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Book Review

Ivan Tselichtchev, *China versus the West: The Global Power Shift of the 21st Century*, Singapore: John Wiley & Sons Singapore Pte. Ltd., 2012, 227 pp. + xxviii.

This is a very interesting book regarding the relationship between China and the West focussing on several different aspects: economy, society and politics. This book is made up of 19 chapters and divided into 3 parts. Part 1 covers chapter 1 to chapter 8 which are mainly about the current status and future development of China as the world's leading producing, exporting and financial power. In Part 2, from Chapter 9 to Chapter 14, Western capitalism and Chinese capitalism are discussed in depth especially during the global downturn and beyond. The author summarizes a very thought-provoking conclusion about who is the winner in the China-West Economic Wars in Part 3, from Chapter 15 and Chapter 19.

In the first part, the author predicts that the non-Western countries will become the world's largest economies by 2030. The gross domestic product (GDP) at current prices is compared between United States and China as the index increased by 1.7 fold for the former and 8.6 fold for the latter between 2001 and 2015 (Chapter 1). The incredible rise in GDP is closely linked to the rapid development of China's exports and financial power. China not only turns herself into the world's largest producer of a wide variety of manufacturing goods which are mostly labour-intensive and low-end such as clothing, textiles, footwear and toys (Chapter 2), she also becomes the largest exporter in merchandise exports. China is now transformed from the world's leading exporter towards the dominant exporter and she also upgrades the quality of her exports aggressively (Chapter 3). However, a sharp contrast can be noticed as the Western exports shrank dramatically in recent years.

Nevertheless, China has a comparative advantage in the light industries especially those from the first segment in market such as a wide range of T-shirts, toys, kitchenware and so on. Moreover, this segment guarantees a huge trade surplus, mostly contributed by the private domestic enterprises to the country (Chapter 4). The gradual increase in labour and production costs of China have prompted the low-cost production to be shifted to the next row, but China is an extraordinary case because the different development levels between the eastern coastal provinces and the inland provinces enable China to still dominate the first-segment products while gradually moving towards the second-segment products as the labour cost in the inland provinces is considered still low and the market size easily beats the other next-row countries (Chapter 5). Even so China has not been retarded at this stage, but eagerly expands the differentiated goods through purchasing the internationally famous Western companies such as IBM PCs, TCL TVs and so on during the 2000s. Since the 2000s, the Chinese firms have moved towards the high-end products which require product upgrading, technology innovation and highly educated talents, and the two most significant examples are Huawei 華為 and Haier 海爾 (Chapter 5). The emergence of the vibrant Chinese economy has benefited not only the Chinese domestic companies, but also the Western multinationals which use the Chinese production platform and the Western non-multinationals which make differentiated high-end products and export to the emerging markets. Instead of grumbling about the strong competitions from

Chinese firms, the Western non-multinationals who manufacture the low-competitive mass products should take aggressive actions to differentiate their products or become multinational and relocate their production base in China. The Western non-multinationals will need appropriate aid from the government such as the export promotion policy and not just the punitive import policies to succeed.

On the other hand, the rise of the Chinese households' incomes and the mushrooming of the Chinese middle class have led to an increase of aggregate imports. Japan, South Korea and Taiwan currently become the largest exporters of capital goods to China. However, the purchasing power of the Chinese middle class is much lower than the international standard and their major market is still dominated by domestic companies (Chapter 6). Although the Chinese service exports increased from 11th position to 5th between 2000 and 2009, the West still has a significant competitive edge over China. The Western service providers may expand to the Chinese market for three main reasons: the backward development of the Chinese service sector, the growing of consumers' awareness among the Chinese and the weak Chinese domestic service companies (Chapter 7). Nevertheless, China is not considered as a financial superpower according to the author because the wealth of the nation does not represent the wealth of the citizens. China currently has the world's largest foreign reserves in which 71 percent of overseas gross financial assets is made up of foreign exchange reserves (Chapter 8). The high foreign reserves not only bring stress on the Western countries, but may also threaten the Chinese economy as the high foreign reserves may lead to the rising of inflationary pressures. The author criticizes that instead of owning the high foreign reserves, the Chinese government should spend the foreign reserves in the domestic development projects as many of the Chinese regions are still underdeveloped. The outbound foreign direct investment (FDI) is considered low in China as almost two thirds of it flows into Hong Kong. Besides that, a different pattern is observed in the acquisitions because the Chinese authority mostly invests in the mining industry and high-technology manufacturing firms while the Chinese private firms invest in different countries in seeking lower production costs and better access to local markets, technologies and high-skilled human resources.

Ironically, the crisis in 2009 mainly hit the West especially the American economy while the China-led large emerging economies such as India, Indonesia, Vietnam and the Philippines continued to grow. America, Europe and Japan have begun to keep their eyes open on the strengthening of government intervention because the 2009 crisis revealed the structural weaknesses of the American and European economies in consumption and government expenditure trend (Chapter 9). In short, the Western crisis is caused by three main reasons: the unaffordable consumption pattern in Western economies (household savings are tiny but the accumulated debts are too big; high lending by the financial organizations to the low credit borrowers may lead to non-performance loans), a dramatic rise in the volume of transactions with structured financial product, and lastly, the failure of state regulation, corporate governance and business morality (Chapter 10).

Although capitalism is still the core economic strategy played by the Western economies, with private companies as dominant players, market-based resource allocation, profit maximization and free market policy, the mode of behavior for Western financial capitalism becomes more cautious and risk-conscious in the post-crisis period. For instance, the US government has put the transactions with structured products into a regulatory framework to avoid financial gambling. However, the biggest threat to the Western countries is the high public debts and a heavy welfare state burden. To overcome these problems, most of the Western countries practice fiscal policy with cutting down public spending (especially on public welfare) and imposing new taxes (Chapter 11).

If one looks at China, the Chinese authority began to reduce funding to the enterprises, especially the state-owned enterprises, since 1980s. Even the main policy banks (China Development Bank, Export-Import Bank and Agricultural Development Bank of China) have to increasingly rely on self-initiated commercial loans rather than government-directed lending (Chapter 12). In addition, the Chinese government utilizes a range of monetary policy including setting the lending limits and increasing the mandatory bank reserves in central bank to prevent overheating and financial bubble. Besides that, China also increases spending on social security and welfare to increase national security level but the scale is considered small as compared to the Western countries.

Compared to typical capitalism, China implements the "state-private capitalism" in which the government will intervene in the market with pro-market and pragmatic policy with the role of private enterprises getting important. The success of the Chinese economic reform depends on several factors: a large-scale shift from state to private property due to the privatization policy implemented between 1990s and 2000s, an increase in the degree of competition especially among the state-owned enterprises and the reinforcing of self-responsibility culture among the households. In terms of political reform, China has shifted from an outdated Communist dictatorship to a more sophisticated political system with a democratic façade, but in fact it is still tightly controlled by the Communist Party of China (CPC) (Chapter 13)

After the 2009 crisis, the United States has urged for global trade balance in which the West should save more and the East should spend more. Yet, Chinese consumption in absolute terms has increased rapidly but the decline of private consumption share in GDP is due to the rapid growth of capital formation and net exports. Indeed, the important engine in boosting the Chinese economy is the domestic capital formation and this indicator is largely depending on the Western-bound exports of consumer goods. Although the savings rate of the Western countries is rising, it is still lower than the other Asian economies (including China) after the crisis. Indeed, the most important fact is that the 2008-2009 crisis is mainly a Western economic crisis due to the failure of the Western model of capitalism and not a world crisis (Chapter 14).

For the environment issues, China has taken some pro-environmental drive to cut down pollution by boosting a range of green industries such as wind energy, solar energy and the production of electric vehicles. However the West should articulate environment policies to the developing countries while simultaneously the policies would not impede their growth. In reality, China has taken an effort by collaborating with United States on the energy and environment issues and an agreement was signed in 2008 (Chapter 16). As we are aware of, natural resources such as fuel and mineral resources are the primitive elements to boost a nation's economy. Currently, China mainly dominates the Third World economies by participating in resource development projects. China provides resource-backed loans to Africa in which the loans are paid back not in cash but with oil, cocoa beans or metal ores (Chapter 17). Moreover, China's assistance is more straightforward and simple as compared to other donors'. China is a major source of development aid by providing concessional loans and government-backed subsidized investments.

Besides acquiring natural resources, China also welcomes outbound technology and knowledge through indigenous innovation policy. According to the US Chamber of Commerce (2010), indigenous innovation policy is defined as "enhancing original innovation through co-innovation and re-innovation based on the assimilation of the imported technologies" (Chapter 18). Most of the latest investment projects in China are related to production upgrading, the transfer of advanced technologies and the creation of research and development (R&D) facilities.

Overall, China has a greater potential than the West in two ways. Firstly, China has much potential to grow in terms of larger input (labour and capital), higher productivity and higher demand. Secondly, China has created a condition that is favourable for herself and not favourable for the competitors such as the undervaluing of the yuan 元 (renminbi 人民幣 , RMB) and heavy state support for Chinese firms. On the other hand, the West should take different efforts to enhance its competency, for instance by promoting export-push policy vis-à-vis China, emphasizing on the environmental issues in the midst of China-West economic relationship, promoting further economic upgrading to enhance global competitiveness and being more active in counterbalancing China's growing influence in the Third World and her demand for natural resources.

In conclusion, there is no single country that can be dominant in the 21st century because multipolarization is the current trend of the world. In the author's view, China will not be the world's ruler or the only world leader, and the West will retain and may increase its advantages. This is because the West has more military power and a bigger say on international security issues. The author summarizes that the West-China economic power shift will not happen and the shift is more at the core of the process of the world's multipolarization.

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