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THE RISE OF CHINA'S ECONOMY

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China's remarkable economic boom, now in its fourth decade, has spawned numerous discussions of “China's Rise.”² Beijing's self-congratulatory slogan “China's peaceful rise” has advanced this theme. From a historical perspective, however, this terminology seems misplaced. Both the Ming (1368-1644) and Qing (1644-1912) empires occupied key positions in Asian trade and diplomacy. Crude figures compiled by Angus Maddison, author of several sweeping studies of global economic history, show China contributing nearly one-third of global output as late as 1820. The great boom of the late twentieth century has enabled China to regain some of the global economic weight and leverage that the Middle Kingdom enjoyed during the Ming and much of the Qing eras.

The industrial revolution pushed European and North American productivity far ahead of China and India, former giants whose combined share of global output plunged from nearly half to under one-tenth between 1820 and 1950.³ Prior to 1800, Europeans—for example Marco Polo⁴—viewed China as prosperous and well-governed. As China's relative economic position eroded, opinions shifted. Both Europeans and Chinese came to view China as a backward society whose very foundations—families, beliefs, values—obstructed progress. Hu Shi (1891-1962), a prominent philosopher who served as China's wartime ambassador to the United States, summarized this perspective in *Chabuduo xiansheng* (差不多先生), a witty vignette portraying Chinese people as incapable of the precise thinking needed in the modern world.⁵

China's recent economic boom, along with the success of Hong Kong, Taiwan, and Singapore, demonstrates that Chinese culture is not inimical to economic progress. Indeed, the opposite perspective, which sees Chinese society as unusually capable of producing individuals who can operate effectively in market systems, helps to explain China's historic prominence as well as its recent economic surge.

¹ The author acknowledges beneficial advice from Lucien Ellington and two anonymous reviewers.

² For example, C. Fred Bergsten et al, *China's Rise: Challenges and Opportunities* (Washington: Peterson Institute, 2008); William W. Keller and Thomas G. Rawski eds., *China's Rise and the Balance of Influence in Asia* (Pittsburgh, U. of Pittsburgh Press, 2007).

³ Angus Maddison, *The world economy: a millennial perspective* (Paris: OECD, 2001).

⁴ *The Travels of Marco Polo*, available at

<http://books.google.com/books?id=VovVAAAAMAAJ&printsec=frontcover&dq=travels+of+marco+polo#v=onepage&q=&f=false>

⁵ For Chinese and English versions, see <http://www.readchinese.net/chabuduoXiansheng>

Early work by the late G.W. Skinner (1925-2008), a brilliant and innovative Sinological anthropologist, highlights the economic capabilities of ordinary Chinese before and during the heyday of European imperial expansion. Chinese migrants, many of whom “came to Siam almost straight from the farm,” dominated Thailand’s domestic and international commerce. Skinner explains this in terms of cultural contrasts. In the “Thai universe,” shaped by the ecology of “an underpopulated and fertile land where the requirements for subsistence were [...] easily obtained. [...] thrift as such was of limited value, and work for its own sake simply senseless.” The migrants hailed from a different universe: “the south Chinese peasant lived in a grimly Malthusian setting where thrift and industry were essential for survival.” Ideology reinforced this divergence: Chinese struggled for wealth to preserve family and lineage continuity, while Thai norms frowned on “excessive concern for ... material advancement.” Differences in proverbs tell the story: for the Chinese, “Money can do all things,” but for the Thai, “Do not long for more than your own share.”⁶

Recognizing the strength of entrenched Chinese interests, the British forced the Thai monarch to grant them “equal commercial rights as well as additional privileges” in 1855, benefits that soon extended to “all the major trading states of Europe and America.” In 1890, “after thirty-five years of Western free-trading... under privileged conditions,” Chinese merchants still controlled nearly two-thirds of Bangkok’s trade, more than double that engrossed by the British. In Siam, as in China and Japan, the domestic business of European and American firms was invariably managed by “a Chinese merchant of some wealth, Western training, and standing in the Chinese community.” Chinese dominance extended even to the rice trade, “the biggest prize of all in Siam,” where “the pioneering Western mills were abandoned or passed into Chinese hands.”⁷ Chinese economic capabilities originated in Chinese village life. The Ming-Qing era witnessed a rapid expansion of commerce. Rural households attended periodic markets to buy, sell, or barter farm produce, labor services, animals, fodder, handicraft materials and products, household necessities, and loans, sometimes on a daily basis.⁸ The reliance of these markets on a complex monetary system that used copper cash for small purchases and silver coin, ingots, and bullion to manage tax payments and wholesale transactions injected the variable exchange rate between copper and silver into the economic lives of all Chinese. Rural markets were highly competitive: poor but energetic individuals could enter the commercial world as middlemen, earning commissions facilitating local transactions.

Written documents occupied an important position in economic life. Arrangements for short- and long-term labor services, for renting, mortgaging or transferring land, for selling, storing, or conveying merchandise, and for marriage, adoption, apprenticeship, and division of family property routinely involved written contracts. The operation of kinship groups, mercantile and native-place associations, crop-watching societies and other private organizations revolved around complex written arrangements. Both men and women (who often brought their own funds into their husbands’ households) participated in village-level economic life. Documents also permeated interactions with the state.

These circumstances placed a premium on literacy and numeracy, even for humble villagers. In late Qing, literacy extended to 30-45 percent of males and 2-10 percent of females—high figures when compared with pre-industrial Europe.⁹ Age-heaping, the tendency of illiterates to give their age in round numbers (so that more people identify themselves as being 20 years old than 19 or 21), is prominent in many low-income nations, but notably absent in nineteenth-century China.¹⁰

While suffering the low incomes, short life expectancy, and high infant mortality that afflict poor people everywhere, Chinese villagers attained disproportionate levels of entrepreneurial capability, organizational skill and commercial sophistication that often enabled them to out-compete natives of other Asian countries and even Europeans, not just in Shanghai and Bangkok, but across wide swathes of Asia. Colonial authorities in Batavia, Manila, and Singapore found the services of Chinese to be “indispensable.”¹¹ These unusual features did not extend uniformly across China’s landscape, but concentrated in regions with the most extensive development of trade. These included the lower reaches of the Yangzi River, which formed the hub of domestic commerce, as well as the southern coastal provinces of Fujian and Guangdong, the source of large-scale overseas migration.¹²

These regional differences persist. Chinese executives report wide regional variation in manufacturing capability: “Managers at a leading maker of auto parts were only able to produce products that were less ‘quality demanding’ in their inland

⁶ G. W. Skinner, *Chinese Society in Thailand* (Ithaca: Cornell U. Press, 1957), pp. 97, 92, 93. 95.

⁷ Ibid. 102, 105.

⁸ G. W. Skinner, *Marketing and Social Structure in Rural China* (Ann Arbor: AAS, 1965).

⁹ Evelyn S. Rawski, *Education and Popular Literacy in Ch’ing China*, (Ann Arbor: U. of Michigan Press, 1979), chap. 1.

¹⁰ Joerg Baten et al, “Evolution of living standards and human capital in China in the 18–20th centuries.” *Explorations in Economic History*, forthcoming.

¹¹ Sarasin Viraphol, *Tribute and Profit: Sino-Siamese Trade, 1652-1853* (Cambridge: Harvard Council, 1977), p. 170.

¹² For an architectural example, see <http://www.nytimes.com/2009/12/04/world/asia/04taishan.html?emc=eta1>

facilities. ... [where] efforts to raise standards encounter broader cultural obstacles.”¹³ Even though massive infrastructure growth has reduced economic distances between inland cities and China’s ports, foreign investments cluster along the coast. Speaking in 2008, Commerce Minister Chen Deming emphasized the regional imbalance in commercial expertise, promising to “help set up centers to train business brains in East China for the central region.”¹⁴

During the nineteenth century, growing pressure by expanding European powers, later joined by the United States and Japan, led to a procession of “unequal treaties” which compelled China to cede territory and authority to avoid open warfare with the militarily superior imperial powers. While the resulting erosion of Chinese sovereignty created a lasting sense of grievance, the economic consequences of the “unequal treaties” were broadly beneficial. The free trade regime imposed under the 1842 Treaty of Nanking lasted nearly a century. Even though free trade imposed costs associated with unrestricted imports of opium,¹⁵ Peter Lindert conjectures that “common folk were among the greatest gainers” from China’s growing exports of labor-intensive commodities—tea and silk in the nineteenth century, cotton textiles in the twentieth.¹⁶ Treaty provisions allowing foreigners to reside, trade, and, after 1895, to operate factories in an expanding roster of open ports accelerated the inflow of new technologies and ideas—among them telegraph, steamships, railways, new-style banks, company law, and advertising—that contributed to long-term economic modernization.

Despite these supportive circumstances, sustained growth was slow to arrive. To be sure, the Taiping Rebellion of 1851–1864 inflicted massive damage, turning some prosperous regions into wastelands. But what of the 40-plus years between the suppression of the Taipings and the Qing collapse of 1911? One might expect that the combination of political stability, open and competitive trade, and a government moderately supportive of reform would have kindled substantial economic advance, especially with the extra momentum that recovery from war often provides. But available materials do not encourage this line of thinking. Nor do we have a clear idea of what structures or forces might have limited economic advance during the final Qing decades. The list of possible constraining factors includes the difficulty of building momentum in a large economy and the state’s tiny fiscal resources—each quite different in Japan, as well as China’s lack of readily accessible coal deposits.¹⁷

Despite domestic political instability and mounting Japanese incursions, the decades between China’s 1911 revolution and the outbreak of the Sino-Japanese war in 1937 finally delivered a marked economic upswing. Manufacturing grew steeply, albeit from a tiny base, along with components of the urban economy. These gains spilled into the much larger farm sector, as urban factory growth raised the demand for cotton and wheat, expansion of transport networks enlarged markets for rural products, and banks experimented with retail farm lending. Rising wages in textiles and coal mining, occupations that attracted unskilled rural migrants, and in agriculture itself attest to modest but definite increases in agricultural productivity and incomes, changes that affected the majority of China’s vast labor force.¹⁸

The outbreak of war in 1937, followed by a steeply rising inflationary spiral, imposed a double blow that reversed a quarter-century of economic advance, but not before new institutions had demonstrated their strength by cushioning China’s economy against the worst consequences of the global depression that began in 1929. Although large outflows of silver, the foundation of China’s pre-war currency system, threatened to tip China’s economy into a deflationary downdraft, China’s private bankers, operating without the benefit of official regulation or support, persuaded their fellow citizens to increase their reliance on private banknotes and deposits with the result that the money stock actually increased during the 1930s. This contributed to the surprising resiliency of China’s economy, and limited the depth and duration of the decline in prices, wages, investment, and output, all of which were far smaller than in many other nations.¹⁹

PEOPLE’S REPUBLIC OF CHINA ESTABLISHED

Following Japan’s surrender and the conclusion of the ensuing civil war, leaders of the newly established People’s Republic of China faced a poisonous cocktail of runaway inflation, budget deficits, and widespread reluctance to hold currency or bank deposits. These difficulties were quickly resolved despite the added complication of China’s October 1950 entry into the Korean War.

¹³ Loren Brandt and Thomas G. Rawski eds., *China’s Great Economic Transformation* (Cambridge: Cambridge U. Press, 2008), p. 625

¹⁴ Gong Zhengzheng, “Central China Urged to Up Ante.” *China Daily*, 28 April 2008, p. 2.

¹⁵ Carl Trocki warns that “Much of the literature [on opium] is emotional, uninformed, highly prejudiced and intended to persuade rather than to inform” (*Opium, Empire and the Global Political Economy* (London: Routledge, 1999), p. 177).

¹⁶ “International Economics,” in Thomas G. Rawski et al, *Economics and the Historian* (Berkeley: U. of California Press, 1996), p. 229.

¹⁷ On coal, see Kenneth Pomeranz, *The Great Divergence* (Cambridge: Cambridge U. Press, 2000).

¹⁸ Thomas G. Rawski, *Economic Growth in Prewar China* (Berkeley: U. of California Press, 1989), chap. 6.

¹⁹ *Ibid*, chap. 3.

Buoyed by this initial success, China's new leaders redirected their economic efforts toward growth. Their actions reflected the widespread mistrust of private enterprise and international markets common among low-income nations at the time. China's alliance with the Soviet Union and confrontation with the U.S. strengthened the tilt toward planning, public enterprise, and isolation from global markets. The design of China's economic plans followed Soviet example (as did India's): concentrate resources in industries that can ramp up domestic capacity to expand industrial investment. As in the USSR, raising output of "machines to produce machines" became the key goal. This trajectory called for large-scale expansion of steel, electricity, mining, machine-building, and related industries, along with a supportive educational and research infrastructure. Planners viewed higher consumption as a cost—essential (in small quantities) to preserve incentives—rather than a policy objective.

The effort to channel resources toward industrialization posed difficult choices for rural policy. Raising crop purchase prices could increase farm output and incomes, and provide new opportunities for resource transfer, but only if investment in consumer goods and farm equipment sufficed to maintain farmers' incentives. Alternatively, collectivization might enlarge the available surplus farm products without shifting investment away from priority sectors. Farm policy vacillated between these poles until 1958, when Mao Zedong's personal intervention shifted policy decisively toward collectivization. Farmland, tools, livestock, and rural labor were hastily absorbed into large "People's Communes," amid an intense campaign to raise output of grain and steel. This "Great Leap Forward" shattered administrative routines, wasted vast resources, undermined work incentives, and triggered a man-made famine that cost 30 million lives. To make matters worse, growing friction between Beijing and Moscow prompted the USSR to withdraw its technical support, crippling numerous industrial projects.

Soon after economic planners managed to restore some semblance of normal economic functioning, Mao Zedong intervened again to promote another disruptive political movement, the "Cultural Revolution," which began in 1966. Economic costs, although far smaller than during the "Great Leap," were considerable, especially in education, where colleges and schools either shut down or abandoned normal standards for up to ten years.

The death of Mao Zedong in 1976 was widely seen as a turning point for economic policy. People were not satisfied. Despite important economic achievements in growth, industrialization, technology (including nuclear weapons and space exploration), and human development (rising literacy, declining infant mortality, control of infectious diseases), China's socialist system had fallen short in two key dimensions. The commune system failed to solve China's food problem: as one local leader put it "hunger suddenly emerged without warning [in 1959] ... For the next twenty years, the problem of hunger was part of our lives."²⁰ Furthermore, the country lagged far behind the economic achievements of neighbors whom most Chinese viewed as inferior: defeated Japan, colonial Hong Kong, Kuomintang-controlled Taiwan.

REFORMS IN THE 1970s

In reviewing the astonishing outcome of the reforms begun during the late 1970s, it is essential to recall their modest scope. The initial effort included three components. Impoverished localities began to experiment with household farming. Four new Special Economic Zones in the southern coastal provinces of Guangdong and Fujian exposed a sliver of China's isolated economy to international trade and investment. Government-owned urban firms could now retain a modest share of profits as an incentive to "enliven state assets"; revived markets for industrial inputs and products provided an outlet for retained profits.

The agricultural initiatives met with instant success. Farmers raced to abandon collectives and reinstate household cultivation. Massive (and completely unexpected) increases in agricultural production raised farm incomes and improved the diets, energy and productivity of villagers everywhere. Rising farm output swelled exports and curtailed food imports, eliminating long-standing concerns over the availability of food and foreign exchange supplies. The farm boom disgorged new supplies of industrial materials (grain, cotton, sugar, fruit) and revealed vast surpluses of rural labor. Together with rising rural demand and increased access to urban markets and expertise, these changes fuelled an explosive boom in rural industry.

Results of the trade initiatives also dwarfed expectations. Initial prospects seemed limited because the managers of China's special zones, unlike their counterparts in Taiwan or the Philippines, lacked international experience. But the opening of trade zones coincided with growing pressure from higher wages and land prices on the cost of labor-intensive exports originating in Taiwan and Hong Kong. These exporters began to shift operations to the mainland, where the new combination of abundant low-cost labor with the knowledge, skills, and experience of Hong Kong and Taiwanese entrepreneurs generated an export boom that soon launched China from self-imposed isolation into the developing world's largest recipient of foreign investment.

Looking back, it now seems evident that the unexpectedly large payoff to modest reforms in agriculture and trade owed much to the legacy of human capital accumulated within China and among overseas Chinese during the decades and centuries prior

²⁰ Shu-min Huang, *The Spiral Road* (Boulder: Westview Press, 1989), p. 61.

to 1949. While “agricultural projects in East Africa ... suffer from a shortage of well-trained African accountants ... [who can manipulate] a simple cost-accounting system,”²¹ Chinese villagers quickly mastered the complex record-keeping demands of the commune system. Once reform began, the supply of managers and accountants easily accommodated massive expansion of township and village enterprises, which mushroomed to encompass 18.5 million firms with 92.6 million workers and over \$10 billion worth of goods procured for export in 1990.²²

Urban reform turned out to be far more complex. Vast swathes of Chinese manufacturing were creatures of the plan that lacked any market heritage. Furthermore, urban reform cut to the core of Chinese socialism, which, despite its rural background, had long focused its attention on the development of cities and the welfare of urbanites. Chinese leaders entered the reform process with vague notions of improved economic performance rather than clear objectives. At the same time, entrenched party and bureaucratic interests eliminated any possibility of sweeping reform. This turned the transformation of China's urban, industrial economy into a lengthy process that gave birth to the distinctive features of Chinese gradual reform.

With “big bang” reforms of the sort attempted in Russia and Eastern Europe neither feasible nor, in the view of Chinese leaders, desirable, urban reform evolved as a series of policy experiments and initiatives, decentralized responses, and official reactions. At the outset, Deng Xiaoping and his reform-minded colleagues sought to improve outcomes rather than to pursue a clear vision for China's post-reform economy. Because Chinese planning was relatively decentralized, with provincial and local leaders enjoying greater authority and control than in the Soviet Union, central reform initiatives typically focused on enabling measures that broadened the opportunities and choices available to enterprises and lower-level governments. Instead of eliminating price controls, China gradually raised the share of sales transacted at market prices. Rather than privatize, a growing range of firms began to issue shares. Production planning did not vanish, but its span of control gradually diminished.

This open-ended approach invites decentralized reactions that the center cannot fully anticipate or control. Governments at all levels become participants; sometimes even followers, as well as leaders of reform. Reform unfolds as a process replete with interactions among governments, enterprises, workers, and consumers rather than as a sequence of events in which the state imposes decisions on businesses and individuals.

UNFORESEEN OUTCOMES

The heterogeneous nature of China's pre-reform system meant that the effect of Beijing's reform initiatives was far from uniform. The uneven impact of enabling reforms destabilized outcomes and intensified competition. Competition reduces profits. In socialist China, government agencies and state-owned enterprises, which controlled the bulk of capital assets, suffered mightily. The steep decline in government's share of national product during the 1980s illustrates the importance of unforeseen outcomes. Some enterprises reacted to financial pressures by developing new products, trimming costs, and raising productivity. Others bombarded their official sponsors with claims of “unfair competition” and pleas for financial assistance. Supervisory agencies, short of funds because of the slow growth in their revenues from profits (or taxes on profits), often found it easier to respond with further reform initiatives than with cash.

In this way, Chinese reform created a “virtuous cycle” that enabled myriad small reforms to cumulate into substantial institutional change. Reform expanded competition and created financial pressures that spurred some participants toward innovation, resulting in further intensification of competition. Even when financial pressures resulted in lobbying rather than innovation, the typical response involved further partial reform, which unleashed fresh rounds of competition.

This system produced an odd structure in which the balance between plan and market varied widely for different official agencies, regions, enterprises, and households. Variation allowed participants to weigh their own prospects under each system. As Susan Shirk has shown, the result was a gradual shift of opinion toward preference for market outcomes that culminated in the China's Communist Party's 1993 decision to pursue a “socialist market economy with Chinese characteristics.”²³

Comparison of circumstances in 1993 with the recent past shows that subsequent development has followed the track established by the 1993 decision, under which government was to undertake macroeconomic management, regulation of health, environment etc., and setting strategic priorities for the economy, leaving other decisions to the market. The shift *from plan to market* continues: the share of industrial output originating in state-owned or collective firms that are subject to strong official controls plunged from 81.7 to 11.0 percent between 1993 and 2008. The move *from public to private ownership* has accelerated, with the share of domestic private firms and firms with offshore investment in industrial production leaping from

²¹ Uma J. Lele, *The design of rural development: lessons from Africa* (Baltimore: Johns Hopkins U. Press, 1975), pp. 127, 131.

²² *China Statistical Yearbook 1991- abbreviated below as CSY* (Beijing: China Statistics Press, 1991), pp. 377, 628; David Zweig, *Internationalizing China* (Ithaca: Cornell U. Press, 2002), p. 121.

²³ Susan Shirk, *The Political Logic of Economic Reform in China* (Berkeley: U. of California Press, 1993).

18.5 to 56.4 percent during the same period.²⁴ Continued movement from isolation toward global involvement is also clear: between 1993 and 2008, annual two-way trade advanced from \$195.7 billion to \$2.56 trillion, China's trade ratio (combined exports and imports as a percentage of GDP) rose from 28 to around 60 percent, incoming foreign direct investment jumped from \$28 to \$92 billion, and China emerged as a substantial source of outbound direct investment, with annual flows rising from \$4.4 billion in 1993 to \$52.1 billion in 2008.²⁵

These important structural changes occurred amid a further acceleration of growth that has pushed the leading edge of urban prosperity into new territory, with affluent households now able to afford luxury housing, private automobiles, international travel, and overseas schooling for their children. Strong momentum has enabled China's economy to power through sharp setbacks from the international financial crises of 1998 and 2008/09 as well as the 2003 SARS epidemic.²⁶

REFORM SUCCESS

One vital ingredient in China's long-term reform success came from domestic policies that pushed aside major obstacles to improved economic performance by improving incentives and allowing increased entry, competition, mobility, and price flexibility. Although these reforms remain incomplete—private businesses, for example, still confront formidable legal, administrative, and institutional barriers—they created sufficient momentum to overcome the friction and drag linked to a host of less critical inefficiencies associated with price distortions, imperfect markets, and institutional shortcomings (for example in banking, property rights, and corporate governance)—all of which retarded growth and increased its cost without endangering the ongoing boom.

The combination of Chinese land and labor with the capital and expertise of Taiwan and Hong Kong industrialists provided a particularly important boost to exports and employment during the first decade of reform. China's coastal regions used the experience and confidence gained from initial cooperation with Overseas Chinese entrepreneurs to attract rising investment flows from multi-national corporations. Foreign investment has powered China's revival as a great trading nation and contributed to the expansion of Chinese manufacturing capability (for example, in automobiles).

CHINA'S FUTURE

What of the future? China's economic prospects appear strong. Rapid diffusion of education will further improve its already impressive pool of human resources. Entrepreneurship flourishes despite remaining barriers to the expansion of private business. With public interest in socialist ideology notably absent, China's political elites understand that continued economic growth is essential to maintaining their own power; their focus on development is therefore intense. Manufacturing, the largest and strongest sector of China's economy, seems poised for further upgrading, which will benefit from enlarged flows of college graduates, domestic R&D activity, and new ideas from China's growing portfolio of international investments.

China's efforts to harvest these promising economic opportunities must confront formidable obstacles. Although international media and NGOs tend to exaggerate the dangers arising from environmental and public health hazards as well as tensions linked to ethnic and economic inequalities, these issues pose major challenges, as do corruption and the intertwined problems of unemployment and (especially rural) education. The biggest dangers, however, lie elsewhere.

On the domestic side, a largely unreformed investment mechanism allows government decisionmakers to channel funds from state-owned banks into state-controlled investment projects. This relic of Soviet-style planning holds back the growth of output, productivity, and (especially) employment, extends a long-standing pattern of grotesque seasonal fluctuations, creates mountains of bad loans that increase the risk of financial instability, and truncates expansion prospects for private businesses (which find themselves crowded out of financial markets).

On the international side, global market access, which has made China the greatest beneficiary of globalization, remains essential to China's future prospects. The recent economic crisis shows how quickly disruption of overseas export sales can undercut domestic economic activity (best measured at the moment by electricity use) and employment (Chinese economists reckon that the 2008 crisis caused over 40 million layoffs). Imports of energy, materials, equipment, components, and technology are equally essential. Chinese plans to grapple with a wide range of pressing economic issues routinely anticipate unfettered access to world markets for funds, expertise, and ideas as well as commodities.

²⁴ CSY 1994, p. 373; 2009, Table 13.1.

²⁵ Data from CSY, 1994 and 2009; Penn World Tables; UNCTAD website.

²⁶ Official data conceal the impact of these reversals on overall output. For example, official reports for the fourth quarter of 2008 show electricity output *falling* by 12.1 percent compared to year-earlier results, but claim that GDP *expanded* by 6.8 percent during the same period.

China's continuing growth spurt, now in its fourth decade, is a major event in world history that has delivered massive benefits to its citizens, and also to its trade and business partners, including the United States. Chinese economic expansion also creates conflict—in the economic sphere alone, China has become involved in disputes over cross-national shifts in production and employment, corporate takeovers, trade imbalances and protection, environmental hazards, currency valuation, intellectual property, internet censorship, labor standards, subsidies, and many other issues.

Beijing's intense focus on building a prosperous Chinese future, along with China's large and growing reliance on global markets to promote its economic objectives, tilts China's international behavior toward cooperation rather than conflict. Despite the inevitable friction that accompanies the China's expanding economic, political, military, and technological strength, this orientation, which is evident in Beijing's approach to issues surrounding trade, environment, property rights, and the Korean peninsula, creates an opportunity for the international community to adjust to China's expanding power and influence through mutual agreement rather than armed struggle.

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