THE RISE OF CHINA AS THE LARGEST ECONOMY IN THE WORLD: GEOPOLITICAL IMPLICATIONS FOR JAPAN

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Abstract:

The paper attempts to evaluate some of the geopolitical implications for Japan resulting from the new position of China as the largest economy in the world in PPP terms. As the economic dimension is accompanied by similar aspects related to China’s military and research and development capabilities, the world economy is becoming more and more a multi-polar entity in which Japan has to play a new role. The emergence of Asia-Pacific cooperation structures as well as of international development banks belonging to Asian or BRICS countries requires Japan to make some strategic decisions for finding a balance between its special relation with USA and its geographical position.

Key words: world order, geopolitics, Chinese economy, Japan geopolitical options, Japan – US relation

JEL classification: F01, F02, F50, F55

The international context of the rise of China

The first thing to be mentioned is that the preeminence of China is not at all a new phenomenon as China was the biggest economy for nearly two millennia and was still the largest economy in the world in 1870. To reformulate the previous phrase, China has been the largest economy of the world for 19 of the past 20 centuries. This fact is not new in the circles of historians but it is so often overlooked by the vast majority of people that it needs to be repeated. After about 150 years China is back to its centuries old position and this should put things into a different perspective. From one point of view it is a return to a status quo, from another it is a repositioning in the global balance of power for the Western world and first of all for US.

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1 Angus Maddison, Chinese Economic Performance in the Long Run, 960–2030 AD, OECD, Paris 2007, p.43
In the recent years there were several estimates made by international organizations like World Bank or research institutes on the date when China will overpass US as the largest economy in the world, in real or PPP terms. The estimates varied from early 2020s to 2040s but in October 2014 the International Monetary Fund stated that China already overpassed US in PPP terms by a small margin (17.6 trillion US $ compared to 17.4 trillion US $)\(^2\).

The most common mistake in relation to this subject is to treat it as a sport contest where some people negate the fact and some others are happy or unhappy about the result. Anyway the international context is much more complicated and the following may attempt to support this statement.

The world after the 2008 crisis is passing through substantial structural changes. The balance of power has been based more and more on multipolarity, while US has had to interact and rely on different local or regional actors in order to pursue its aims. China has been building step by step its position as a global actor while Russia is back on the front stage not only in its immediate neighborhood but also in more distant places like Middle East or Latin America. In the meantime European Union has been struggling with the consequences of the crisis, with structural issues and with a declining position in the world economy. The Asia Pacific area has become gradually the center of the world economy and a competition of negotiations is underway for new rules of the game, with a peak in 2015, between Trans Pacific Partnership (supported by the US) and Regional Comprehensive Economic Partnership.

\(^2\) Keith Fray, China’s leap forward: overtaking the US as world’s biggest economy, Financial Times, 8 October 2014, at page http://blogs.ft.com/ftdata/2014/10/08/chinas-leap-forward-overtaking-the-us-as-worlds-biggest-economy/
The rise of China as the largest economy in the world... (centered around ASEAN but having China as main economic player). The Middle East witnessed a new stage of conflict and instability that includes the conflict situation in Yemen determined mainly by the Houthi rebels, the war situation generated by the Islamic state and Al Qaeda, the continuation of the fights with Talibans in Afghanistan. In this region Iran is starting to play a more significant role, while in the neighborhood Turkey is thinking about a more nuanced position in relation to European Union and NATO.

At the same time, in 2013 the developing and emerging countries contributed for the first time with more than 50% to the world GDP in PPP terms as compared to only 33% in 1990. The Economist considered this fact the most important economic transformation in modern history.  

Robert Kagan synthesized this global context by saying: “We’re sort of seeing the world order cracking around the edges.” This statement is just a reminder that world order has always had a historical dimension in the sense that a certain world order is specific for a period of time but not perpetual.

The fact that we assist to a return of the geopolitics means in our opinion not that we go back to the cold-war period but rather that we go back to the situation mentioned in the 19th century by Lord Palmerston: “Britain had no eternal allies and no perpetual enemies, only interest that were eternal and perpetual.” Countries big or small, even if they are members of integration organizations like European Union, rediscover openly that they have interests not only ideals and that their people keep the decision makers accountable for the quality of their daily life and not for the probabilistic fulfillment of some distant and abstract goals.

From the perspective of short to medium term the quite strong impression popular in the Western world that after 1990 the humankind witnessed “the end of history” and the generalization of liberal democracy can be explained by the limitation of the scope of analysis mainly to Europe (where Germany has been reunited, the Soviet Union disappeared as entity and European Union enlarged quite substantially) and by the equally strong belief that liberal democracy is an absolute principle that only needs some time to be willingly applied all over the world.

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5 David Brown, Palmerston and the Politics of Foreign Policy, 1846-1855, Manchester University Press, 2002, pp. 82-83.

In our opinion the picture of the world after the 2008 crisis is more and more based on diversity, not only as centers of economic, political or military power, but also as approaches (democracy and liberalism co-existing with different degrees of authoritarianism, liberalism co-existing with illiberalism, laic with religious states. A key point in the previous statement is that co-existence does not mean implicitly peaceful co-existence). For the coming decades, accepting and capitalizing diversity may be the compass to guide countries, companies or individuals through stormy times.

**Geopolitical implications of the rise of China**

The rise of China as a global player, even if it is regarded only from an economic point of view, determines a number of objective implications related to its need to secure its access to natural resources and energy as well as its transit routes for inputs and outputs, particularly the maritime ones. One a more general note at this point one have to take into account that usually when a new power emerges there is some sort of conflict (of a military nature or not) with the existing power(s). From this perspective Nouriel Roubini considers that “keeping China’s rise peaceful is our biggest geopolitical challenge”7.

From an economic point of view the statement of Mr. Roubini can be better understood if we correlate it with another one, belonging to Robert Preston, BBC economic editor: “We should be under no illusion that the really big thing in the world, which will have an impact on our living standards is what happens in China. Nothing else really matters in comparison”8.

The huge impact of China on many other countries in the world economy is explained by the size of its economy, by the size of its exports and the number of transnational corporations that operate nowadays from China as well as by the size of its lending money to other countries, particularly US.

This challenge determined by the rise of China is particularly complex after 2008 because of a set of new circumstances among which: some of the new leaders in Asia tend to be more nationalistic; many Asian nations have to find new growth strategies as structural reforms are needed to replace export

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7 Nouriel Roubini, Keeping China’s rise peaceful is our biggest geopolitical challenge, The Guardian, 30 April 2014.
oriented strategies with new ones based on domestic consumption and/or regional cooperation; the role of US in the Asia Pacific region is not so clear anymore and, at the same time there is a lack of strong institutional mechanisms to prevent the escalation of conflicts.

The risk of conflicts due to the emergence of a new significant power, China, is not theoretical. The existence of various forms of conflicts and tensions in the South and East China Seas has been a permanent phenomenon after the second World War. But what can be noted is an increase in the number of such conflicts and also in the number of the parties involved. Figure 2 offers a synthetic view of the geographical areas involved, the participants and the number of conflicts as well as their distribution in time.

As it can be noted the number of conflicts are higher with some of the nearest neighbors (Philippines, Japan, Vietnam) while more distant countries (like US, India, Indonesia) are less involved. A particular case refers to the conflicts of China with Taiwan which are not so numerous and are however related to the historical and ideological division of the two parts of China.

![Figure 2. Conflicts in the South and East China Seas](image)


In a more concrete and recent form some of territorial disputes in the South China Sea refer to two island chains, Spratlys and Paracels. The countries involved in the disputes are besides China, Vietnam, Philippines, Brunei and Malaysia and the reason of disputes are the potential natural reserves that may be found in the areas around these islands.
In the recent years a number of disputes on this topic were recorded as follows:

- In 2012, China and the Philippines accused each other of intrusions in the Scarborough Shoal area;
- In July 2012 China entered into conflict with Vietnam and the Philippines when it formally created Sansha city, an administrative body with its headquarters in the Paracels which it says oversees Chinese territory in the South China Sea;
- In 2012 large anti-China protests took place in Vietnam with reference to claims that the Chinese navy sabotaged two Vietnamese exploration;
- In January 2013, Philippines announced that it was taking China to a UN tribunal under the auspices of the UN Convention on the Laws of the Sea;
- In May 2014, the introduction by China of a drilling rig into waters near the Paracel Islands led to multiple collisions between Vietnamese and Chinese ships.
- In April 2015, satellite images showed China building an airstrip on reclaimed land in the Spratlys.

A graphical representation of the above is presented in Figure 3.

**South China Sea Dispute**

![South China Sea Dispute map](http://www.bbc.com/news/world-asia-pacific-13748349)


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Implications for Japan

The rise of China as not only a regional but a global power has without any doubt serious implications for Japan. For many decades Japan had been the second largest economy in the world and the rise of China generates a conflict of interest between a former super-economic power and the new one. To this we have to add the geographical proximity which induces the risk and also the manifestation of territorial disputes determined by implications related to natural resources (such as the Senkaku / Diaoyu islands). At the same time, if one takes G – 20 Group as a reference, the most tensioned relation between any two members of G – 20 has been that between Japan and China\textsuperscript{10}.

As an economic power in the region Japan is affected by the aging of its population as well as by the changing balance of power in the world economy. Its natural reaction in face of such a context is that of introversion\textsuperscript{11}. Despite the fact that such a position is a reactive one, the historical experience of Japan is that of finding extraordinary original solution as result of the action of external forces. This statement can be demonstrated by at least two major moments: the opening of Japan’s ports as result of naval pressures from U.S. Commodore Matthew Perry’s fleet in 1853 and transformation of Japan after the 1945 – 1952 period when the country witnessed comprehensive reforms during the US occupation under the control of General Douglas A. MacArthur.

At present and for the coming decades Japan has to cope with the close geographical presence of a large economic power that has interests to control as much as possible its neighborhood. At the same time, given the close relations between US and Japan any escalation of tensions and/or conflicts between Japan and China will be reflected somehow in the US – China relations and the other way round. Due to the mentioned close relations one can not speak strictly about Japan – China relations but rather about Japan – US on the one hand and China on the other hand. The Japan – US part of the binom does not represent a homogenous part as Japan and US, while being close allies, have distinct characteristics and specific historical heritages.

Anyway both Japan and US as part of the Asia Pacific geopolitical equation have to cope with some similar challenges generated by the rise of China. Among them there are: the huge impact of China as a major world exporter;

\textsuperscript{11} Stratfor, The Geopolitics of Japan: An Island Power Adrift, August 31, 2009
the rise of China’s military power; the active position of China by using political and military means for solving territorial disputes in the region.\textsuperscript{12}

In this context Japan has to measure any action and reaction from at least two perspectives: the immediate one and the long term one. While the immediate reaction may ask for a more assertive position the long term prospects may require a more moderate and wise response. The need for a dual perspective may be easily explained by the following table that present the GDP ranking in PPP terms for three time horizons: 2011, 2030, 2050.

The balance of power among the key players of the world economy is important because in politics one can not discuss only about being right or wrong but also about the relative power and superiority or inferiority one country has in relation to another.

Table 1. GDP ranking in PPP terms for top 20 countries in 2011, 2030 and 2050

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Source: World Bank estimates for 2011, PwC estimates for 2030 and 2050

In analyzing the above table one should note that while 2011 represent past and therefore confirmed data, 2030 and the more so 2050 represent estimates. But even as we speak about estimates Japan, as well as US and all other countries of the world economy have to take into account these rankings and see the interests of the respective powers in their dynamic interaction. Looking at the top ten economic powers one may note the shift from a situation in 2011 where Western countries (and their type of culture) were predominant to a situation where other types of cultures will predominate (China, India, Brazil, Russia, Mexico, Indonesia) and this shift will very likely change the way international relations of all sorts are carried out.

Another reason that may ask for a cautious reaction from the part of Japan in relation to China’s actions is the fact that these rankings of the world economic powers have already started to determine changes in the international institutions arena.

BRICS countries announced in July 2014 the establishment of two institutions that will represent smaller versions of the World Bank and IMF: the New Development Bank (a multilateral development bank) and the Contingency Reserve Arrangement (an institution to provide financial assistance). In the same context on October 24, 2014 a number of 21 Asian states signed a memorandum for the establishment of Asian Infrastructure Development Bank with an initial capital of 50 billion dollars. Such developments and the possible change of IMF voting rights in order to correlate them with the new GDP ranking place China in a much stronger position internationally and therefore tensions with it may be counterproductive for Japan.

The delicate position of Japan in this new international context can be supported by this example. As of 15 April 2015 there were 57 prospective founding members for the Asian Infrastructure Development Bank (AIIB) among which United Kingdom, Germany, France, Italy, Australia, New Zealand or Israel while Japan stood together with US and Columbia outside the process. Japan has an important position in the Asian Development Bank (where it has more voting rights than China) and may see the success of the Chinese initiative with the Asian Infrastructure Development Bank (AIIB) as a sign of the eroded power of US in the region but also as a sign that its position and influence will be diminished\(^\text{13}\). The acceptance of this new position in the region and the understanding that business opportunities determined by the

establishment of the Asian Infrastructure Development Bank (AIIB) are huge made the Japanese firms and officials to reconsider their initial rejection and to announce a possible joining of AIIB in June 2015\textsuperscript{14}.

Conclusions

The world economy is nowadays on its path towards a new world order, characterized by a new ranking of world economic powers and the gradual shift towards a multi polarity of international institutions that may be regarded as a decentralization of global governance. At the same time, Asia – Pacific area will be dominated by economic giants like China but also India while the relative importance of Japan is very likely to decline. This picture should be divided into two different domains, economic and foreign affairs. While in the economic area Japan has been a full player after mid 1950s, comparable to any other significant economic power, in the foreign affairs area Japan after the second world war has been a “middle power” in the sense that it has been a subordinate ally of US\textsuperscript{15}.

As a global economic power China will play a significant role in the establishment of alternative international financial institutions, international currencies and at least regional terms of trade. In this context, from a pragmatic point of view, Japan might be better off if it adopts the position of an early supporter or adopter of new regional rules rather than a latecomer. A common denominator for the interests of many if not all Asian countries that can be used by Japan is the interest to secure the economic stability and growth of the region\textsuperscript{16}.

An important and at the same time interesting aspect that may influence the relations between China and Japan is related to the presence of Chinese diaspora in many Asian countries but not in Japan. In case of many Asia countries this dispora may act as a link between China and the respective countries and also as a guarantee for the existence of mutual interests\textsuperscript{17}. The

\textsuperscript{14} Henny Sender, Japan expected to join Asian Infrastructure Investment Bank, 30 March, 2015, Financial Times, at page http://www.ft.com/intl/cms/s/0/40b0fff8-d6ae-11e4-97c3-00144feab7de.html#axzz3YK6Yydkj
\textsuperscript{15} Masayuki Tadokoro, Japan’s Reactions to Rising China, 6th Berlin Conference on Asian Security, Berlin, 18 – 19 June, 2012
\textsuperscript{16} Leika Kihara, Japan, China, South Korea agree to ensure geopolitical risks don’t threaten recovery, Reuters, 19 September, 2014
absence of such a Chinese diaspora in Japan prevents the creation of a natural link of trust between the two countries and the feeling that Japan is a totally “foreign” (that is with no Chinese diaspora) country.

Another aspect that puts Japan in a sensitive position refers to the negative feelings existing in many Asia countries in relation to Japanese abuses and war crimes during World War II that affected people from China, Indonesia, Korea, Philippines, Indochina and other areas. While this is not a current topic, it may easily be raised either in case Japan takes a more assertive position or in case other countries in the region have an interest to use this as an argument against Japan.

In view of the above elements in response to the rising of China there are some geopolitical options for Japan. One of them is to further strengthen the alliance with US and with other democratic nations in the region. The possibilities in this respect are not very large and they will depend on the economic status of the Japanese economy. In strengthening the alliance with US Japan will remain a subordinate ally. In developing alliances with democratic nations in the region Japan will have more room for initiative but not many options to choose from.

Another option will be to join, as a developed economy, the rest of Asia-Pacific countries, supporting the Chinese initiatives and negotiating for its maximum benefit. Given the characteristics of the post World War II period we consider unlikely the possibility for Japan to adopt a stand alone attitude, base on building up its own military force, and aiming to become a regional power.

In our view Japan can be better off adopting a cooperation attitude with China and other powers in the region, supporting its interests and capitalizing on its technological and scientific achievements and, in this way, contributing to a peaceful Pacific century.

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