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**China and the World:  
Assessment and Prospect of the “Post-Crisis” Era<sup>1</sup>**

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<sup>1</sup> Add the following note to papers by Hu angang, Carl Darlman, Dylan Sutherland, Zhichao Zhang.

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# **China and the World:**

## **Assessment and Prospect of the “Post-Crisis” Era**

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There have appeared four obvious trends in the present global development: economic globalization, ICT revolution, growing diversification of the world and green industrial revolution. Side by side are two new interactive developments: first, the demand for global public goods (including global security, global ecological environment, measures against global climate change and global public health) is growing daily, but there is an acute shortage of supply; second, the global governance system has failed due to irrational international economic and political order, with the present United Nations and other international organizations unable to deal with international crises and/or global financial crisis and in bringing an agreement on global climate change to pass.

The sustained impact of the current global financial crisis has slowed down the economy of major world powers. Big fluctuations are likely in the rehabilitative growth period; the global financial market and the primary product market and the global order are facing great adjustment and big turn. The traditional international political and economic system is gradually working loose to give way to a new international governance mechanism. International political and economic situation remains very complicated, with uncertainties, instability and insecurity still on the rise. But globalization is irreversible and China will play an increasingly greater role in shaping the world order and will undertake greater responsibilities of providing global public goods and global governance. New development opportunities will also be offered to China: first, the opportunity of becoming a promoter of trade liberalization, investment liberalization and convenience of services by participate in economic globalization in all respects; second, the opportunity of becoming a model in green development by making joint efforts to cope with global climate change crisis; third, the opportunity of playing a leadership role by getting involved in constructing a new global governance system; fourth, the opportunity of becoming a new innovative country by participating in the fourth (green) industrial revolution. When viewed from the modern world history, never before had the world so needed China as today;<sup>3</sup> never before had China so needed the world as today. The Chinese

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<sup>2</sup> Written on September 14, 2010.

<sup>3</sup> Report to the 17<sup>th</sup> National Party congress: “We must analyze scientifically the new opportunities and new challenges for China to participate, in an all round way, economic globalization”. See Hu Jintao, “Hold High the Great Banner of Building Socialism with Chinese Characteristics and Win New Victories

leadership must shift from the position of passive coping and participation to a stance of active participation and even leading the global and regional affairs.

The paper will analyze and discuss China's position in the global economy and the future development strategy from the perspective of the characteristics of the post-crisis era, the post-crisis global development trends and the opportunities and challenges faced by China in the post-crisis era.

## 1. Post-crisis era

Since the global financial crisis that shook the world in the latter half of 2008, both the world economy and trade have witnessed negative growth. But they have begun to recover thanks to the stimulation of China and other emerging economies in 2010, thus avoiding the tragedy on a scale similar to the Great Depression. At present, the world economy and trade has entered a period of rehabilitative growth, with developed countries still in the low growth and developing countries already back to a period high growth. China has played a role as an engine of the world economy, trade and investment growth. According to the World Bank's June 2010 prediction, during 2010 and 2012, the world economy would grow 3.3%~3.5%, with that of developing states to reach 6% and China still to maintain a high growth of 8.2%~9.5%. Global trade has also entered a period of rehabilitative growth after a short period of negative growth, with a growth rate higher than world economic growth of between 6.8%~11.2%. Rehabilitative growth has also appeared in the global foreign direct investment, with the growth of net inflow into developing countries to be accelerated, with its share of their GDP to reach above 3%. (See Table 1).

Table 1 Indicators of World Economic Growth (2008-2012)

Unit : %	2008	2009	2010	2011	2012
World GDP growth	1.7	-2.1	3.3	3.3	3.5
GDP growth of high-income countries	0.4	-3.3	2.3	2.4	2.7
GDP growth of developing countries	5.7	1.7	6.2	6.0	6.0
China's GDP growth	9.6	9.1	9.5	8.5	8.2
Growth of world trade total	3.2	-11.6	11.2	6.8	7.2
Changes in price index of non-oil goods	0.0	-21.6	16.8	-4.0	-5.4
Changes in oil price index	36.4	-36.3	26.4	-4.5	-0.9
Proportion in GDP of net inflow of investment into developing countries	4.3	2.7	3.0	3.1	3.2

in Building a Well-Off Society in Every Respect", "Report to the 17<sup>th</sup> National Congress of the Communist Party of China", October 15, 2007, pamphlet edition, p. 14, People's Publishing House, 2007.

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Source : World Bank, The Global Outlook, June 10, 2010.

In general the global economy is still in a period of slow recovery in the post-crisis era, with the growth rate relatively low, between 2~3%.<sup>4</sup> Correspondingly, the global trade will also be in the relatively low growth zone. These external factors have forced China with a massive and constantly expanding domestic market to shift from the export-oriented growth model to the domestic demand-pull model, accelerating the pace of turning from the world factory into a world consumer market and service provider.

Nevertheless, in the process of the crisis and recovery, China's economic strength has significantly improved, becoming the second biggest economic power and also a new and the biggest growth engine of the world economy. According to the World Bank data base, China's contribution to the world economic growth during 2001-2005 was 7.12%, ranking second in the world, only after the United States, which was 17.95% if calculated by the exchange rate method. The figure for 2006-2010 is 16.23%, ranking first in the world, while that of the United States dropped to 13.9%. If calculated by the PPP method, China's contribution to the world economic growth in 2001-2005 was 15.96%, ranking second to the United States, which was 17.95%. But the figure for 2006-2010 was 23.16%, ranking first in the world, pushing the United States to the second place with 12.26%. We estimate that China's contribution to the world economic growth in 2011-2015, if calculated by the abovementioned two methods, will be 21.11% and 31.84% while that of the United States will be 17.52% and 14.30%, respectively (See Table 2)

Table 2 Contributions of China and USA to world economic growth  
(2000 – 2015)

Unit : %	2000-2005	2006-2010	2011-2015
By PPP			
China	15.96	23.16	31.84
USA	17.95	12.26	14.30
By market exchange rate method			
China	7.12	16.23	21.11
USA	17.95	13.19	17.52

Sources: Figures for 2000-2008 come World Bank, World Development Indicator 2010 ; figures for 2009 come from CIA, World Fact Book, 2010 ; figures for 2010 are calculated by the author on the basis of 2009 figures according to the next year's growth : China, 10%, USA 3%, World, 4% ; Figures for 2011-2015 are calculated according to the next year's growth : China, 9%, USA, 3%, World, 4%.

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<sup>4</sup> 2008 Nobel Prize, Economics, winner Paul R. Krugman, in his lecture at the Shanghai Jiaotong University on May 12, 2009, said that the world economy will experience a long period of U-shaped recovery. "I hope the current financial crisis would not last so long as ten years. If we are fortunate and wise enough, the recovery of the global economy is not likely to take 10 years. But our economy will stay weak for a long time to come. The recovery is very likely be in the U-shape, but the bottom would be long.", in "Xinmin Weekly, May 25, 2009.

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Since the 1990s, the global economy has grown even more uneven, with China, India and other most populous developing countries growing faster than developed countries. That has brought about major changes in the world economic pattern. The latest OECD report (May 2010) shows that the economic aggregate of OECD countries accounted for 62% of the world's total (GDP, PPP) in 1990 but dropped to 60% by 2000, averaging an annual drop of 0.2 percentage points.<sup>5</sup> The current international financial crisis has dealt a heavy blow at the United States, Europe and Japan and other developed countries, accelerating the process of relative decline in their economic strength, resulting in an unprecedented major shift of wealth in the world. Non-OECD countries have grown rapidly. The world's most populous countries represented by China and India have arisen, exerting a broad and far-reaching impact on the international economic pattern. By 2010, the economic aggregate of OECD countries in the world's total has dropped to 51%, averaging an annual drop of 0.9 percentage points. A new pattern of 50-50 between the south and the north has taken shape. In the future, the economic aggregates of OECD countries in the world GDP will continue to drop while non-OECD countries will rise sustainably. By 2030, the percentage is expected to drop further to 43% while that of non-OECD countries to rise to 57%.<sup>6</sup>

## **2. International developments in the post-crisis era**

At present, in the post-financial crisis era, uncertainties, instability, disparities and insecurity will stay on, with those in some areas even exacerbated. International political and economic order is facing an in-depth adjustment. China is getting even closer to the world in which big powers are mutually influencing each other. The relations between China and the United States and other big powers will undergo profound changes, making it more favorable for China to become a strong world economic power. As seen from the development of the world's modern history, the world pattern dominated by the West since 1750 is changing. So is the world pattern dominated by the United States as the world's sole superpower after the cold war in the 1990s.

### **2.1 Problem of global public governance standing out**

The global financial crisis has heavily trounced the United States, Europe, Japan and other developed countries and accelerated the process of their relative decline in their economic strength. Though also influenced or trounced by the crisis, emerging big power have seen their relative position rising. The crisis is bound to accelerate the pace of the shift of global industries and bring about underlying changes in the world political and economic pattern. Objectively it has become a propeller accelerating multipolarization. The rise *en masse* of the mostly former colonial and semi-colonial non-Western countries has had a broad and far-reaching impact

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<sup>5</sup> OECD, Perspectives on Global Development 2010: Shifting Wealth, Paris, OECD, 2010.

<sup>6</sup> Op.cit.

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on the international political pattern.<sup>7</sup>

The United States has remained the sole superpower in the world, with a far-flung hegemonic systems in the world's finance, military, science and technology and culture. But its strength and international competitiveness have relatively declined. The fatal attack by the financial crisis has rendered it incompetent in managing world affairs though it wants to. It has to count more on cooperation with other big powers like China to share the leadership.<sup>8</sup> Objectively, it has pushed G3 or "the three strongest" (United States, EU and China) to the leadership position in the world. EU is the leader and forerunner in terms of anti-climate change, low carbon economy and regional integration. China, as a new non-Western strong economic power, has the opportunity and the ability to display the leadership and constructive role in such areas as green development, international trade, multilateral negotiations, economic globalization and regional integration and in promoting international political democratization, cultural diversification and in building a harmonious Asia and a harmonious world.

Though developing into depth, globalization lacks an effective governance structure, thus resulting in the tragedy of excessive use of public resources due to "free lunch" with regard to various public goods needed by all countries and in the "prisoner's dilemma" of serious supply shortages due to massive "free riders". The crisis has revealed the vulnerable and unequal side of the international financial system. The global security system is unable to curtail nuclear weapon proliferation; global climate change negotiations are likely to come to a stalemate and therefore to failure as different countries all try to protect their own interests. All these have shown the incapacity and insufficient incentives of the international system to provide public goods. According to the classification of global public goods by Kaul et al, due to the non-excludability and non-rivalry nature of public goods, all countries decline to bear the cost. They only want to share the benefits. (Table 3).

The global governance system is challenged by both the changes in the pattern of in the international politics of the post-US era and the changes in international energy, environment and political pattern. The global governance system is facing both the crisis of possible failure and the major opportunities of restructuring.

Major changes have taken place in the role of China in the global governance system, which is turning from a passive actor into an initiator in formulating

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<sup>7</sup> The March 29, 2009 "L'Express" of France said, the G20 summit started until November 2008 when the Washington summit was convened and in the short span of a few months from Washington Summit to the London Summit, the existence of G8 was even forgotten.

<sup>8</sup> Obama has made major adjustments with regard to the bilateral diplomatic policy. The new administration has put the emphasis of foreign strategy on "smart power". The essence is to retain its position of leading global affairs, but reducing its international responsibilities and obligations. During the first Sino-US strategic and economic dialogue, US Secretary of State Hillary Rodham Clinton and U.S. Treasury Secretary Timothy Geithner jointly wrote an article, saying that China has since time immemorial had a proverb "pulling together in times of trouble", and today we and our Chinese partners will hold the same oar to row forward. This boat is hard to pull by the United States alone and its Western allies. Here the message is clear: Let the United State at the helm and other countries pull the oar.

the rules of the game, from a “free rider” to a provider of global public goods, from a follower to a leader in global affair. Nevertheless, China’s leaders are still not well prepared psychologically and ideologically. They are still being obsessed with the idea of being a “not to be a leader” “big developing country” in the general sense.

Table 3 Supply and demand of global public goods

Type and category	Gain		Nature of supply and use	Relative harmful goods	Cost	
	Non-excludability	Non-rivalry			Non-excludability	Non-rivalry
1. Natural global commons — provider : None						
Ozone layer	yes	No	Excessive use	Loss and irradiation more serious	Yes	Yes
Atmosphere (climate)	Yes	No	Excessive use	Global warming	Yes	Yes
2. Human-made global commons— providers : WHRO, WIPRO, WPU, ISO ,etc.						
Worldwide norms and rules ( as world human rights)	Partially	Yes	Inadequate use (suppressed)	Human maltreatment and injustice	Partially	Yes
Knowledge	Partially	Yes	Inadequate use (lacking access)	Inequality	Partially	Yes
Internet ( infrastructure)	Partially	Yes	Inadequate use ( obstacle to access)	Excluded and non-Conformity ( ample and inadequate information )	Partially	Yes
3. Global conditions— Providers : UN Security Council, WHO, IMF, WTO, World Bank etc.						
Peace	Yes	Yes	Inadequate supply	Wars and conflicts	Partially	Yes
Health	Yes	Yes	Inadequate supply	Diseases	Yes	Yes
Financial stability	Partially	Yes	Inadequate supply	Financial crisis	Yes	Yes
Free trade	Partially	Yes	Inadequate supply	Fragmented market	Yes	Yes
Lifting out of poverty	No	No	Inadequate supply	Domestic conflicts, crimes and violence	Yes	Yes
Environment sustainability	Yes	Yes	Inadequate supply	Ecological imbalance	Yes	Yes
Equality and	Partially	Yes	Inadequate supply	Social tension and	Yes	Yes

justice				conflicts		
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Sources: Kaul, Inge; Grunberg, Isabelle and Stern, Marc, 1999, "Defining Global Public Goods", in *Global Public Goods: International Cooperation in the 21<sup>st</sup> Century*, Edited by Inge Kaul, Isabelle Grunberg and Marc Stern, New York : Oxford University Press, 1999. Modified by the author.

## 2.2 Global climate change – gravest challenge

From a long-term point of view, global climate change is the gravest challenge to humanity. At present, the global ecological environment China is facing is even graver and complicated than the global financial crisis.<sup>9 10</sup>

As greenhouse gases are already in the atmosphere, it is impossible to get rid of them in a short period of time. No matter what measures taken, global warming can only be exacerbated and climate change will become even more challenging.<sup>11</sup> The huge challenges to the development of humanity include ecological, economic and social catastrophes.<sup>12 13</sup> Just as the IPCC report points out, "Climate change will affect all the basic elements of life: water, food, health and environment. Global warming has never been so acutely felt and so harmful as today. It has become a common challenge to development.

What needs special mention is that developing countries would be subject to greater impact of climate change. China, as the most populous country with a vast territory in the world, is the biggest victim of global warming,<sup>14</sup> though climate change threatens all countries. China has to bear 70%-80% of the losses well beyond the capacity of China to cope with. Climate change will cause a big rise in the number of disaster victims and also a big rise in the

<sup>9</sup> Abnormal change of global climate refers to abnormal climate change that has lasted for a long period of time globally, frequent occurrence of all kinds of abnormal climatic phenomena that have caused serious effect on human activities and agricultural production, such as serious drought, great rainstorms, serious hailstorms and strong typhoons.

<sup>10</sup> 2008 Nobel Prize, Economics, winner Paul R. Krugman, in his lecture at the Shanghai Jiaotong University on May 12, 2009, said that in the long run, environmental policy will dominate all other policies, as environmental problems are more crucial than financial system and international trade. This trend might not be visible next year. But in ten years or 15 years, especially with climate change, it will become the center of all social and economic activities." In "Xinmin Weekly", May 25, 2009.

<sup>11</sup> CO<sub>2</sub> is the principal greenhouse gas, which has a temperature boosting effect about 60% of the effect of all greenhouse gases combined. Its life cycle in the atmosphere is about 30 to 3,000 years. See Qin Dahe, "The Challenger of Climate Change to China's Sustainable Economic and Social Development", "Guangdong Study Forum", Issue 43.

<sup>12</sup> The World Bank report completed under the leadership of Chief Economist Nicolas Stern considers that if we do nothing in the coming decades, it will result in an economic and social crisis on a scale similar to those associated with the great wars and the economic depression of the first half of the 20th century. it will cost the world the loss of 5%-20% GDP per year. See Stern Review on the economics of climate change, <http://www.hm-treasury.gov.uk/independentreviews>

[/stern\\_review\\_economics\\_climate\\_change/stern\\_review\\_report.cfm](http://www.hm-treasury.gov.uk/independentreviews/stern_review_economics_climate_change/stern_review_report.cfm), October 30<sup>th</sup>, 2006.

<sup>13</sup> IPCC report holds that climate change has seven kinds of threats: coastal cities and infrastructures; land loss and border disputes, environment-induced migration, social decline, increasing radical actions, tense energy supply. See, report submitted by senior representative and EU to EC. Climate change and international security, [www.consilium.europa.eu/ueDocs/cms\\_Data/docs/pressData/en/reports/99387.pdf](http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/reports/99387.pdf).

<sup>14</sup> "China National Scheme against climate change" (May 30, 2007), The impact of climate change can be summarized as follows: frequent occurrence of meteorological disasters, with the affected areas so vast, the disasters so serious and so large a population affected that are rare in the world. Climate change has affect China's agriculture, forestry and other ecological systems.



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climate-induced poverty. In a recent report, Oxfam said that the disaster victims of global climate change in 1997-2008 averaged 278 million annually and it is expected to rise 45% by 2015 to reach 375 million, which means a grave challenge to the global humanitarian disaster relief system.<sup>15</sup> The IPCC report asserted that in the next decade, at least 207 million people in Latin America, Asia and Africa will suffer from water shortages. By the middle of this century, another 130 million people in Asia will be threatened by hunger. By 2100, the income from crops in Africa would drop by 90%.

The “EU2020” adopted not long ago says that by 2020 EU will cut CO<sub>2</sub> emissions by 20% on the 1990 basis, raise the share of renewable energy in the total energy consumption to 20%, cut energy consumption by 20% and increase R&D cost to 3% of GDP. The targets are far higher than those promised by the Obama administration of the United States, the only developed country that has not signed the Kyoto Protocol, which is to reduce greenhouse gases emission to the 1990 level by 2020. The change in the US stand will exert huge pressure to bear upon emerging developing countries. China, as the biggest greenhouse emitting country, will have to bear the biggest international pressure. According to the prediction by International Energy Agency (IEA) in its “World Energy Prospect 2007”, the scenario for reference shows that the global CO<sub>2</sub> emissions will rise by 57% in 2005-2030. The CO<sub>2</sub> emitted by the United States, China, Russia and India combined account for 2/3 of the increased amount. China takes the largest share. India will become the third largest emitter in about 2015. If the United States really changes its stand, the pressure will pass to such big developing countries as China and India.

### **2.3 Challenge to non-traditional security**

First of all, energy security is still facing grave challenge. At present, the global petroleum and natural gas are not in short supply. The available resources are generally ample enough. The extractable petroleum reserves have reached 350 trillion bbl. and the current production is only 1.1 trillion bbl, about 1/3. The proven reserves and the untapped reserves account for 1/3. According to IEA, the annual demand in the next five years will increase 1% on average from the daily 86.9 million bbl. in 2008 to 94.1million bbl. by 2013. The amount of China’s import will rise from 4 million bbl/day to 5.7 million bbl/day.<sup>16</sup> At the same time, the supply of energy and other resources has become increasingly uncertain and the prices of primary products are likely to fluctuate greatly. First, anticipation of big economies on the recovery prospect will affect the demand for primary products. Second, as international oil price is mainly pegged and calculated in the dollar, the changes in the dollar exchange rate will have a direct bearing on the oil price. So the uncertainty of the dollar exchange rate is also an important factor affecting the international oil price. Third, breaking events in local areas will have an external impact on the formation of the prices of primary products, including hazards in oil

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<sup>15</sup><http://www.oxfam.org/sites/www.oxfam.org/files/forecasting-disasters-2015.pdf>.

<sup>16</sup> IEA , Medium-Term Oil Market Report 2008 *July 2008*. [http://www.iea.org/textbase/npsum/mtomr2008\\_sum.pdf](http://www.iea.org/textbase/npsum/mtomr2008_sum.pdf).

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transportation channels, damages by hurricanes, domestic turmoil in resource production countries, worldwide war and terrorism attacks. Last but not the least important is the geographical factor, which will also affect the supply of primary products. This includes increased awareness of nationalism, governmental frictions, military conflicts and foreign affairs situation of resources production countries.

Secondly, the global food security tends to ease, despite the likely deterioration in local areas. According to FAO, world food demand over the past 30 years has increased 2.2% annually but it is expected to drop 1.5% annually in the next three decades, with developing countries dropping the fastest, from about 3.7% annually to 2%.<sup>17</sup> The latest FAO report is quite upbeat about the food security in the next 10 years, as the financial crisis has not had much impact on food production. The world food production index will increase at an average annual rate of 2.5% in the years from 2010 to 2015, with developing countries and underdeveloped countries increasing faster.<sup>18</sup>

According to the World Bank, the prices of such major cereals as corn, wheat, rice, soybean, and soybean oil could drop slightly in 2010-2015, but the prices of major cereals will be kept basically stable in the next decade.<sup>19</sup> Under the dual impact of financial crisis and climate change, the food security situation will deteriorate in poor areas and countries. According to FAO, the number of people suffering from hunger in 1995-97 was 825 million. But it increased to 915 million by 2008 and further up to 1.02 billion in 2009 under the impact of the financial crisis. The figure is likely to rise again. International food aid should be strengthened in order to avoid humanitarian disaster. China, the biggest developing country, cannot rely on the international market to bolster its food security. It must continue to maintain the growth momentum as seen in recent years. While maintaining an appropriate amount of grain import on the basis of exchange, China should mainly rely on its own efforts to solve its problem of feeding the more than one billion people, which would mean the biggest contribution to the world.

Thirdly, the global public health security is being increasingly threatened. Since the beginning of the 21<sup>st</sup> century, the global public health security has met tough challenges. In 2003-2006, WHO listed 685 events that constituted threats to public health.<sup>20</sup> In the future, this trend will continue. Breaking events are likely to increase, posing more serious threat to health worldwide. This is because: new communicable diseases have recurred frequently, a huge threat to health. According to statistics provided by WHO, the incidences of new communicable diseases have appeared at an unrivaled speed in the 1970s.

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<sup>17</sup> FAO, *World Agricultural Towards 2015/2030*.

<sup>18</sup> FAO, *OECD-FAO Agricultural Outlook 2009-2018*.

<sup>19</sup> *Op.cit.*

<sup>20</sup> Just as WHO General Secretary Margaret Chan Fung Fu-chun said: "These threats have become a much larger menace in a world characterized by high mobility, economic interdependence and electronic interconnectedness. Traditional defences at national borders cannot protect against the invasion of a disease or vector. Real time news allows panic to spread with equal ease. Shocks to health reverberate as shocks to economies and business continuity in areas well beyond the affected site. Vulnerability is universal." See WHO, "A safer future: global public health security in the 21<sup>st</sup> century" (World Health Report 2007). P. Vi, People's Health Publishing house, Beijing, 2007.

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In the short span of more than 20 years, there appeared 40 new communicable diseases.<sup>21</sup> These threats have become a much larger menace in a world characterized by high mobility, economic interdependence and electronic interconnectedness. New diseases are emerging at the historically unprecedented rate of one per year. Airlines now carry more than 2 billion passengers annually, vastly increasing opportunities for the rapid international spread of infectious agents and their vectors.<sup>22</sup> Globalization has provided a new way of spreading diseases. In recent years, the deliberate dissemination of potentially lethal anthrax spores in letters sent through postal service has become a new menace to public health security. Factors inducing global public health events have increased. Infectious diseases thought to have died out have come back again. New communicable diseases have emerged. International trade in tainted food has increased the chances of the spread of epidemics. The release of toxic chemicals, global environmental catastrophe, especially climate change catastrophe, have also posed serious threats to health globally.

#### **2.4 Green industrial revolution – a new tide**

The new century started witnessing momentous development of new science and technology revolution, which will change profoundly the economic and social outlook. They are the four mutually influencing and mutually reinforcing revolutions: science and technology revolution, ICT revolution, energy technology revolution, nani and biological revolution.<sup>23</sup> These revolutions will continue into depth. Many countries have taken technical innovation and increasing investment in R&D as their development strategy. Interstate competition has become increasingly keener, with developed countries gaining the upper hand and dominating position. Emerging countries have made full use of their advantages as late comers to accelerate the pace of catching up, now in the process of turning from active users of achievements to potential leaders.

In the next 5-10 years, green revolution will become the most important drive of the science and technology revolution to become the fourth industrial revolution that will change profoundly the economic and social outlook. It will, by using technical innovation, bring about fundamental changes in economic and social development models to cope with the two major crises of climate change and economic recession. Low carbon economy will become a principal growth point not only for developed countries to end economic crisis but also the most useful way for humanity to cope with global climate change.

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<sup>21</sup> Op.cit.

<sup>22</sup> Op.cit.

<sup>23</sup> For details, see “National outlined program of medium- and long-term science and technology development (2006-2020), Feb. 9, 2006.

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Low carbon economy means complete change in the production chain and realization of economic growth without carbon emissions. The new production chain will develop not at the price of environment and, what is more important, not at the price of relentless consumption of energy. It is hopeful to terminate the fundamental reliance on fossil energy. Production expansion will then be put under the controllable limit of energy consumption, without overproduction as exhibited in the current tremendous changes. Even if large-scaled production expansion is under way, it will not cause price hike of energy due to massive energy consumption.

### **3. Historical opportunities for China**

For China, the current international situation has presented both challenges and opportunities, with opportunities in the first place and challenges being secondary. A competent policy decision maker should be able to transform challenges into opportunities, as China's position and role in the world have undergone corresponding changes with the outbreak of the financial crisis originated in the United States and the rapid growth of China's economic strength and comprehensive national power. It has, in fact, turned from the position of being led in international affairs (especially in global economic affairs) into a position of being a leader, from a passive acceptor of international rules (especially the rules for coping with global climate change) into an active participant in formulating the rules, from a passive target of criticism in international opinion (especially the global TV news network) into an active contender, and from a passive acceptor of Western culture into an active creator of diversified culture, especially non-Western culture.

#### **3.1 Opportunities for peaceful rise**

The financial crisis has slowed the economic growth of developed countries and narrowed the gap in comprehensive national power between China and the United States, enabling China to become a new emerging power in the world ahead of the anticipated time.<sup>24</sup> China has, in fact, become the second largest economic power in the world, the first biggest exporter, the second biggest importer, and a new growth engine of the world trade. China's export in 2009 beat champion Germany to rank first in the world, with its shares in the world total reaching 9.6%. We estimate that by 2015, it could reach 13-14%. China's service trade total is likely to surpass Spain (3.8%), Japan (3.9%) and France (4.1%) to rank fourth in the world. At the same time, China has become an emerging world manufacturing center, with its share of manufactured goods export in the world's total reaching 9.9%, next only to Germany (10.2%). China is very likely to throw champion Germany behind to

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<sup>24</sup> We estimate that the comprehensive power of the United States in 1980-2007 was 4.7 times that of China, 1.6 times less than in 2006.

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rank first in the world. The cumulative total export in 2001-2005 was US\$2172.7 billion. We estimate that the total would be US\$5.78 trillion in 2006-2010. China's 2009 import reached US\$1 trillion, accounting for 8% of the world to become the second biggest importer.

China has become No. 1 in the world in terms of foreign exchange reserves and a new investor in other countries. "Attracting Chinese capital" will become a major policy of all governments. This has greatly expanded the global space and areas for Chinese investment that will make GDP and GNP grow simultaneously. China's foreign investment expansion has been proceeding at an alarming pace. The figure for 2001 was US\$2.7 billion, accounting for only 1/20 of China's actual utilization of foreign capital. But, by the end of 2009, 12,000 Chinese companies had invested in 177 countries and regions, establishing 13,000 enterprises, with a net investment abroad being US\$56.53 billion, amounting to 61.5% of foreign capital China actually used. China's direct investment outflows account for 5.1% of the global capital flow, ranking 5<sup>th</sup> in the world.<sup>25</sup> China's power in science and technology has also grown rapidly. It has become the second biggest country in terms of the science and technology power. The number of international science and technology papers published and papers quoted, the number of international invention patent applications, high technology export and R&D expenditure have all made China's standing in the world further advanced, laying a solid foundation for building an innovative country by 2020. China is playing an increasingly important role in the international arena and has become one of the important leaders in governing world affairs. (See Table 4) <sup>26 27 28</sup>

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<sup>25</sup> Ministry of Commerce, State Statistical Bureau and State Administration for Foreign Exchange Management, "Statistical Bulletin of Direct Investment Abroad in 2009", Sept. 7, 2010.

<sup>26</sup> China became the sixth country with the largest direct investment abroad in 2008.(UN Trade and Development Conference, 2009).

<sup>27</sup> The number of science and technology papers made up 9.8% of the world's total in 2007, ranking second in the world. Among them, SCI papers accounted for 7.0%, ranking fifth, after the United States, Japan, Germany and France. The number of authorized invention patents made up 9.6% of the world's total, ranking 4<sup>th</sup> in the world. The number of invention patents applications made up 3.7% of the world's total in 2008, ranking 6<sup>th</sup> in the world. The number of patent applications at home reached 194,600, ranking 3<sup>rd</sup> in the world, next only to Japan, 330,000, and the United states, 223,200. (See World Bank, World Development Indicator,2010 ) . China export of high technology in 2008 was worth US\$381.3 billion, ranking first in the world. That of the United States was US\$362.4 billion; that of the United States, US\$231.1 billion. China's R&D spending in 2008 reached US\$63.6 billion, ranking 4<sup>th</sup>, after the United States (US\$380.5), Japan (US\$167 billion), Germany (US\$94.9 billion). The number of R&D workers in 2009 reached 2.2 million and the number of R&D scientists and engineers reached 1.82 million, topping the United State (1.39 million), ranking 1<sup>st</sup> in the world. (See State Statistical Bureau, eds. "China Statistical Abstract 2010), p. 193, Beijing, China Statistical Press, 12009. Development Department of the Ministry of Science and Technology, "Collection of Science and Technology Statistical Data., Feb. 2009) OECD estimate according to PPP, China's R&D spending in 1995-2005 grew at an average annual rate of 18%, twice the GDP growth (9.1%). China ranked 3<sup>rd</sup> in the world in 2006, after the United States and Japan (See Martin Schnaper, 2009, Measuring China's Innovation System: National Specificities and International Comparisons, STI Working Paper 2009h, 15-Jan-2009, OECD ).

<sup>28</sup> China's Central Economic Work Conference held that, in a word, the international financial crisis has further push China onto the front stage of the discussions and handling of major problems by the

China's gap with the United States in terms of comprehensive national power has been obviously narrowed, from 4.1 times in 1990 to 1.5 times by 2008. At this pace, it is very likely that China will throw the United States behind by 2020 (See Table 5). China's international political and security environment is the best since the founding of New China, more and more closely associated with the interests of big neighboring countries. Wars and conflicts induced by security are likely to be further curtailed. China has growing possibilities of peaceful development and peaceful rise, as China has become a major power of peace.

Table 4 China's world ranking and shares of major indicators (1978-2015)

	1978	1990	2000	2005	2010	2015
GDP (Forex method)	10 (0.9)	11 (1.9)	6 (3.8)	4 (5.0)	2 (8.0)	2 (10)
GDP(PPP)	4 (4.9)	3 (7.8)	2 (11.8)	2 (5)	2 (18)	1 (20)
Merchandise Export total	29 (0.7)	15 (1.7)	8 (3.7)	3 (7.3)	1 (10)	1 (13)
Foreign exchange reserves	40	7		2	1	1
SCI power	(0.81) a	5 (0.82)	5 (3.97)	3 (8.04)	3 (12.19)	2 (16)
Comprehensive national power	5 (4.5) a	3 (5.6)	2 (8.8)	2 (10.0)	2 (14.0)	2 (17)

Notes : Figures in brackets indicate shares in the world total, Unit: % ; a is the 1980 figure.

Sources : (1) GDP calculated by the foreign exchange method, Data source for 1978—2005 : State Statistical Bureau, "China Statistical Abstract 2009", p.216, Beijing : China Statistical Press, 2009 ; (2) GDP (PPP), 1990 international dollar, See Angus Maddison 2006, World Economy: 1-2006 ; Six Transformation in China 960-2030, 2009 ; (3) SCI power is calculated by the author, including the number of papers published in international academic publications, the number of invention patent applications at home, the number of PC users, Internet users and R&D spending (PPP) 。 (State Statistical Bureau : "China Statistical Abstract (2009) ", p. 193, Beijing, China Statistical Press, 2009. Angang Hu, Xiong Yizhi : "Quantitative Assessment of China's Science and Technology Power (1984—2004) ", Tsinghua University Gazette (Philosophy and Social Sciences Edition) », 2008, Issue No. 2 ; (4) Comprehensive national power is calculated by the author. It includes eight strategic resources, 23 quantitative indicators, calculated based on the World Bank's "World Development Indicators".

Table 5 Shared of five major powers in the world's total in terms of comprehensive national power (1975—2008)

	1975	1980	1985	1990	1995	2000	2005	2008
China	3.81	3.86	6.71	5.97	7.76	8.71	11.51	13.14
India	2.07	2.02	3.12	2.89	3.37	3.72	4.36	4.61
Japan	4.99	4.69	11.85	9.87	9.54	8.99	8.17	8.51
Russia					3.00	2.85	3.02	3.24
USA	12.91	13.54	20.35	24.51	23.14	22.19	21.41	19.69
Five power total					46.81	46.46	48.46	49.20
USA/China (time)				4.10	2.98	2.55	1.86	1.50

international community. That is the inevitable result of the rise of our economic and comprehensive power and international influence. Dec. 2010.

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Notes : Comprehensive national power is calculated by the author. It includes eight strategic resources and 23 indicators.

Source : World Bank, World Development Indicator 2010.

### **3.2 Opportunities for China to launch green industrial revolution**

From the broad perspective of human development history, the efforts to cope with climate change and to reach a global agreement on emissions reduction will be accompanied by a new industrial revolution – green industrial revolution. China should seize this hard-to-get opportunity to become a leader, an innovator and a drive of the fourth industrial revolution in the world. Since 1750, the world has experienced three industrial revolutions: the first is the one driven by the invention of steam engine. It was led by Britain. China lost the chance due to autarky. The second was the one that took place in the latter half of the 19<sup>th</sup> century in the areas of railways, iron and steel and power. It was led by the United States. China also lost the chance as it was then in a position of being attacked; the third was the information revolution that took place in the latter half of the 20<sup>th</sup> century. The then Chinese leaders Deng Xiaoping and Jiang Zemin were alerted by the major historical change and seized the major opportunity, thus making China turn from a laggard into a catcher-up and then a leader.

The more than 200 years of industrial revolution is accompanied by the enlarged alienation of man from nature, as the cumulative greenhouse gases emitted by developed countries account for 3/4 of the world's total since 1850. As the 21<sup>st</sup> century set in, humanity has greeted the fourth industrial revolution – green industrial revolution when China is at the dawn or the initial stage of a new industrial revolution. The global emissions reduction may be regarded as the hallmark of the green revolution. To become a leader, an innovator and a drive of such revolution, China should launch this revolution together with the United States, EU and Japan.

Green revolution requires decoupling economic growth from carbon emissions, developing green energy sources, manufacturing green products and consuming in a green manner. The essence is to raise energy productivity, lower pollutants emissions, developing cyclic economy and low carbon economy (or even no-carbon economy).<sup>29</sup> <sup>30</sup> China is basically moving

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<sup>29</sup> Cyclic economy is the general term of reduction and reutilization of resources and wastes in the processes of production, circulation and consumption. Reduction refers to the reduction of resources consumption and waste in the processes of production, circulation and consumption; reutilization means to turn wastes directly into products or products for reuse after repairs, reclamation and re-manufacture or use all or part of the rejects and wastes as other products or parts. Turning wastes into resources means to use rejects or wastes as raw materials for use or reuse. In “Cyclic Economy Promotion Law of the People's Republic of China, adopted at the fourth session of the Standing Committee of the 11<sup>th</sup> National People's Congress on August 29, 2008 and promulgated by Order No. 4 of the President of the People's Republic of China. It came into force on January 1, 2009.

<sup>30</sup> Low carbon economy is an idea and a form of economic development that seeks maximum output by reducing greenhouse gases emissions. It is one of the basic methods to cope with climate change and also one of the basic trends in developing a new type of economy in the 21<sup>st</sup> century. Even developed countries have just begun to be aware of this problem. Low carbon economy refers to reduction of

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toward a new concept of industrialization, toward green industry and low carbon, the use of green energy, promotion of green consumption, which will lead to green development.

### **3.3 Opportunities for China to boost its soft national power**

Culture is the most important soft power of a country and a major factor in the competition in comprehensive national power. China has traversed the following basic path in enhancing its power: rise in hard power, followed by the rise in soft power, economic rise precedes revitalization of culture. While its hard power is rising, its soft power is also rising at an accelerated pace.<sup>31</sup>

China's development model has become the most important source of soft power growth, as it is a component part of soft power. China's ancient cultural center model used to exert important influences in East Asia. The Soviet industrialization model once spilled over to Eastern Europe and other socialist states in Asia at the end of World War II (known as "Moscow Consensus"). The American democratic politics model has exerted and will continue to exert an important impact on the other parts of the world, although the "Washington Consensus" held and persisted by the United States has been and is being strongly questioned by developing countries.

Since 1978, China has blazed a new trail to socialism with Chinese characteristics by way of "feeling the way in wading across a river" or incremental reform and opening up, which is readily called "Beijing Consensus" by Western scholars. It has begun to have a spillover effect on the development of developing countries, presenting a sharp contrast to Washington Consensus. The socialist ideological trend is regaining ground and the Western fundamentalism characterized by "liberalization, privatization and democratization" is losing strength. The ideological hegemony of the West wind overwhelming the East wind is waning. China does not export its development model. It has won the approval of more and more international personages of insight and won greater say for its independent exploration for its own development path.<sup>32</sup>

### **3.4 Opportunities for China to shift economic development**

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carbon content in the air, which means cleaner air with less CO<sub>2</sub> in both production and consumption processes. For instance, carbonless renewable energy sources, low-carbon natural gas and high-carbon coal are all energy forms, but they contain different amounts of carbon. The same coal, if treated by clean coal technology, may emit much less carbon than non-treated coal.

<sup>31</sup> With the rapid rise of soft power in recent years, China's culture has become more and more attractive. Since 2004, China has set up Confucius School in all parts of the world. According to the Beijing Headquarters of Confucius School, by July 2007, there had opened 331 Confucius Schools (classes) in 83 countries and regions. The number of foreign students studying in China reached 223,500 in 2008, nearly 180 times that in 1978. They come from 189 countries and regions.

<sup>32</sup> World futurologist John Naisbitt said in his new book "China's Megatrends" : "The changes of the United States in 1982 took place within a given system. In 2009 China created a brand new social, economic and political system, whose political model may perhaps proves that the end of history of capitalism is nothing but a stage on the road of human history." The book identifies eight pillars of the China model: emancipation of the mind, balancing top-down and bottom-up, framing the forest and letting the trees grow, crossing the river by feeling the stones, artistic and intellectual ferment, joining the world, freedom and fairness and from Olympic medals to Nobel Prizes. See John Naisbitt, "China's Megatrends", Chinese edition, Beijing, All China Federation of Industry and Commerce Publishing Co. Ltd., 2009.



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## mode

As seen from the 2005-2010 development, extensive economic development mode has become the biggest constraint to China's development. As a late comer in industrialization, China has both the opportunity to avoid historical mistakes committed by other countries and the opportunity of creating its own development model. We are now at the crossroad – to continue path-dependently along the road of traditional model of giving heavy industry priority characterized by “high input, high consumption, high emissions and low efficiency” or to effectuate a completely new model, embarking on a new path of industrialization characterized by low consumption, low emissions, high added value and high efficiency.

International situation has created favorable conditions for China to shift its economic development model. Green development has become fashionable and international trade regime is facing pressure to reorganize; global service industry has accelerated transfer. All these are favorable external conditions for changing the “high input, high consumption, export-oriented and low added value” development model. In the post-financial crisis era, the fundamental way of transforming crisis and challenges into opportunities is to shift development model, that is, expand domestic demand, especially consumption demand, pay more attention to equality in income distribution; set great store by energy conservation and environmental friendliness and enhance overall innovations in international competitiveness.

Developing a low carbon economy to cope with climate change has provided both international pressure and important opportunity of realizing the transition in development model. It is also the basic orientation and major drive. Green development should be the innovative development model of China in the 21<sup>st</sup> century. It conforms to both national conditions and interests.<sup>33 34</sup>

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<sup>33</sup> This development model should include: plan and construct a green China, formulate regional plans for restoring ecology, invest more by the whole society in environmental protection, use public finance to buy ecological capital for ecological reconstruction, including protecting natural forests, returning land reclaimed from forests, returning land used for livestock breeding purposes, controlling sandstorm sources, controlling water loss and soil erosion, protecting wetland and control desertification, so as to effectively stop the deterioration of the ecological environment. This is tantamount to increasing natural capital. Creating and developing green technologies, formulating green standards, developing cyclic economy, popularizing clean production, using green energy, developing green industries, eliminating high energy- and resource-consuming and highly polluting processes and production capacities, encouraging and promoting green consumption, popularizing green food, medicine, home electrical appliances, homes, automobiles, housing, building and communities, constructing green cities, designing and implementing green reform, improving policies, assessment system, legal system, compensation system in favor of energy conservation and environmental protection, conducting and promoting green trade, actively importing primary products. This is tantamount to increasing natural resources, full utilization of energy-efficient and environment-friendly technologies developed in the world, make great efforts to export products conforming to international standards for environmental protection, prevent transfer of pollutants, actively carry out international cooperation, abide by international convention on environment and make great efforts to improve global environment.

<sup>34</sup> We hold that realizing the fundamental interests of the state and objectives should include the following five aspects: national security and territorial integrity; economic development and economic stability, social justice and human security; political cleanliness and social stability; ecological balance and environmental protection. In Angang Hu, Wang Shaoguang and Zhou Jianming, eds. “The Second Transition: National Institutional Construction”, Beijing, Tsinghua University Press, 2003.

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## **4. External challenges to China's peaceful rise**

### **4.1 Big emission state – target of attack**

At present, China has become a “superpower” in terms of resources and pollutants emissions. China is the No.1 coal consumer and SO<sub>2</sub> and CO<sub>2</sub> emitter. It has replaced the United States to become the world's No. 1 energy consumer. All these have lent alibi for “China threat” fallacies. Apart from India, China has become the main target of attack for pollution.<sup>35 36 37</sup> If the United States really agrees to make commitments on emissions reduction, and if China fails to make active and CO<sub>2</sub> reduction commitment for 2050, China would have to bear greater international pressure. From the positive angle, this has also become a major “window of opportunity” for Sino-US strategic cooperation.<sup>38</sup>

With the rise in international position, to provide global public goods is both China's contributions and the expectation of the other parts of the world. In the post-crisis era, when the world starts a low-level rehabilitative growth, China has become a leader in orienting the world economic recovery. It will become the first or the second largest economy in the world, the No. 1 in terms of foreign exchange reserves, the No. 1 in terms of the number of students at institutions of higher learning, the third largest R&D innovation center and the No. 1 in terms of official development aid provider and direct investor abroad. These will force China to bear more and more international responsibilities and provide more and more global public goods. Nevertheless, Chinese leadership is still in a state of perplexity, confused about its roles and not clear in its positioning. This mindset has in itself intensified the pressure and confused state imposed by itself.

### **4.2 International force driving investment and consumption weakened**

The weakening of demand in developed countries has put China in a position of possible overproduction. Although the economic crisis has hit bottom and

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<sup>35</sup> We estimate that the raw coal consumption in 2006 topped the total of OECD countries combined.

<sup>36</sup> China's 2005 SO<sub>2</sub> emissions reached 26 million tons and will increase to 31 million tons according to the IEA prediction.

<sup>37</sup> China's CO<sub>2</sub> emissions in 2005 was estimated at 5.1 billion tons, next only to the United States (5.8 billion tons), ranking second in the world. The energy-associated CO<sub>2</sub> emissions in 2007 exceeded the United States in 2007 to become the World's No. 1. According to the OECD/IEA 2007 report, by 2015, China's CO<sub>2</sub> emissions could reach 860 million tons to beat the United State (640 million tons) to rank first in the world. See IEA “World Energy Outlook 2007”, Paris, 2007.

<sup>38</sup> Climate change has not become an important subject of discussion for international cooperation but also an important item of discussion on Sino-US strategic cooperation. According to the new thinking of Obama administration, there are four major strategic subjects for cooperation: climate change, energy cooperation, global financial crisis and arms control. The first two are the most important, which are all associated with climate change. “China Youth News”, Washington, July 22, 2009.

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begun to recover, it will take a long time to adjust. The governments and people of developed countries all demand for the contraction of excessive consumption, thus forcing up domestic savings. Consumption and investment in these countries are likely to go through a long period of depressed state in order to improve the balance sheet. The current situation shows that all governments have, overtly or covertly, reinstated trade protectionism and there are signs of possible de-globalization in the short term. The balance in traditional international trade has been broken. We must be soberly aware that it is very hard for China to pull its economic growth by continuing reliance on strong export.

While other countries have called the attention to step up economic and trade relations with China, some of them have come into more and more conflicts with China in the economic and trade areas. Especially in the context of financial crisis, trade protectionism has shown up. External pressures have been intensified focusing around the exchange rate of Renminbi, labor criterion, intellectual property right and energy sources. Trade frictions in these areas will continue. Not only so, China's own imbalance triggered by the transition from the shortage economy to a surplus economy, has become more and more serious, which has by and large offset and covered up the problem of overproduction. On this problem, 2008 Nobel Prize winner Paul R. Krugman said: "Two years ago, we lived in a world in which China could save much more than it invested and dispose of the excess savings in America. That world is gone."<sup>39</sup>

### **4.3 Challenges to non-traditional security even more outstanding**

Uncertainties about global system have grown. The possibility of turning international risk into domestic one has increased. With the adjustment of the way of world economic development and political order, the world is now in for period of uncertainty and increasing instability. The menaces to both traditional and non-traditional security are interwoven. The prices of primary products and financial markets are likely to fluctuate violently. Trade protectionism and trade frictions have increased. Mutual reliance and mutual struggle among big powers have become fiercer.

China's growing dependence on external energy and resources means greater challenges. Since 1993 when China was turning from a net oil exporter to a net importer, the dependence on external resources has increased steadily, with that in 2007 reaching 50%. The ratio will continue to rise. IEA predicted that

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<sup>39</sup> Paul Krugman, China's Dollar Trap, *New York Times*, April 3<sup>rd</sup>, 2009.

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China's dependence on external energy will rise further by 2020, when it has to import about 2/3 of crude oil and 1/5 of natural gas needs. China is relatively short in domestic resources and it is inevitable to use resources from other parts of the world. This has pushed up China's net import. In 1995, China became a net importer of primary products. Since then the import has increased steadily, with that in 2006 teaching 5.11% of its GDP and the share of net import in GDP is expected to reach more than 12%.

The increasingly closer ties with the other parts of the world have put public health security at risk. China is a strongly mobile country, with the incoming tourists in 2008 reaching 130 million and the outgoing tourists reaching 46 million. It is therefore necessary to improve the domestic public health security system under the condition of opening up and active participation in international cooperation in public health.<sup>40</sup>

## **5. Summary: Major change in China's relations with the rest of the world**

Just as the report to the 17<sup>th</sup> National Party Congress says: "The contemporary China is undergoing historic changes in its relations with the rest of the world."<sup>41</sup> "China has become the second largest strong power following the United States and by 2015, it will become the No.1 (PPP) or No. 2 economy (Foreign exchange method), the second largest trader, No. 1 high-tech product exporter, No. 2 R&D innovation center and No. 1 in terms of human resources in science and technology.

Despite the increasing uncertainties and instability in the international environment, there is no fundamental change in the external environment and favorable conditions for opening up. It is, in fact, the best period for the economy, science and technology, politics and security, presenting historic opportunities for peaceful development. Peace, development and cooperation remain the mainstream in the world. The trend of economic globalization and trade and investment liberalization is irreversible. Global science and technology have progressed rapidly and become more and more widespread. The competition among countries in innovation is growing. Regional and global cooperation has become even closer and diversified. There is a pressing demand for common efforts to cope with global challenges. Measures against climate change, ecological environment, regional security and anti-terrorism and other global public goods have become rarer. All these call on us to better unify the handling of the major domestic and international situations, bearing

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<sup>40</sup> State Statistical Bureau, "China Statistical Abstract 2009", p. 176. Beijing, China Statistical Press, 2009.

<sup>41</sup> Hu Jintao, "Hold high the banner of building socialism with Chinese characteristics and win new victories in constructing a well-of society in every aspect – report to the 17<sup>th</sup> National Congress of the Communist Party of China", October 15, 2007, People's publishing house, 2007.

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in mind both the general development situation of the present-day world and the correct positioning of China's role, functions and status in the world, planning for the whole situation and mapping out long-term goals so as to share with the rest of the world development opportunities and make concerted efforts to meet up the challenges. <sup>42</sup>

Historical experience has proved again that the strategic opportunities are both precious and fleeting. It is therefore of vital importance to timely and correctly position itself in the world pattern and make major adjustments in international strategy in line with the changes of international situation. To lead or not to lead – this is a question China has to answer. In 1978, Deng Xiaoping put forward the slogan “Realize four modernizations and never seek hegemony” and said that “that is the foreign policy laid down by Chairman Mao Zedong and Premier Zhou Enlai, with which we must educate our future generations.” At that time, China's GDP was only about 22.9% that of the United States. Talking about China's foreign policy in 1982, Deng Xiaoping said again: “We say that China cannot be the leader, because acting as the leader will breed adversity. Those who practise hegemonism are discredited, so serving as the leader of the Third World would earn us a bad reputation. These are not words of modesty. I say this out of genuine political consideration.” In 1990, Deng Xiaoping made “not being the leader” the fundamental state policy. <sup>43</sup> <sup>44</sup> At that time, China's GDP was 36.6% that of the United States.<sup>45</sup> What Deng Xiaoping said tallied with China's position in the world.

“Not to be the leader” or taking less responsibilities still remains the mainstream thinking among the present Chinese leaders. But if failing to go with the times, it is likely to fall into the new trap of “whatevers”, which run counter to the thought of Deng Xiaoping (not the language of Deng Xiaoping). It is thus necessary to overcome the psychological obstacles laid by themselves but also seek truth from facts, emancipate the mind, go with the times and correctly position China in the world.<sup>46</sup>

The current international situation is far different from the past. China's GDP

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<sup>42</sup> Op. cit.

<sup>43</sup> Selected Works of Deng Xiaoping, Vol. II, People's Publishing house, 1994, pp. 112, 416.

<sup>44</sup> On December 24, 1990, Deng Xiaoping told Jiang Zemin and Li Peng: “Some developing countries would like China to become the leader of the Third World. But we absolutely cannot do that -- this is one of our basic state policies. We can't afford to do it and besides, we aren't strong enough. There is nothing to be gained by playing that role; we would only lose most of our initiative.” Deng Xiaoping: “Seize the Opportunity to Develop the Economy”, December 24, 1990, Selected Works of Deng Xiaoping, Vol. III, p. 363, Beijing, People's Publishing House, 1993.

<sup>45</sup> By PPP, See Angus Maddison, Statistics on World Population, GDP and Per Capita GDP, 1-2006 AD, Last update, March 2009.

<sup>46</sup> The Central Economic Work conference in 2010 warned against overestimation of China's strength and China's roles and over-play of China's influence.” December 2010.

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in 2006 was 85.5% that of the United States and is likely to beat the United States by 2015.<sup>47</sup>The policy of continuing as a “free rider” in international affairs is neither feasible nor pays off. China is already a country with the largest foreign exchange reserves and will be the second largest trader in the world, an emerging investor in other countries, the No. 2 petroleum importer, the second largest country in terms of outgoing tourists. If China does not play the leader, it would be unable to protect the huge interests abroad. To be a leader does not necessarily mean to seek hegemony. It means to become an important pole in the multipolar new international order. It means actively participating in and pushing the reform of global governance, actively participating in formulating international rules, actively participating in leading the international development tide and actively bearing international responsibilities. Now it would be harmful to reputation not to be a leader and it is even more harmful not to take the lead in taking up international responsibilities (for instance not to make open commitments on reducing greenhouse gases emissions). It is now very hard for China to mind its own affairs only. What it should do is to seek the maximum interests of the state in the even greater international space and in the process of unifying the handling of both domestic and international general situation. Historically, no period whatsoever had the world so needed China as today. The “World even more needs China to get prosperous and stable”.<sup>48</sup> The world has already put China in the central stage of history. It is a strategic option of vital importance whether or not China plays the leader or “shows up its head”. It not only concerns whether or not China can command the height of morality and but also “out of genuine political consideration”.<sup>49</sup>

The rapid rise of China has changed not only the pattern of the trial of strength but also the role of China in the international system. That will bring about unprecedented historic opportunities: actively participating and leading economic globalization, economic integration, trade liberalization, investment liberalization and further expanding China’s international space for development, obtaining international resources necessary for its development, promoting the reform and restructuring of the global governance system, breaking the monopoly by the United States and winning greater say for

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<sup>47</sup> By ppp, See: Angus Maddison, Statistics on World Population, GDP and Per Capita GDP, 1-2006 AD ,Last update, March 2009.

<sup>48</sup> Hu Jintao, “Hold high the banner of building socialism with Chinese characteristics and win new victories in constructing a well-of society in every aspect – report to the 17<sup>th</sup> National Congress of the Communist Party of China”, October 15, 2007, People’s publishing house, 2007.

<sup>49</sup> Now it is not a matter if China wants to be leader but a matter that you are in a better position than others and others force you to play the leader, expecting that you can take up the international responsibilities. On this, developmental economist Jeffrey Sachs put it well when he said: “Chinese officials would say, no, give us another 25 years and when we are well prepared, we shall consider to be a leader. Now we have many things to do and do not ask us to do so much. But I think, the reality we face is there are indeed too many problems and troubles in the world and China is big enough to the world. Now we are facing energy crisis, climate crisis, poverty crisis and financial crisis and many other difficulties. China must take up its global leadership duty. The world cannot wait.” (Economic Observer”, July 11, 2009.

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developing countries; breaking the monopoly and exclusiveness of the Western culture, taking the initiative to promote more diversified international culture and values; taking the lead in launching the fourth industrial revolution (green revolution), creating green development model, developing low carbon economy, and participating in international negotiations in coping with climate change and formulating international rules. This will be the first time for China to take the initiative in its own hands and actively participate in formulating international rules concerning new world development pattern.

To re-position itself means to realize the “China dream”. What is China dream”? It is the “China contribution theory” developed by Mao Zedong more than 50 years ago. Entering the 21<sup>st</sup> century, China should make greater contributions to humanity.<sup>50</sup> In May 1978, prior to reform and opening up, Deng Xiaoping also talked about the dream.<sup>51</sup> The report to the 17<sup>th</sup> National Party Congress in 2007 officially revived the great dream, that is, by 2020, China will “become a country that will be more open, have greater affinity and make even greater contributions to human civilization.”<sup>52</sup> From Mao Zedong’s “greater contributions” to “even greater contributions” advanced by Hu Jintao, it is a full reflection of the changes in China’s positioning in the world. This is an adaptive and rational change in China’s comprehensive national power and its position and roles in the world. What contributions should China make to the world? We hold that while continuing its contributions economically, in trade and in poverty reduction, China should make additional four contributions to human development: knowledge contribution by building a new innovative country; green contribution by realizing green modernization; cultural contribution by realizing the cultural revitalization of the Chinese nation. The contributions are likely to make China shine with ever great splendor, which is of significance not only domestically but also internationally. When China has become the biggest

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<sup>50</sup> In his “In Memory of Dr. Sun Yat-sen” in 1956, Mao Zedong said: “It is only forty-five years since the Revolution of 1911, but the face of China has entirely changed. In another forty-five years, that is, by the year 2001, at the beginning of the 21st century, China will have undergone an even greater change. It will have become a powerful industrial socialist country. And that is as it should be. China is a land with an area of 9,600,000 square kilometres and a population of 600 million, and it ought to make a greater contribution to humanity. But for a long time in the past its contribution was far too small. For this we are regretful. Mao Zedong, “In Memory of Dr. Sun Yat-sen”, November 12, 1956. Selected works of Mao Zedong, Vol. 7, pp.156-157, Beijing, People’s Publishing House, 1999.

<sup>51</sup> In May 1978, Deng Xiaoping told foreign guests :” At present, we are still a relatively poor nation. It is impossible for us to undertake many international proletarian obligations, so our contributions remain small. However, once we have accomplished the four modernizations and the national economy has expanded, our contributions to mankind, and especially to the Third World, will be greater.”, Deng Xiaoping: “Realize Four Modernizations and Never Seek Hegemony”, May 7, 1978, Selected Works of Deng Xiaoping, Vol. II, p. 112, People’s Publishing House, 1994.

<sup>52</sup> Hu Jintao, “Hold high the banner of building socialism with Chinese characteristics and win new victories in constructing a well-of society in every aspect – report to the 17<sup>th</sup> National Congress of the Communist Party of China”, October 15, 2007, People’s publishing house, 2007.

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stakeholder, to be a leader conforms not only to China's own interests but also to the interests of developing countries and developed countries as well.