



Book When China Rules the World

The End of the Western World and the Birth of a New Global Order

Martin Jacques
Penguin Group (USA), 2012

Recommendation

Martin Jacques’ detailed, scholarly and thorough exploration of Chinese history, culture, business methods and future possibilities proves as paradigm changing as he believes China to be. In one volume, Jacques offers a full menu: An entrée of an overview and subtle insights followed by a main course of historical roots and futurist predictions. Perhaps most valuably, he grounds China’s business policy, theory and practices – and their likely future forms – in its history, culture and politics. His Western interpretations of China’s motives are poetic when poetry helps readers understand and hard-nosed when plain talk serves best. Jacques’ years in China and East Asia, and his life-long reporting about business and policy, make him uniquely suited to illuminate this mammoth subject. *BooksInShort* strongly recommends this book to anyone who is intrigued by China or is doing business in East Asia, and to anyone interested in the cyclical nature of world power throughout history, particularly those who seek to mine that cycle for profit.

Take-Aways

- The world is entering an era of “contested modernity” – a competition between Western and Eastern modes of industrial existence – as Western dominance wanes.
- China’s rapid modernization spawns a unique set of problems and solutions, and highlights eight key characteristics that distinguish it from the West.
- One: China is “a civilization state” and has been since its earliest dynasties.
- Two: It sees East Asian nations as tributaries and draws might from its economic power.
- Three: The Chinese view themselves as one race and feel innately superior.
- Four: China operates on a massive scale with a huge population, giving it an overabundance of cheap labor and tremendous consumer demand.
- Five: China’s government follows the Confucian ideal of total, nearly parental, authority.
- Six: China “combines the past and the future” as it evolves amid staggering change.
- Seven: China’s communist rulers are “flexible,” “pragmatic” and entrenched.
- Eight: As a “developed and developing nation,” China wrestles with immense contrasts – old and new, rural and urban. It must cope with its societal gaps as it modernizes.

Summary

Deficits and Surpluses

China is leading an historic change as world power shifts from the West to the developing nations. Just contrast the deficit-ridden financial empires of the West with “an East Asia” that is “cash-rich from decades of surpluses.” The US no longer dominates manufacturing or exporting. East Asian nations, with China foremost, have taken that role. Western nations seem to assume that China will become more westernized as it rises and that it will allow the West to dominate as it has done for the last three centuries. Such assumptions are incorrect.

Modernization

Westerners may think of Japan’s economic history as a prism through which to study China’s growth, but the two nations share little commonality on their disparate

paths to modernization. In the 1860s, Japan's "existing elite made a voluntary and calculated decision in order to preserve...the national essence" and to become more industrialized. After World War II, Japan experienced an exponential growth rate. In barely two decades, it shifted from a pastoral farming economy to a "fully industrialized" system. As Japan's economy grew, it turned its back on Asian markets and popular culture models in favor of Western ones.

"If the 20th-century world was shaped by the developed countries, then the 21st is likely to be molded by developing countries."

While Mao Zedong's regime and its successive hard-core communist administrations made grave, Stalinist economic errors – with five-year plans and attempts on the part of the central government to dictate growth – the early years of the People's Republic of China (1949 to 1978) still set the stage for the beginning of China's industrial explosion. When China was ready to look outward for markets, investments and investors, it had the beginnings of an economic infrastructure in place. China is the model of a "developmental state," in which a country's stability depends not on democracy but "on the ability of the state to deliver continued economic growth."

China Remains China

China has never been another nation's colony nor fully occupied by any other country, as Japan was by the US after WWII. Throughout its history, China suffered invasions, rare defeats and shifts in dynasties, but it always retained its language and sense of cultural superiority; China called itself "The Middle Kingdom" – the center of the world. Invaders, over time, became more Chinese.

"Far from there being a single modernity, there will, in fact, be many."

Among many other innovations, China developed major advances in science and math, gunpowder, large ships, woodblock printing, paper, naval exploration and literacy. With its examination system, China built the world's foremost civil service class, whose subordination ensured that the ruling dynasties retained supreme power.

"We are so used to the world being Western that we have little idea what it would be like if it was not."

Unlike Europe, China had no organized religious, business or warrior elite to challenge the state. A centralized, contained, policy- and law-making authority with unlimited domestic power has always ruled.

China and Money

The renminbi, commonly known in China as the yuan, "remains, unlike the dollar, yen and euro, a nontradable currency." The yuan does not float. As China lowered trade tariffs, its foreign trade exploded. China has a huge supply of cheap labor, so its basic manufacturing wages will always remain competitive, even if its economic upsurge dwindles. One reason Mexico's manufacturing economy collapsed and drugs became its primary export is that Mexico could not provide workers at low East Asian wages. China's cheap labor will continue to fuel its exports and allow it to retain massive trade surpluses with its commercial trading partners.

"For the first time in two centuries, one of the great powers will be from a totally non-Western history and tradition."

China has never suffered capital flight, and the yuan remains bulletproof. Yet prominent Chinese economist Yu Yongding believed in 2006 that China had a "30% chance of things going seriously wrong." Despite a recently created, moneyed elite, hundreds of millions of Chinese people are crippingly poor. The urban, mostly coastal, wealth will spread inland slowly. Experts estimate that by 2015, China will "reach a living standard most Western nations achieved in the 1960s."

"The absence of a civil society and an autonomous public realm in Communist China is not a new phenomenon; China never had either."

Most of China's manufacturing occurs under contract to Western nations and Japan. Chinese companies primarily subcontract rather than generate new products. That is changing slowly, but remains the dominant mode. The state owns most of the Chinese firms that compete abroad, as well as entire industries, notably steel and aluminum. Since 1999, the Chinese have invested heavily in numerous US financial instruments, including "Treasury bonds, agency bonds and corporate bonds." China essentially lent the US the money to fuel its spending and mortgage spree.

In Confucian societies, government focuses not on the achievement of external goals but on its own well-being, self-maintenance and self-preservation."

Despite the US economy's near collapse, China keeps buying dollars – it can afford to. "In September 2008, China's foreign currency reserves totaled \$1.81 trillion." As some Western businesses and nations founder in illiquidity, China holds unimaginable quantities of cash. Though no one outside the country knows the exact amount, best estimates suggest that US dollars represent 60% of China's total cash reserve. If China were to transfer a significant portion into other currencies, that transaction would have a profound effect on the US economy.

"Very few countries have combined democracy as it is now understood with the process of economic take-off."

In 2008, the US government rescued Fannie Mae, Freddie Mac and AIG under heavy pressure from China, which held major investments in all three entities. America responded to this pressure because, if China had begun selling dollars, it could have crippled the US economy. At the same time, China was reluctant to damage the currency that represents so much of its reserve. Thus, the US and China are locked in a singular, unprecedented symbiosis of mutual financial dependence. At present, and increasingly in the future, China holds the stronger hand.

The Eight Differences

This is a time of "historic change which is destined to transform the modern world." In fact, international society is entering an era of "contested modernity," a competition between Western and Eastern modes of industrial existence. The 300-year reign of Western world dominance is coming to an end, as China's rapid modernization spawns a transition with global impact.

"The Chinese attach greater importance to unity than literally anything else."

This massive shift highlights eight crucial factors that make China unlike the West:

1. **“China is...a civilization state”** – China did not arise, as some Western powers did, from a collection of warring city-states or kingdoms that, over time, merged into one nation-state of diverse religions, cultures and, sometimes, languages. Nor is it a collection of provinces joined together by a common philosophy, like the US is. China was a civilization first. From its earliest dynasties, the country had a central government with no internal rivals for power. All other entities were subordinate to the central authority, which embodied Chinese identity and culture. When European colonial powers occupied their colonies around the world, certain governed populations took on their conquerors’ languages, cultures and attributes. China has always remained Chinese.
2. **China sees East Asian nations as tributary states, not nation-states** – Until Japan outstripped China during the 20th century, China had been the dominant power in East Asia for centuries. Its “tributary-state system was characterized by the enormous inequality between China and its neighboring states, together with a mutual belief in the superiority of Chinese culture.” Now, as Japan stagnates and China roars ahead, pulling along the other Asian Tigers, the tributary system is returning. East Asian nations, notably Taiwan, are seeking to improve their relations with China and to invest in its infrastructure. A similar power imbalance, primarily economic, could occur between China and Central Asia, Africa, Australia and New Zealand.
3. **The Chinese “sense of race and ethnicity”** – Though much historical evidence exists to the contrary, the Chinese regard themselves as one race: Han. As the empire absorbed divergent nations and races over the centuries, the ruling Han regarded the non-Han as different nationalities, not different races. As populations interbred and adopted Chinese ways, the Han continued to dominate. The Chinese have long believed that their uniqueness is “not simply cultural or historical but also biological.” China’s claim over Hong Kong and Taiwan arises in part because most of the islands’ populations are Han. China’s innate sense of separateness and superiority marks its international interactions.
4. **A different scale and scope** – The US is only slightly smaller than China, but China’s population is four times greater. China is a nation and a continent encompassing minority peoples and areas. Given a land and population as enormous and diverse as China’s, great changes in one area may not affect other areas. China’s almost ungraspable scale and ever-increasing population make it an unlikely candidate for Western-style democracy.
5. **The unique Chinese politic** – “The state did not – in its imperial or communist form – share power with anyone else.” The Confucian ethos furthers the idea that state authority is responsible to no one and to no idea but to its own preservation. Citizen demand for accountability spikes periodically, but the government shows little interest in offering any such thing and historically never has. The state is expected, and expects itself, to build the economy and raise standards of living, thus fulfilling its role as “parent” in a Confucian context. But centuries of custom require it to do little else except set the policies it regards as best. The Chinese state has, in the last 30 years, shown itself to be remarkably adaptable and capable of self-regeneration.
6. **Rapid transformation** – “Chinese modernity is distinguished by the speed of the country’s transformation.” China is more at home with the new and the futuristic than its Western rivals. China’s traditional belief that it is the world’s superior culture allows its citizens to live with broad-based, immediate industrialization and modernization. The Chinese people’s faith in their own strengths allows them to accept changes that might traumatize nations that modernized along more traditional paths. At the same time, a higher proportion of Chinese still live in rural areas than the people of any other East Asian state. That immense population’s transition from a pastoral-based to an industrialized economy will take longer, owing to its scale. Thus, China “combines the past and the future at the same time as the present.”
7. **The legacy of communist rule** – A communist government has ruled China since 1949. The Communists helped China defeat Japan and then evolved through numerous iterations – some successful, some ruthless – without ever surrendering power. By conflating its methods with Confucian principles, the regime has forged powerful psychological ties with China’s glorious past and has poised China to dominate in the future. Its rulers’ business acumen, adamancy and forward-thinking policies make its government very different from Eastern European-style communist rule. China’s regime “has shown...flexibility and pragmatism,” and has little appetite and less opportunity for regime change, especially as it continues to prosper.
8. **A “developed and developing” nation** – China’s “modernity is tempered by and interacting with relative rural backwardness.” This split personality, played out across the immense continent, will generate never-before-seen problems of development, political stability and monetary policy. China’s near future will be shaped by gradually shifting its developing population into a developed society. This may take 50 years, and governmental priorities will favor already developed segments.

“Global Upheaval”

Developed nations rode to power on the backs of their colonial subjects, leaving those subjects unable to develop themselves, since they spent their energies and resources serving their patron states. The “end of colonialism” – which occurred “between 1945 and the mid-’60s” – is as decisive and noteworthy a modern event as the Russian Revolution, the end of WWII or the breakup of the Soviet Union. Western powers don’t refer to it as such for the obvious reason – they lost.

“There are twice as many people in the world who speak Mandarin as their first or second language as English.”

A new world, where nations at “different stages of modernity” prove dominant, is on the horizon. Developing nations, with China at the fore, will not mirror the governments, economics, self-interests or strategies of the West. Yet, by precisely mirroring the might of the colonial powers, “China’s mass will oblige the rest of the world to acquiesce in China’s way of doing things.”

About the Author

Martin Jacques is the co-author of *The Forward March of Labor Halted?* and *The Politics of Thatcherism*. He cofounded the UK think tank Demos.
