Chicago: University of Chicago Press 1980. Robert Gilpin: *War and Change in World Politics*. Cambridge: Cambridge University Press 1981. Daniel S. Geller: "Capability Concentration, Power Transition and War." *International Interactions* 17, 1992, 269-284.

52. While I am on record as a believer in the effectiveness of nuclear deterrence as a means to reduce the risk of war, it is hard to believe that nuclear deterrence always works perfectly. See Erich Weede: "Extended Deterrence by Superpower Alliance." *Journal of Conflict Resolution* 27(2), 1983, 231-254 and 27(4), 1983, 739 where misprints are corrected.

[Page 35]

53. "Pollution in Asia: Pay Now, Save Later". *The Economist* (Vol. 329, No. 7841, December 11th, 1993, 60-61). Already, China is the third largest source of greenhouse gases. It might well become the largest source of acid rain by 2010 and emit three times as much carbon dioxide as the United States by 2025. Unless something constructive is done, Chinese economic growth may kill forests in Siberia, Korea, and Japan. Its impact on climate and sea level may inundate Bangladesh. See Kristof, *op.cit.* note 32.

54. This causal chain has been analyzed by Erich Weede: "Economic Policy and International Security: Rent-Seeking, Free Trade and Democratic Peace." Paper prepared for presentation at the European Public Choice Conference, Valencia, Spain, April 6-9, 1994. This paper builds on a large number of studies. Here, I quote only a single study on each link in the causal chain. For trade and prosperity, see Jagdish Bhagwati: *The World Trading System at Risk* (London: Harvester and Wheatsheaf, 1991). For prosperity and

democracy, see Seymour M. Lipset: "The Social Requisites of Democracy Revisited." *American Sociological Review* 59, 1994, 1-22. For democracy and peace, see Bruce M. Russett: *Grasping the Democratic Peace* (Princeton: University Press, 1993).

[Page 36]

55. Whether supporting China by opening Western markets to Chinese exports actually is in the Western interest, of course, depends crucially on the assumptions that a new cold war between China and the United States, or China and the West, can be avoided, and that democracy stands a good chance to develop in a future prosperous China. But if the West decides to deny China the chance to grow by trading itself out of poverty, then this might well be received in China as a kind of preemptive declaration of a new cold war. Although optimistic scenarios about China need not turn out to be self-fulfilling prophecies, pessimistic scenarios tend to be self-fulfilling. Compare Chalmers Johnson: "Rethinking Asia". *The National Interest* 32, Summer 1993, 20-28, especially page 24.

56. For reasons why capitalism promotes democracy, see Peter L. Berger: "The Uncertain Triumph of Democratic Capitalism", and Kyung-won Kim: "Marx, Schumpeter, and the East Asian Experience", pp. 1-25 in Larry Diamond and Marc F. Plattner, eds.: *Capitalism, Socialism, and Democracy Revisited* (Baltimore: Johns Hopkins University Press, 1993). The prospect of "authoritarianism unmodified by successful growth" is also labeled "least probable" by Eric Jones: "Asia's Fate: A Response to the Singapore

School". The National Interest 35, Spring 1994, 18 -28, especially page 28.

57. See Richard K. Betts: "Wealth, Power, and Instability: East-Asia and the United States after the Cold War". International Security 18(3), 1993- 94, 34-77, especially pp. 53-54.