

THE NEW RED
MENACE?

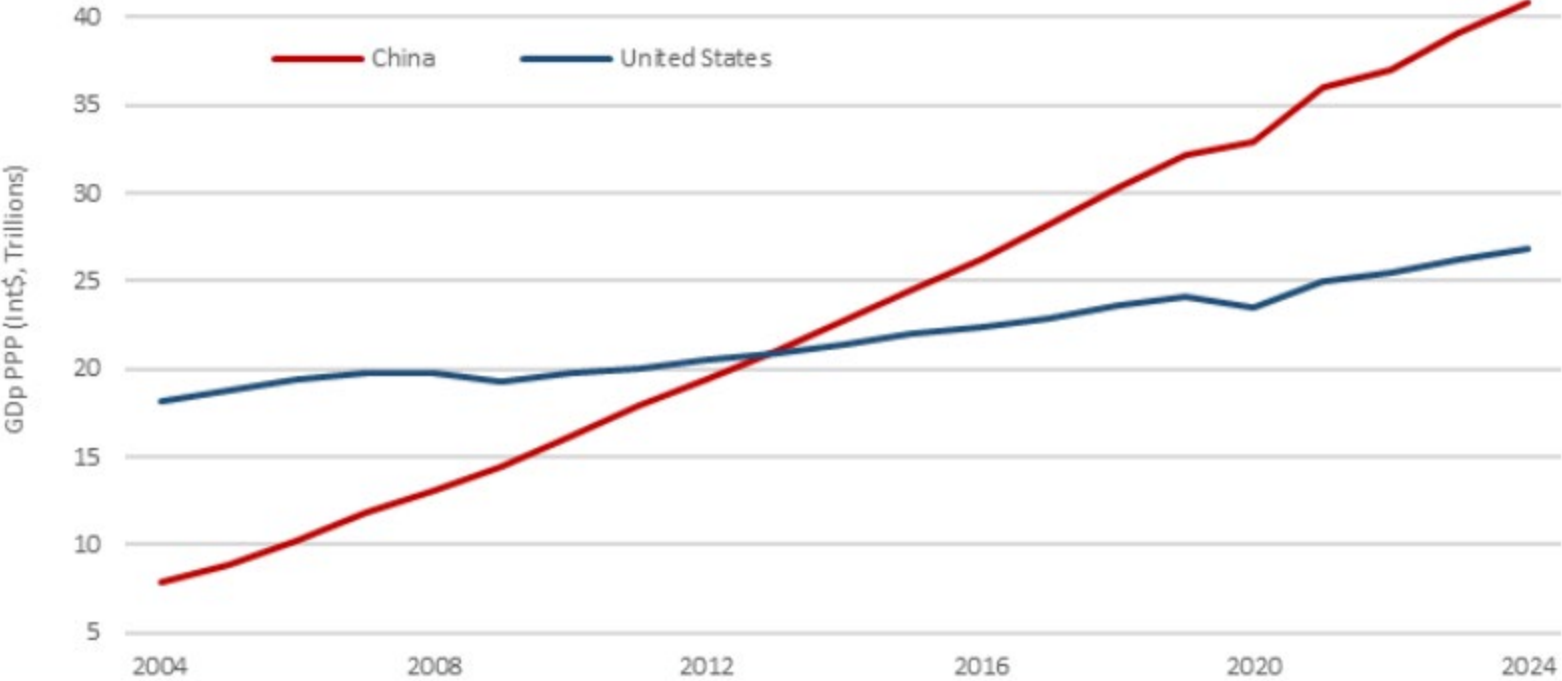
WHAT WILL THE “RISE”
OF CHINA MEAN FOR
THE WORLD?

In what sense is China “rising”?... AND why its leaders prefer “returning”

- **1.2 Billion people (but getting smaller): A lot of prime-age workers, a lot of (mostly poor) consumers, and a lot of state revenue to target at industry and security investment**
- **Since 1985, the Chinese economy has grown at an average rate of over 9.5%, but it is slowing down (presently around 5.5% w/out COVID)**
- **Who has the largest GDP? US 1.3x in nominal terms, China 1.2x in PPP. Why does China being #1 in overall GDP matter... And why doesn't it matter? Markets and consumer design may revolve around its needs; wealthy states can buy a lot of guns... or world class universities. Put per-capita... not so good.**
- **Innovation: 2023—60% of electric vehicles, 80% batteries, 95% of solar, and 400 fighter jets in 3 years. Manufacturing capacity = 2 x the US**
- **Since the 1980s, the number of people in the world living in absolute poverty (on less than 1.45 a day) has decreased by only about 10% ; Within China, the rate of absolute poverty has fallen 90% of its population to around 10%.**
- **China's trade balance for 2024: was +994\$ Billion (#1); America's: -918B \$B (#1)... And this hasn't improved much with Trump tariffs (yet)**
- **A peaceful rise? China has the 2nd largest military budget in the world and the world's largest army... And they are spending more and more on modernizing their forces. Weapons growth rate at 6 x the US; navy growing even faster (1.5x US)**

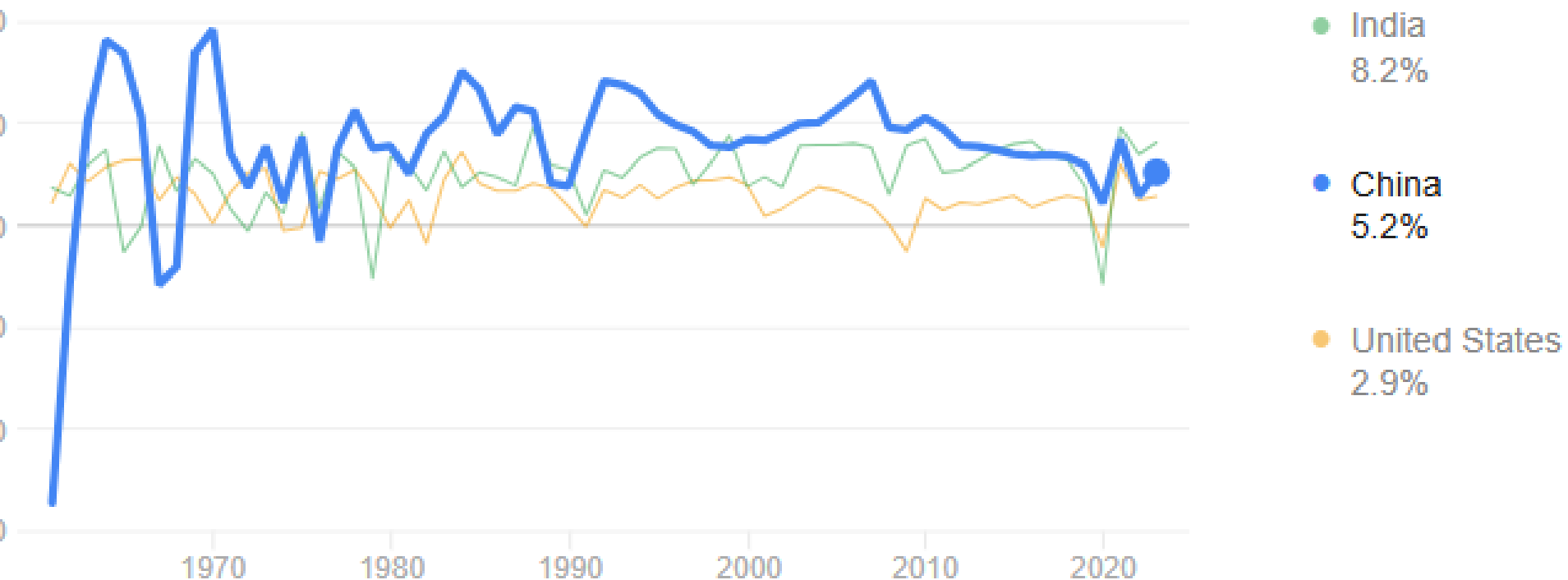
Chinese vs. United States GDP Growth 2004-2024

GDP PPP, Int\$, Trillions (2004-2024)

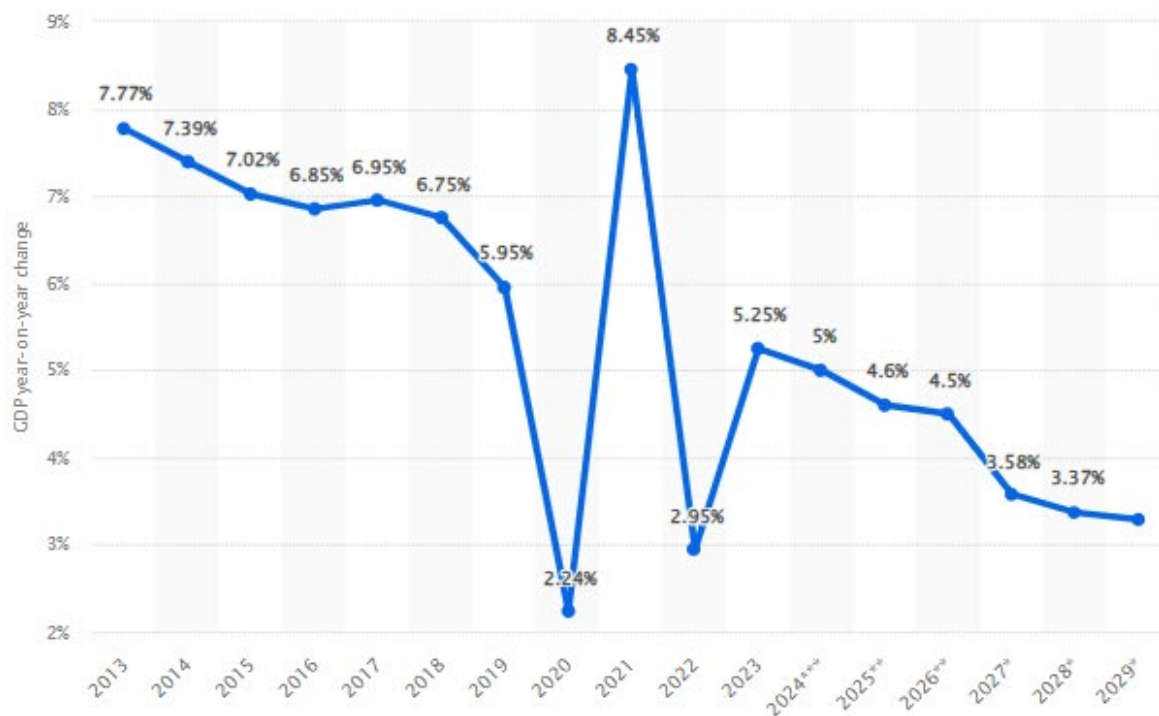


China / GDP growth rate

5.2% annual change (2023)



Growth rate of real gross domestic product (GDP) in China from 2014 to 2024 with forecasts until 2029



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Sources

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WHY ARE WE AFRAID OF CHINA?

- **Psychology and fear of the unknown: Attribution error (when you read everything an “enemy” does as being purposefully directed against you).**
- **Realism: Mearsheimer tells us to go get China now or face a more powerful enemy later on. Is there any evidence China will be a threat? As a realist, why isn't he more worried about Europe? (US offshore balancing and Chinese efforts to expand). Thucydides trap...**
- **Security dilemmas and fear: How would you like to be China and share a border with Russia, India, Pakistan (barely), Afghanistan, North Korea, and a bunch of other sometimes-hostile countries? But what do we think when China gets stronger to deal with its neighbors?**
- **Does a democratic hegemon constantly need to search for an enemy (the use of fear in politics and the imperial presidency)? For many, China has become the face of the larger forces of history that may inevitably lead to the decline of America power and our “right” to own the 21st century**
- **The lure of simple, but potentially incorrect historical analogies... Why does this seem so familiar? Is this the Cold War all over again (what ideological, soft-power threat did the USSR pose vs. China)?**

Come on now, let's put "China's rise" into perspective

IS THE EUROPEAN UNION GOING TO BE OUR ENEMY:

- **Ridiculous, you say? Not if you are a realist (think about the region's incredibly violent history)**
- **European military expenditures that collectively are roughly 2.5 times that of China... and they have less to fear in terms of the EU's borders. And they are about ready to get a lot higher has the US withdraws support**
- **The EU economy rivals that of the US, but all of this wealth is spread out over a population of 500 million, which is only 40% that of China.**
- **IN 2022 the American worker, including all sectors of the economy, generated an average \$74 per hour for our GNP; it was exact same in high-tax, high-regulation Sweden**
- **Germany's trade surplus in 2022= 226\$ Billion (72B with US in 2024)... Half of China's but 16 x larger than China's on a per capita basis. And what side did China fight on for both WW1 and W2?**
- **Good news—In the last decade (i.e., before the massive tariffs, per cap GDP \$ had in the US had grown to 34% higher than that of the EU (but... EU expansion into E Europe explains a lot of this)**
- **The bottom line: No, we're not headed into conflict with the EU. However, a lot of the fear of China appears to be based on cultural differences rather than any security threat that is unique when compared to Europe...**

IS CHINA GOING TO BE A THREAT TO YOUR POST-COLLEGE JOB? NOT LIKELY

- **The hourly wage of the average Chinese worker in a major city (in other words, if we ignore the poorest Chinese workers who make the up the majority of their economy): \$8 hr (in 2022)... which is 8 times what s/he made in 1980, but a fraction of what you find in any developed economy.**
- **Chinese labor mostly “complements” our economy. Remember comparative advantage: We do what we do best and they do what they do best so that we end up producing more stuff and employing more people than we otherwise would... Why is Chinese labor unlikely to compete head-to-head with US labor? Next slide...**

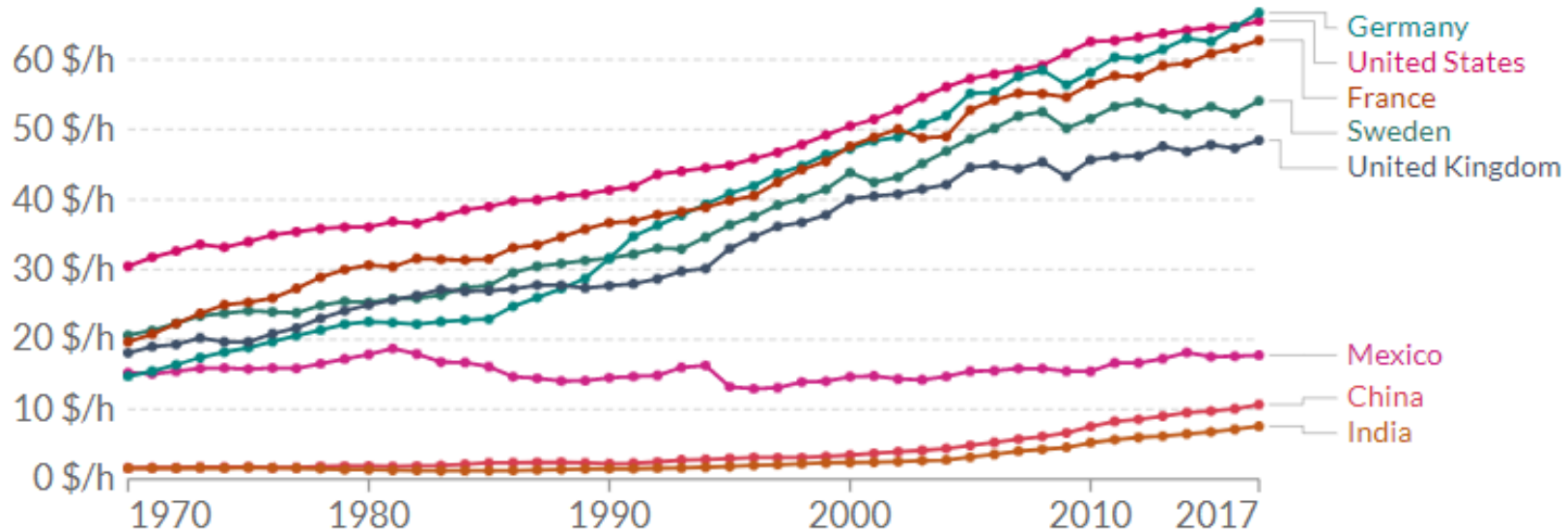
Europe is our job competitor; China is not

Productivity per hour worked

Our World
in Data

Labor productivity per hour is measured as gross domestic product (GDP) per hour of work. GDP is measured in constant 2011 international-\$, which means it is adjusted for price differences between countries (PPP adjustment) and for inflation to allow comparisons between countries and over time.

[+](#) Add country Relative change



Source: based on Feenstra et al. (2015) Penn World Tables 9.1

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▶ 1950 2017

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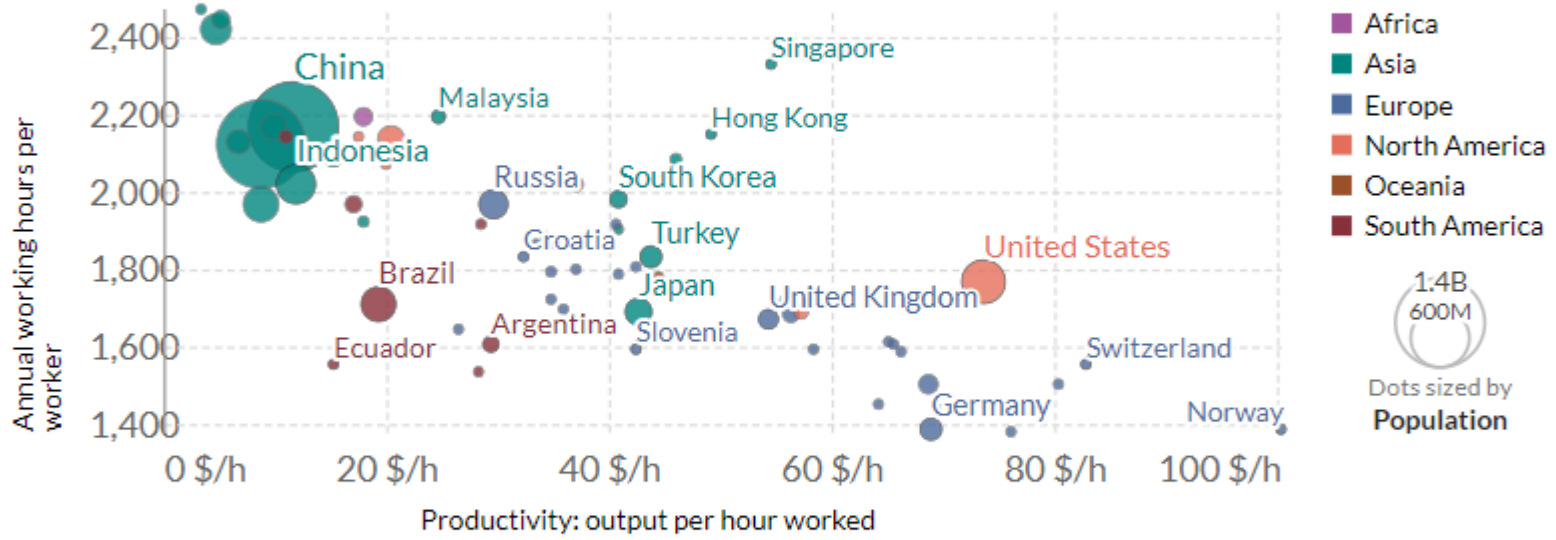
Again, Europe is our job competitor; China is not

Annual working hours vs. labor productivity, 2019



Labor productivity is measured as GDP per hour of work. GDP is adjusted for inflation and for differences in the cost of living between countries.

X: LINEAR X: LOG Select countries Average annual change



Source: Feenstra et al. (2015), Penn World Table (2021)

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1950 2019

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Again, we have choices that China does not. Think about how much surplus \$ there is to spend on human capital and strategic investment

GDP per capita

Measured in constant international- $\$$.

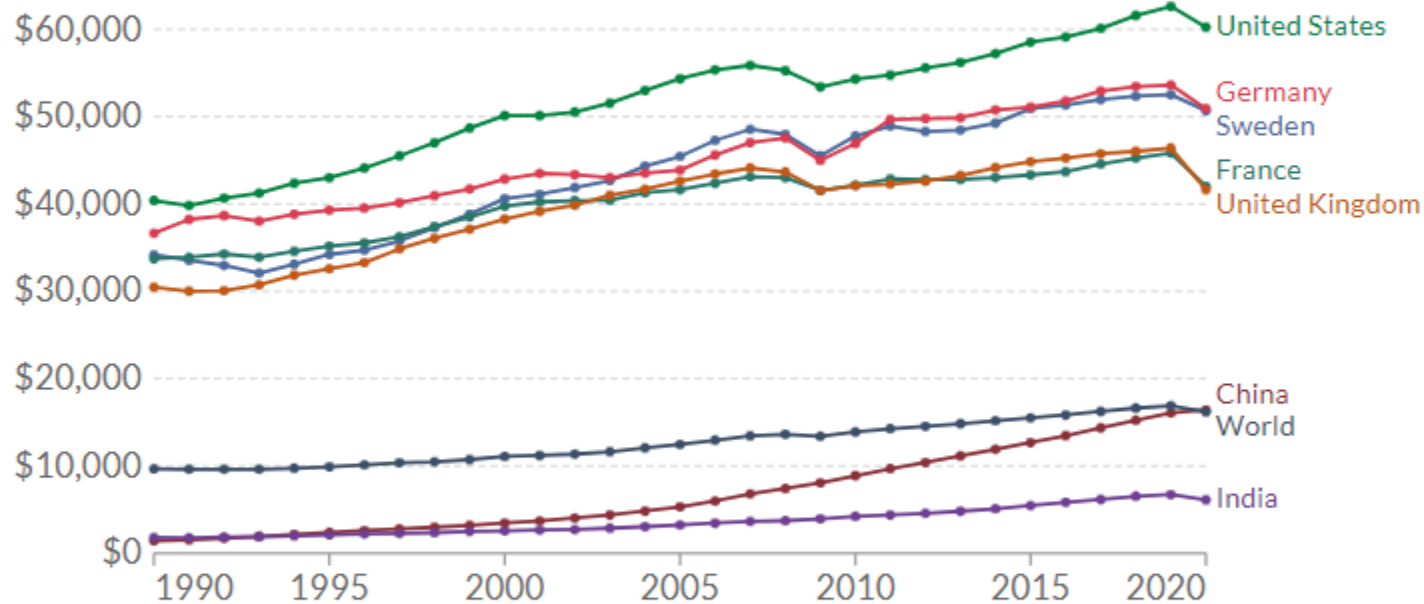
Our World
in Data

LINEAR

LOG

+ Add country

Relative change



Source: Data compiled from multiple sources by World Bank

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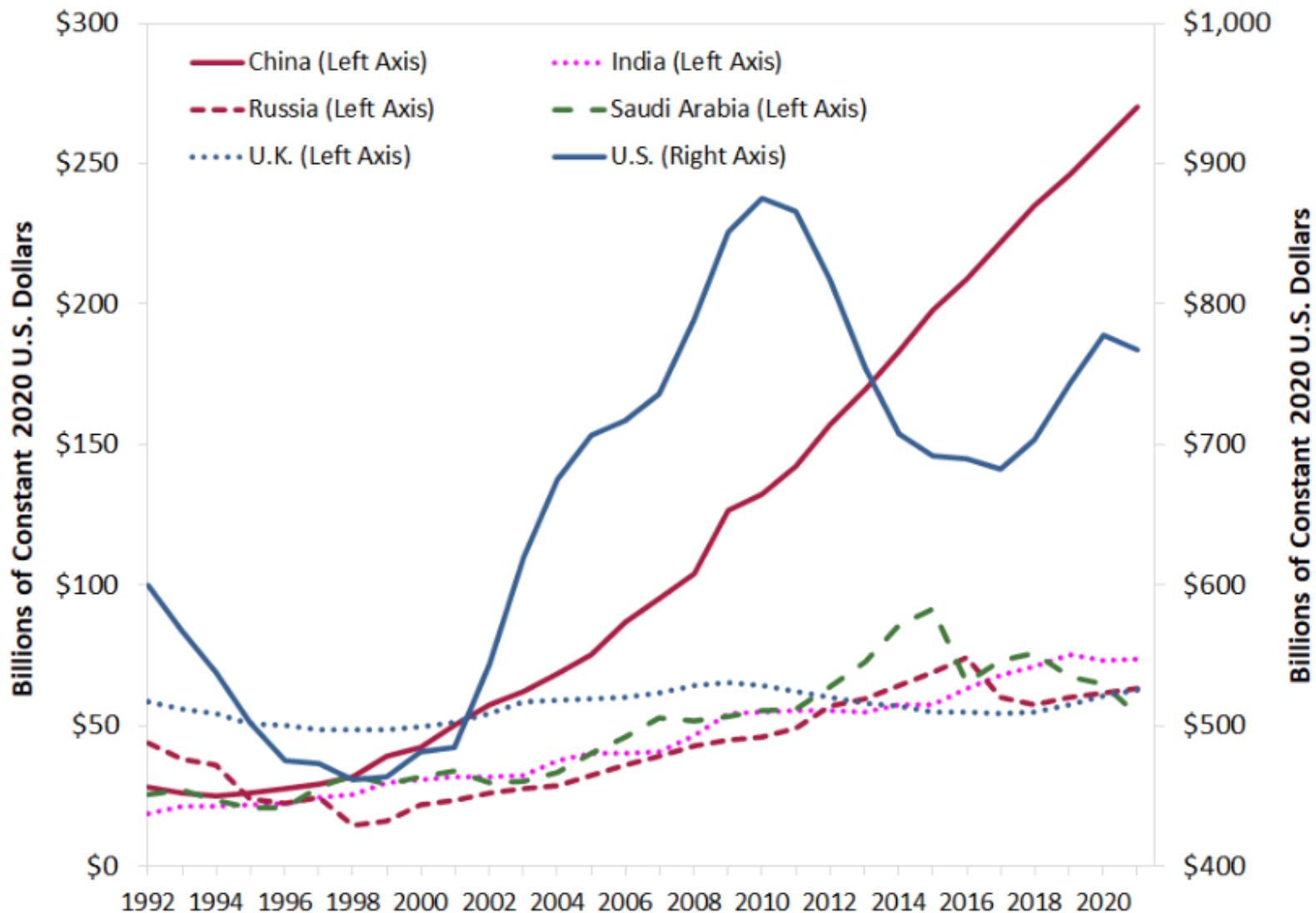
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Does considering population numbers & trends put the Chinese economic miracle into a different perspective? Yes, per the data you just saw

- **Nominal Chinese GDP per capita in 2024: \$13.3K, #64 in the world and less than half the world avg.**
- **US nominal GDP per cap in 2024: Over \$85K, #7 (incidentally, we're behind Ireland (!), Qatar, and Switzerland), which makes you wonder about all this obsessing about our place in GDP rankings).**
- **If we adjust China's 2024 per capita GDP for its purchasing power (how much would the "average person be able to buy here if income was equally distributed) : \$24K. Or 73thth in the world.**
- **And China's going to have very serious growth issues going forward because of their past population controls (a much smaller work force ahead).**
- **More importantly, China will face serious problems growing at anything like 10% per year going forward because they would need an open culture that will foster innovation... hard to do this without democracy, and they are going in the wrong direction**

Top Six Countries by Military Expenditures

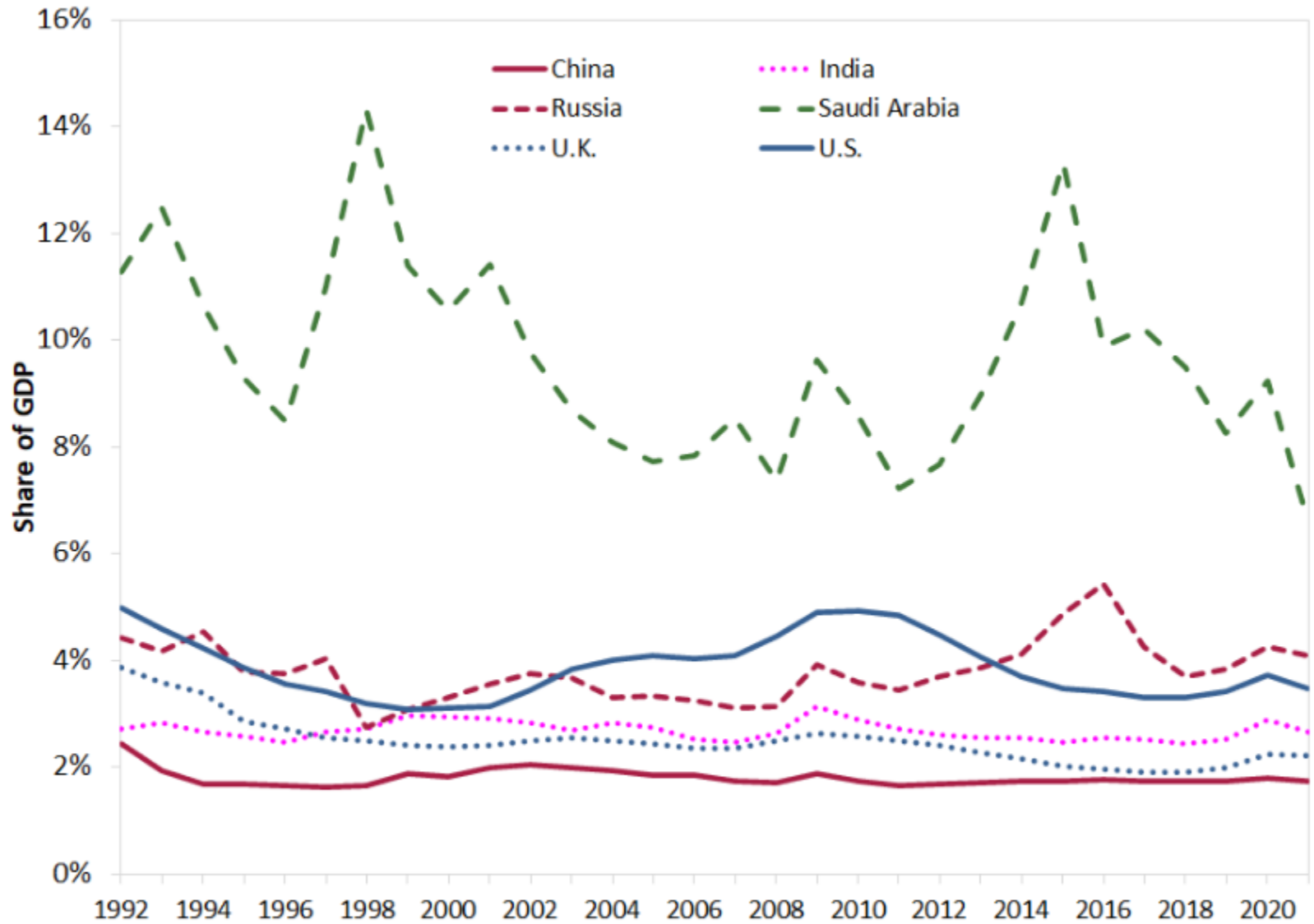


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SOURCES: Stockholm International Peace Research Institute and authors' calculations.

NOTE: The top six countries were those with the highest defense spending (in constant 2020 U.S. dollars) from 2017 to 2021.

Military Expenditures as a Percentage of GDP



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SOURCES: Stockholm International Peace Research Institute and authors' calculations.

What about those large military spending numbers?

- China is spending more (up 10% each year), but still spends **WAY** less of their GDP on the military than the US (WB says: China = 1.9% in 2025; Global Avg.= 3%; US=3.6%). In fact China's military budget is the lowest percentage of the national budget for *any* UN security council member (Russia=4.3%).
- While the Chinese have 2.3 million active military troops, they have two foreign military bases (a formal one in Djibouti, where France has one, too; and an informal one in Tajikistan). Adjusted for population, they have 2 active troops per 1000 working people.
- By contrast, 2018, America has 1.3 million active troops (7 per 1000 workers) are based in over 150 countries around the world... including those on China's border. As of 2019, the US had 165K soldiers stationed abroad and were fighting 7 warzones: Afghanistan, Iraq, Syria, Yemen, Somalia, Libya, and Niger.

Is China a long-term threat to our complete military supremacy? Maybe

- China continues to seek regional econ. & mil. hegemony + “area denial” for US
- Unlikely given their political culture; For thousands of years, the Chinese have not sought to be a global hegemon even when they have had a shot at it. They are aggressive the way we used to be: regionally
- Free-riding incentives: Security-wise the SQ is pretty good to China and internal political pressures warn against an arms race with the US and the west. Their biggest security threat is from within.
- What should make of the unfolding submarine and hypersonic missiles arms race? China wants security and dominance in its region, and logically China will challenge the US military presence there. Area denial appears to be the goal. Submarines and missiles are a relatively inexpensive counter to American aircraft carriers
- The Chinese nuclear posture is defensive when compared to the US or Russia (although they will acquire more because of US antiballistic shields and the desire to maintain a credible deterrent):
US active 1,950 / total 8,500 warheads
China active total 600 warheads but growing fast.
- And China will continue to have a large military and ever more professional army... but they don't have the luxury of moving it all around and fighting wars across the world like we do because they don't have bases... yet?

China's real power? Maybe its soft power

- What is soft power again? : Getting other nations to think your way of doing things is valuable and worth emulating in the absence of costly coercion. China appears to be very interested in building and using soft power both regionally and as a global diplomatic leader
- Soft, sticky, and sharp power may be more important now than ever before: In an era where more states will have nukes and increased concerns for civilian casualties, the US advantage in military spending may be less important and their way of engaging the world may have lots more appeal.
- China's soft power is pointed against us: China is working hard to establish itself as a morally superior counterbalance to the US when it comes to speaking out on political issues of global import. China is emphasizing sovereignty and self-rule as the highest global values rather than democracy, free markets, or capitalism.
- Are we playing into China's hands? Our national debt, the ability of our political system to work toward consensus, our willingness to see international trade, foreign aid, and support for intl. orgs as a positive sum game, our willingness to use our power to fight for justice abroad, and even our efforts to address severe inequality in the US (especially across racial and ethnic divides) are all key variables in China's soft power appeal.
- Won't human rights issues be a problem for China? Yes. China going to struggle in this area because of their need to keep control of a volatile domestic situation (AS many as 2m. Uyghurs in Xinjiang internment camps)
- Won't China's crackdowns and control undermine their sticky power? Yes.
- Won't China's expansion in the S. China Sea create issues? Yes, unless they can repackage their expansion as a way to help the region to deal with supposed American and Japanese threats, which they are attempting.