



Transcript

The West and the Rest: the Changing Global Balance of Power in Historical Perspective

Niall Ferguson

Laurence A Tisch Professor of History, Harvard University and William Ziegler Professor, Harvard Business School

Chair: Professor Michael Cox

Department of International Relations, The London School of Economics and Political Science

9 May 2011

The views expressed in this document are the sole responsibility of the author(s) and do not necessarily reflect the view of Chatham House, its staff, associates or Council. Chatham House is independent and owes no allegiance to any government or to any political body. It does not take institutional positions on policy issues. This document is issued on the understanding that if any extract is used, the speaker and Chatham House should be credited, preferably with the details of the event. Where this document refers to or reports statements made by speakers at an event every effort has been made to provide a fair representation of their views and opinions, but the ultimate responsibility for accuracy lies with this document's author(s). The published text of speeches and presentations may differ from delivery.

Niall Ferguson:

It's a great pleasure to be here at the end of a rather gruelling book tour after I'd been grilled, poached and boiled by the British media. In a fit of irritation, I said to a woman from *The Guardian* that the only thing I really liked about England was Radio 3 and she pressed me hoping that I would say, 'Oh, and *The Guardian*.' But she'd have had to torture me to get that answer.

I should, of course, have added, 'And Mick Cox'. Not to mention Chatham House. It's a great pleasure to be back here. I've rather lost count of the number of times I've spoken at Chatham House. And it is a great opportunity to talk about the kind of work that I do, historical work that I do, to an audience that is interested in contemporary international relations. That's what I'm going to do briefly this afternoon.

The argument of my most recent book, *Civilization: the West and the Rest*, is that the most interesting historical phenomenon of the modern period of the half millennium after 1500 has been the rise of what came to be known as 'the West'. Western civilisation is one of those funny phrases that you can track if you use one of Google's wonderful new apps. Its popularity in published English books really occurs in the mid-20th century. Oddly enough, the phrase 'Western civilisation' gets used most between around 1914 and the mid 1950s. It's a phrase, in fact, of the world wars and of the high Cold War, and was used most commonly in British and in American war propaganda to define our side relative to the other side, a predominantly German and later Russian side, which was of course from a historical point of view not that much less Western than the self-proclaimed Anglo American West. So when one talks about the West, one has to be aware of the peculiar history of this concept itself.

What I take the West to mean is, or rather was, around a dozen empires that had their origins in Western Europe, the western end of Eurasia. If you had gone on a tour of the world in, let's say, the year 1411, 600 years ago, you wouldn't really have seen terribly much to indicate the future power and wealth of these empires. What you would have encountered at the western end of Eurasia was a few pretty impoverished and rather bloody, not to mention smelly, small kingdoms. And plus the odd republic. You'd have encountered a highly fragmented political map, and you'd have encountered a relatively unsophisticated civilisation, by comparison with which you would have seen at the other end of Eurasia, in Ming China.

So the real point of the book is to ask why it was that little kingdoms like England, not to mention Scotland and Portugal, emerged as empire-building

so successfully that by 1913, this dozen or so empires controlled around 58 or 59 percent of the world's land surface and about the same proportion of its population. Even more extraordinarily, these dozen Western empires accounted for very nearly 80 percent of global gross domestic products, if you take the estimates of Angus Madison, and add them together.

How on earth did that come about? It was a really very surprising historical outcome from the vantage point of Emperor Yongle, who in 1411 certainly wouldn't have expected those distant barbarians to achieve anything like that. And he certainly wouldn't have expected the barbarians of the distant West to have reduced imperial China to a position of what we would have called, I guess in the 1960s, dependency.

Because although China was never brought low in the way that Mughal India was it was very clearly by the early 1900s, in a position of dependency – economic, financial, and ultimately military dependency – relative to the West. Think of the way in which the Boxer Rebellion of 1900 was suppressed with a massive international expedition, which rounded off its intervention in China's sovereignty by looting treasures from the Forbidden City.

The way I try to help my students at the LSE and when I go back next academic year at Harvard to understand our time is as follows. We are living through the end of half a millennium of Western ascendancy, of Western predominance. And the end of this era is coming very rapidly indeed. So, for example, if you take a snapshot of income levels as recently as the late 1970s, in per capita terms, the average American was around 30 times richer than the average Chinese. And that's allowing for differentials in purchasing power, the fact that a haircut in 1970s Beijing was a lot cheaper than a haircut in New York.

If a Chinese citizen had to go and live in New York on his or her Chinese income, in 1978, he or she would have found himself or herself (isn't it tedious having to do that? I hope this sentence ends soon) one-seventieth as rich as the average American. So that 70 to one differential tells you just how wide the great divergence was as recently as the late 1970s. You can do a similar calculation for Britain and India.

Since the late 1970s, this huge gap in living standards between the West and the rest has dramatically narrowed so that right now the average American is only around five times richer than the average Chinese. And this has happened in less than my lifetime.

So we're living through an astonishing great reconvergence in economic fortunes and I think also in geopolitical terms. It is no longer a fanciful

projection to say that China will overtake the United States in terms of gross domestic product within the next 10 years. It's highly likely to happen.

Indeed, everybody who's tried to make that projection over the last 10 years or so has had to update their projections regularly to bring the date forward. When Goldman Sachs first did the projections for their BRICs studies, it was 2040 when China was going to overtake the United States. Then it was 2027. And Willem Buiter at Citibank has brought it even nearer in his recent research.

So we're living through an astonishing time. What's its significance?

Well the argument that I make in *Civilization* is that in order to explain the West's ascendancy, you need to see that there were six complexes of ideas and institutions that gave the West an advantage, not only economically, but also strategically over the rest of the world. And for a very amazingly long time, the West monopolised these things.

For the sake of brevity and also for the sake of simplicity, I call these things the 'killer applications'. This is one of the annoying things that Mick mentioned earlier about me, and I deliberately devised this term to be annoying, because one thing I've discovered about England is that if you're annoying, people tend to remember what you say. So the idea of the killer applications is in fact not that annoying, it's simply a way of saying these six institutions/ ideas gave the West an advantage.

One was competition, having a fragmented economic and political system rather than a monolithic imperial system proved very advantageous. For example, in the race to trade, in the race for resources, that fuelled the age of exploration. An age of exploration which China could have had but opted not to have because of a change of emperor in Beijing.

The second killer application, which is actually hugely important, was the scientific revolution. The great breakthroughs that we associate with Isaac Newton happened in an extraordinarily short space of time, the 17th and 18th century, in an astonishingly compressed geographical region. It all happened, with almost no exceptions, in Western Europe. And not even all of Western Europe, a sort of hexagon territorially.

And that gave the West immense advantages, one of which, just to give a single example from the book, was that Western artillery became accurate. Once you understand Newtonian physics and apply it to ballistics as Benjamin Robins did, your guns start to hit the targets. That's pretty important in warfare as you can imagine.

The third killer application was the notion that political institutions should be based on a foundation of the rule of law, in which private property rights were, as it were, the bricks. John Locke's conception of freedom as something bound up with property rights, and the notion of representative government as something that should be erected on that foundation of legally proscribed rights of property, that was a killer application like no other in the realm of political institutions.

When it was exported to North America where the distribution of property could be much more equal than it was in England, it proved to have an astonishing vitality and to lay the foundation in turn for democracy as something viable over long terms, rather than relatively short periods. So that killer application, again the West more or less monopolised until very recently indeed.

The others, for the sake of brevity, I'll just rattle off. Modern medicine, beginning in the late 19th century, doubled then trebled human life expectancy. That obviously gives you an advantage over everybody else. The consumer society, without which there's no point in having an industrial revolution. It was a Western invention, indeed, in many ways in its modern form an English invention. And then the one that Mick and I were talking about over sandwiches, the work ethic. The thing that makes people work longer hours than before, more intensely and efficiently than before.

All of these things, for centuries, occurred exclusively in the Western world. And historians and sociologists sought to explain why these things had arisen in the West and nowhere else. I'm not going to talk about that at any length today.

Rather, I want to make the argument that in our time, we've seen the downloading of the six killer applications by much if not most of the rest of the world. Now this process in fact goes back a long way, to the Meiji era in Japan. Japan was the first non-Western society to see that these ideas and institutions had to be copied. That if you couldn't beat them, which you couldn't, you had to join them. But it's really only been in our lifetimes that the huge Asian societies – China and India – have got serious about downloading what I've called the killer applications.

And as China has done it, something truly astonishing has happened. We've witnessed in our lifetimes the biggest and fastest industrial revolution of them all. And it has propelled China from a situation in which it accounted, despite representing a fifth of humanity for barely two or three percent of the global economy, to one in which it will soon, and I think very soon indeed, be the

biggest economy in the world. Overtaking the United States which has held that position since 1872.

The Asian miracle is all the more staggering when you reflect, as I've tried to in the book, on the centuries of stagnation that characterised China and India. Stagnation in terms of growth of per capita income. There really was nothing doing in the Ming and Qing periods if you calculate per capita income estimates. No matter what else happened in those societies, they could not raise the average standard of living.

What a transformation we're witnessing. It's also highly significant that in an even shorter timeframe from the one I've just been describing, within the space of just three or four years, the West has suffered a financial crisis that has damaged not only the wealth of the Western world, but perhaps more importantly the legitimacy, the credibility, even the self-esteem of the West, who now uses the phrase Washington Consensus, without a wry chuckle.

So the 30 or 40 year story of reconvergence as the big Asian economies have downloaded our killer application has been accompanied in the last few years by a crisis in the West, bigger than anything since the Great Depression. And that crisis is by no means over. Nobody should delude themselves into thinking that the financial crisis belongs in the past. It's very much alive. It unfolds from day to day. And the latest news of course, from the endless sovereign debt crisis in Europe, is a reminder that fiscal and monetary stimulus, no matter how much it may take and no matter how many times you may read aloud the collected words of John Maynard Keynes, sooner or later brings a hangover. And the hangovers that we currently see in peripheral Europe will soon be felt in bigger economies perhaps closer to home.

What I want to do in the remaining time before we open this up to discussion is ask what the great reconvergence implies for international relations. And it seems to me that the answer to that question depends on how you read, in particular, the new China.

I spent the weekend reading Henry Kissinger's new book on China. I have to read everything that he writes because I'm writing his biography. And it's rather galling for his biographer to find that he's managed to write a book in the time that I've been researching his life. *On China* is in fact a brilliant and fascinating study of China as it has emerged from not only its period of protracted imperial stagnation but from its period of permanent revolution in the age of Mao Zedong when of course Kissinger first visited the country.

The argument that he makes is that despite the great upheavals associated with Mao's reign and indeed the economic upheaval unleashed by Deng

Xiaoping, China's statecraft remains rooted in a tradition stretching back to Confucius. The notion that there is a tradition of Chinese civilisation is an extremely important one in the contemporary discussion about China. You'll find a similar argument, in fact, in Martin Jacques' book, *When China Rules the World*, the argument that China is a civilisation state.

It's different from the great powers of the West, the empires of the West. And its objective is not empire or power in the sense that we understand it in the Western tradition. Rather, to establish itself as all under heaven at least in the Asia-Pacific region, and accept symbolic and real tribute from neighbouring states.

Kissinger's argument is therefore that one cannot expect Chinese policy-makers, particularly foreign policy-makers, to behave in ways that we can recognise using our traditional categories in international relations. They are not Realists, nor are they idealists. They do not pursue the balance of power or indeed any other of the goals that we associate with Western statecraft and diplomacy. They seek, and this is one of his most important arguments, to balance in some sense the barbarians against one another, to play them off against one another. But they also seek to draw some of the barbarians into a tender embrace from which it is hard to escape.

If that is so, if that is how we should think about China as it emerges as the world's greatest economic power and perhaps ultimately its greatest power absolutely, that has profound implications for how we should respond to it. It may, in fact, not be an especially threatening China that we confront from this distant end of Eurasia.

But I want to suggest to you that there is another possibility, another way of thinking about the new China. And that is that in addition to downloading the killer applications that have made the Chinese economic miracle possible, the Chinese may also have downloaded a Western conception of power that will make them behave in ways quite different from the ways that we associate Chinese foreign policy with in the past.

Let me be more specific. It seems to me that the imperatives of Chinese industrialisation, including for example the need to secure supplies of commodities are forcing China more or less reluctantly into what I as an historian recognise as an informal imperial strategy. In, for example, sub-Saharan Africa, those of you who know the region will confirm one sees almost everywhere signs of Chinese involvement which verge on the colonial in their character. I've just returned from a trip to Zambia, and it's quite fascinating to see not only a little Chinese colony, complete with Chinese

restaurants and other retail outlets, but perhaps more strikingly, Chinese-owned mines in the copper belt, Chinese copper smelting works not far from there, Chinese-owned farms producing soya beans and so on. And this is only one country.

This kind of thing, in fact, is visible all over sub-Saharan Africa. And also in parts of South America and other parts of Asia. What is going on?

It seems to me that from the Chinese vantage point, what is going on is perfectly rational if one thinks of it in narrow economic terms. Commodity markets have been characterised by terrific price volatility in recent years. The great spike of 2008 was followed by the great spike of 2010-11. From a Chinese perspective, it's very alarming because part of what makes the commodity prices spike so violently is precisely China's demand.

Meanwhile, China accumulates as a result of its strategy of intervention to keep its currency weak, close to three trillion dollars of international reserves. Which would you rather own if you were China? Close to three trillion dollars of paper claims on the United States Treasury and other United States entities or a copper mine? A silver mine? Infrastructure? Hard assets? From a narrowly economic point of view, it's clearly rational for China to diversify out of dollar denominated reserves and into commodity producing assets. That, I think, has been the strategy in Beijing for some years now.

There are other dimensions to what might be called China's inadvertent empire. For example, the speed with which China has closed the gap in the realm of cyber warfare is something that deeply troubles American policy-makers in the Pentagon and elsewhere right now. The conventional wisdom is that China is miles behind in military terms, and that's certainly true if you conceive of a military conflict in 20th century technological terms. But in 21st century terms, in the realm of cyberspace, in fact the gap between China and the United States is very narrow indeed. There are even those who say that the Chinese have overtaken the United States in the battlefield of the future.

Third, and finally on this point, when one contemplates China's medium-term future, a future in which growth will slow, that's almost guaranteed, but the Communist Party will seek to maintain its monopoly on power, a question arises. And that question is how does the Chinese regime legitimate itself in the eyes of its population if it can't deliver growth as rapid as eight, nine, 10 percent per annum? One obvious answer to that question which has some very familiar historical precedents, is through nationalism. And nationalism is one of the most important and growing factors in Chinese politics today.

A few years ago I asked some of my Harvard students, some of them Chinese, to look at the impact of the internet on Chinese society, because it seemed to me potentially as important as the impact of the printing press on central Europe in the 15th and early 16th century. I had no idea what the answer I would get would be.

But one important part of the answer was that nationalism had gone viral among young Chinese through the medium of the internet. And if you want to see what I mean by this, just take a look on YouTube at some of the ultra-nationalist videos produced not from official sources, at the time of the Tibetan crisis, when a young Chinese took exception to the Western media's presentation of what they think of as a Chinese internal problem.

My argument, in other words, is that we shouldn't assume that China will somehow revert to Ming or Song, or for that matter Qing precedents in the way that it conducts its foreign policy, now that the great reconvergence has put China back to where it used to be in terms of its relative economic importance. It may be that in downloading the killer applications of capitalism, that China has also downloaded some other aspects of Western institutional life, of which informal empire is an extremely important part.

How should we respond if that's so? Well, it seems to me that the problem we currently face, particularly if you view this from the vantage point of Europe, is that it is very easy for China to divide and rule the European countries. The way that foreign policy towards China is currently conceived in many European countries, perhaps in this one included, is as a kind of scramble for business deals.

And the competition to bring home the bacon or the tea or whatever from Chinese visits is an intense one. The more we think of our relations with China in those terms, however, it seems to me, the more vulnerable we are to a Chinese strategy of setting the barbarians against one another. It seems to me that the concept of the West, which as I began by saying has a somewhat outdated flavour to it, may in fact be in need of urgent revival if we are to cope with the challenge of what may yet prove to be a Chinese century.

In Washington, when I talk about these issues, I'm always told, 'Niall, they need us as much as we need them.' That's what I call the Chimerica formula. The idea that China and America are now in a symbiotic relationship of mutual interdependence. I don't think that that is true anymore, if it ever was true. I always felt, when I used the term Chimerica for the first time now four years ago, that it was by its very nature an ephemeral constellation. That was

why the word Chimerica was so appealing to me. It was a pun on the word Chimera.

It seems to me it's an urgent need, not only in London or for that matter in Paris and Berlin, but even more in Washington, to reassess the situation as China moves out of its Chimerican phase of development into something that looks altogether more imperial to me. Our choice is in fact relatively simple, rather narrow.

Either it can become the policy of the West to balance the rise of China with some kind of Asian coalition in which India would clearly have to play a crucial role, or we need to accept that that's not a viable strategy and that we must come to terms therefore with the rise of China through a kind of appeasement. Which, for example, would get rid of the kind of potential flashpoints that currently exist over, say, Taiwan. Anachronistic commitments by the United States which could prove extremely troublesome in the case of a showdown.

At any event, the argument I want to make this afternoon is that the status quo is an illusion. Chimerica is dead and we are entering a new world in which I think after the change of leadership next year, China will be altogether more assertive and altogether less quiet about its rise. I hope that here at Chatham House, minds are already being applied seriously to this problem and to what it implies for the future of British foreign policy.

For me, the troubling news is that I don't see much sign of that happening in the United States right now.

Q & A

Question 1:

I have read your book, and there's quite a lot in your book about religion, and you didn't mention it. Notably, the importance about the Reformation and Renaissance. You also emphasised the importance of Protestantism over Catholicism. And then you ended with attributing rather a lot of importance, I thought, to the rise of the Christian churches and notably the Protestant church in China. What is the role of religion in this new relationship?

Niall Ferguson:

Well, you're quite right, this is an extremely important part of the final chapter of Civilisation. When I started to think about the problem of the work ethic, I had to begin with Max Weber - Weber's famous essay on the Protestant ethic and the spirit of capitalism.

What I began to think as I reread Weber, which I used to teach when I was at Oxford, was that Weber had been half right. He was right that there was something important about the Reformation, but not about what it was. And the argument that I make in the book is that the real key to Protestantism - its real significance - was the way that it pushed up literacy rates, by emphasising the need for the individual believer to read scripture and have a direct relationship to the Bible.

There's some tremendous research on this that shows the way in which Protestant missionaries right through the 19th and into the 20th centuries spread literacy in ways that other missionaries didn't. It's actually really striking. Practically the first thing you do if you're a 19th century missionary arriving in, say, China, is get a printing press, master the local language which these extraordinary Victorians appear to have been able to do in an amazingly short time, and then just dash off a quick translation of the Bible and start running off copies.

That was hugely important, because once you get literacy, there's no question that the productivity of the individual human being rises. Their capacity for more complex work increases.

So the argument that I made in the book was that insofar as the Reformation had... and linked to the rise of the work ethic, it was through that channel rather than the one that Weber had in mind in which people would, through their own self-identification members of the Calvinist elect behave in Godly

ways that would persuade their neighbours that they were indeed members of the elect, which is kind of Weber's argument and not entirely compelling.

What's interesting about the work ethic is that it isn't specifically Protestant. You can in fact have it if you come from a post-Confucian atheist China. What counts is literacy and the way that it enhances productivity. The problem that we encounter in China, it's hugely interesting, is that in a curious kind of inversion of Weber, many of the most entrepreneurial Chinese are strongly attracted to Protestant Christianity. And one of the most rapidly growing non-state movements in China is the unofficial Christian church movement, the house church movement.

It's highly significant that in addition to the artist Ai Weiwei, unofficial house churches have been targets of the government crackdown on free expression in recent months. Authorities find it very perturbing that Christianity is one of the most rapidly growing movements in China today. And I find it entirely fascinating, because in a strange kind of way it brings us back to Weber and it raises a fundamental question... I'll conclude my long answer. You were going to get a lot of Ai one way or another with this question... in the following way:

Right now, the Chinese are gambling that you can download five out of six killer applications, but you leave the rule of law, political freedom, out. I think they're going to be wrong about that. Because I think it's impossible to have a free economic system without accompanying freedoms of expression and belief. That is precisely why the house church movement poses such a challenge to the Communist Party's monopoly on all kinds of power.

I do short answers, too.

Question 2:

Your presentation very much focussed on an almost inexorable rise for China. And yet China faces extraordinary problems at home, not least the demographic challenge. The cliché is that it will be old before its rich in per capita terms; staggering environmental issues and so on. What's your scenario when the Chinese Communist Party hits those problems which could be within the next decade?

Question 3:

Would you not think that your account of history of civilisation is too simplistic? And too materialistic as well? Because I'm not quite happy with downloading this sort of attitude, scientific attitude to history. Given the fact

that China has no vision to do what... It lacks its own vision, would you not think that is so important for future superpowers? To actually persuade the world that it should be able to acquire legitimacy to rule the world?

Question 4:

I wanted to pick up on all these points. My question really is in the same area. You mention the Chinese see themselves as a separate civilizational force, and that's true, everything is done with Chinese characteristics. But the kind of transition you're describing from the land-based empires of the past to the kind of situation we're in now is a huge difference. Empires are either bigger or smaller, they fight each other, somebody wins, somebody loses. With the issue of ideas, it's much more insidious. So I would like you, as other questioners have, to elucidate what you think might be going on within China.

Because yes, the government can manipulate situations and bring out a sort of latent nationalism in a country that's felt itself to be somewhat overlooked for some time. But within China itself, it's not just population, it's the rule of law. It's political accountability, it's the environment. There are huge pressures within Chinese society and the ideas for how to manage them are ones that are out there in the world.

Why would the Chinese not latch onto the ideas that others have come across? Rather as in the Arab Spring now, we're seeing a fundamental shift in the way those societies which were stuck for a long, long time, are beginning to require their governments to react.

Professor Michael Cox:

I'll tack a quick one of my own onto that. If China is, as you seem to be suggesting, as self-confident as you imply, why the hell are they so damn worried about what's been happening in Tunisia and the Middle East more generally? Because a self-confident power presumably would not have responded in the way in which they have done, which would seem to me to indicate a high level of insecurity. So I think all those kind of questions fall together. Niall, why don't you try to pick up on those together, or separately, of course.

Niall Ferguson:

Thanks to you all for these questions. I don't want to give you the impression that I'm one of those gung-ho Sino-bulls or Sino-optimists. In fact, if you read

the conclusion of *Civilization*, I make it very clear that I think there are serious bumps ahead in the Chinese road. And Andrew, you mentioned that the most impressive of those, the demographic problem which is a legacy of the one child policy, is going to kick in reasonably soon.

I mean, indeed the sort of youth share of the population is about to peak and we're going to see a dramatic increase in the share of the population that is 60 or over, over the next 20 or 30 years. To say nothing of the massive gender imbalance that is going to create 22 million Chinese men without women in the next generation.

I mentioned in my presentation that China's growth will slow. That is one of the reasons that it must slow. Even if the demographic problems weren't there, it would probably slow because as Barry Eichengreen and others have recently reminded us, when countries get to the per capita income of about 17,000 dollars a year, the growth rate does tend to come down. And that I think is something we'll see reasonably soon. But not tomorrow and not next year, either.

I think what's interesting about China's predicament is that it still has the momentum to overtake the United States before the problems that we're talking about start to act as real breaks on its growth. Maybe looking ahead 50 or 100 years, India - without these demographic problems and with the benefits of free institutions - will be the tortoise that overtakes the hare. Not in our lifetimes. In our lifetimes, we have to deal I think with a Chinese juggernaut that has tremendous momentum and is not going to really slow down for another 10 or maybe 20 years.

So I think the problems are there, and they are precisely why I think nationalism becomes more important in the relatively near term. You asked what the vision was for China, and I stand accused of a simplistic materialistic view of the past, it's almost hard not to be simplistic in a 25 minute presentation; let's face it. But in the book I try to make the argument that we know from past experience that when authoritarian regimes attempt a dash for growth, they encounter a problem which is that they empower social groups that weren't there before that then expect some kind of representation, some kind of voice in decision-making.

And it's very hard to avoid that trade-off. The classic late 19th century way you deal with it, whether you are the imperial German Kaiserreich, or Tsarist Russia, is with the sabre rattling foreign policy, and appeals to nationalism. Because that is a way of deflecting attention away from the very unequal distribution of political power, which is why I think the vision thing for China's

next generation of leaders will be more overtly nationalistic. Because I think the potential is there to mobilise the younger generation of Chinese in ways which most people in the West currently underestimate. It's a very potent force, Chinese nationalism. And it is something that can be ignited quite easily.

The final issue, is the big question, the three trillion dollar, or however many trillion RMB question. That is what happens to China politically. It seems to me true to say that the Chinese look at the Arab Spring, a phrase I dislike, look at the instability in the Middle East and think to themselves, "Gee, this could happen to us." There's no question that one heard that sort of thing being said at the Davos World Economic Forum this year. Inflation is a real concern.

But I think it's a mistake to push this analogy too far. For one thing, there were, I think, more journalists and policemen when the Jasmine Revolution broke out in the McDonalds in Beijing than there were protesters. The Chinese regime has massive legitimacy, which was not true of Mubarak's regime in Egypt. You only need to look at the Pew surveys to see that probably the Chinese regime has more legitimacy in the eyes of its people than any other regime in the world.

So I think one has to dismiss the notion that there's suddenly going to be a great revolution in China starting because of the price of rice. I think that's really highly unlikely. Not least because of the power of the security apparatus.

I'm very struck by the way Chinese leaders learn from history. They're more historically minded than Western leaders. They're more historically educated. And the lesson of Russian history really has been internalised by everybody taking serious decisions in Beijing. You do not liberalise politically while you're going through the great economic acceleration. And it's not going to happen. Indeed, if anything, the direction is the opposite right now.

Whether at some point it all breaks down or not is hard to say. But I'm certainly not somebody who's wagering on a major political discontinuity in that 10 to 20 year timeframe that I began by talking about. We have to live with this till I retire. That's my kind of ballpark estimate, right now.

Question 5:

Thank you. I would like to ask, we see China growing economically so rapidly and as you predicted, by 2027 or 2030, it could be the biggest economy. But

politically, I'm not very sure whether China is being regarded anywhere in the world when there is a major crisis as a country to turn to or as a country... Like to give the example, Libya or the Middle East. Whenever there is a problem, a country like France or a country like Britain is being seen as much more legitimate than China. So are we going to see China as the biggest global company in the world? Or are we going to see it as a big political power too?

Question 6:

China is certainly a major part of the rest. But it's not the whole of it. There are other non-Western economic players, and indeed civilisations. What do you think about their role in the global society of tomorrow?

Question 7:

As you said, we've had our own very damaging financial crisis in the West. Are the financial structures within Chinese companies and Chinese banks and Chinese governmental finances nearly opaque or are they opaque and harbouring something quite dangerous which could maybe one day sooner or later cause a great deal of difficulty?

Question 8:

We've been in similar areas here with Paul Kennedy at the end of the 80s, who did a very similar book. And of course his conclusions look a little old-fashioned today. So two questions, what's the originality you bring to the historical perspective? The seven apps is just a means of structuring, what's the originality you bring to the table? And secondly, Kennedy, and indeed Fukuyama and Huntington after him, were wrong in their predictions in terms of the future. What do you think you'll be wrong about?

Niall Ferguson:

Let me take them in the order in which they were asked. It's inherent in the notion of China's quiet rise that they do not want to be drawn into major problems of the sort that we currently confront in a country like Libya. Indeed, you could go further and say that China's policy towards the greater Middle East is that of a free rider, because China in fact gets considerably more out of the oilfields of the Middle East than the United States.

This is one of the great ironies of the past decade, and yet it has been the United States that has been spending the trillions of dollars in trying to, with mixed results, re-order the region. So from the Chinese vantage point, the situation is not at all a bad one if it's the Western powers with the United States in the reluctant lead that have to deal with problems like the ones unfolding in Libya and elsewhere.

But of course when you look in other perhaps less headline-friendly parts of the world, the influence of China is growing all the time. Go to South Korea, talk to people in Tokyo, or for that matter spend some time in South America, where China's influence has been growing almost as rapidly as it's been growing in Africa.

What the Chinese have going for them right now is that their growth rate has been the single biggest source of recovery for most other emerging markets since the financial crisis reached its trough. And you can't argue with the kind of export statistics of China's trading partners. You raise the question of China's GDP numbers, well even the vice-premier of China has done that. But if you look at other people's trade numbers, the story is absolutely clear. A huge part of the global recovery since 2008-2009 has come from exports to China.

Prior to the financial crisis, China was a competitor with other emerging markets, taking market share away from other Asian exporters. Since the crisis, China has been a major importer from other emerging markets and that makes China very popular in the capitals of the countries that are benefiting.

But you're quite right to say that I have neglected the rest in my presentation, the rest of the rest, if you like. That was really for reasons of time. In the book, actually I'm very careful to have a comparative chapter which deals with all the other different parts of the world that the West overtook. So the second chapter is about the Muslim world and why the scientific revolution didn't happen there. And the third chapter is about South America, and Central America, and why it did so much less well than North America when both Americas, all the parts of America, were settled by Europeans. That's an interesting question which I spend just as much time on as I spend on China.

For the purposes of foreign policy, international relations in the near term - between me and my retirement - China's clearly number one: as a challenge, as a problem for the West. Brazil and India are a long way behind in terms of their geopolitical reach. But in terms of their economic importance, they're growing all the time and are likely to overtake the United Kingdom somewhere around my retirement.

The financial problems of China are enormous and very well concealed at the moment. The reason that China's economy grew so spectacularly in the wake of the financial crisis was that there was an explosion of lending ordered by the state and implemented by the banks. And there's no way of telling what proportion of the loans made will turn out to be bad, except that it will be high.

Does this mean that there's a great Chinese financial crisis looming? There are those in the West who engage in wishful thinking about this, I suspect, because it would be somehow quite satisfying if that happened. The reason I'm a little sceptical about that proposition is that China's banks have had bad loans before and be recapitalised before. Xibin, who's an economic advisor to Hu Jintao and the People's Bank of China, was on the record just the other day saying, "We don't need three trillion dollars in reserves. We should be using some of these resources to recapitalise the banks as well as buy copper mines in Zambia and whatever else happens to be going."

So I think the policy, its solution is fairly clear, these banks are full of bad loans and at some point they'll be restructured. Remember, they're not really banks in the sense that we used to have them in this country, you know - private sector entities not dependent on the state? China's banks are now like banks in the West, or rather banks in the West are now like banks in China.

The final question, the Kennedy question which had a confrontational quality that I relish, well the first point about Paul Kennedy's book is that if you go back to the publication of *The Rise and Fall of the Great Powers* in 1987, it said a lot of negative things about the Soviet Union, too, as well as the negative things about the United States that turned out to be wrong. And the optimistic things about Japan that turned out to be wrong.

I think there are two important differences, here. One, I have been arguing since well before the financial crisis that the real problem for the United States was financial and particularly fiscal and the problem is far more serious now than it was in Reagan's time. I think Paul, who I like greatly as a friend, kind of got the numbers wrong on the fiscal problems of the Reagan era. They weren't that great historically. And that was something that I pointed out in *The Cash Nexus* in 2001.

In *Colossus* I said the biggest problem the United States has is the three deficits. The manpower deficit – they don't have enough men abroad; the attention deficit – the electorate loses interest in every foreign intervention after about four years. But above all, the deficit deficit, the fact that there was a huge public and private sector debt mountain building in the Bush years. Well, I think that analysis proved to be correct.

Maybe there were loads of people talking about that, maybe you were too, but I think I was the one who published. So I'm going to claim some originality points, there, if that's okay. Not to mention prescience points. Because I was one of very, very few people who foresaw the financial crisis, writing in '06 and '07 about the impending liquidity crisis that was going to expose the end of the age of leverage.

The issue in *Civilization* was to try to come up with a compelling explanation of the great divergence, or rather a more compelling one than I could find in the existing literature. The books that are out there if you want to teach this, include say Ken Pomeranz's book... they offer you necessary but not sufficient explanations for the great divergence. And what *Civilization* tries to do is to offer you what feels like a sufficient explanation. It's quite hard to think of a seventh or eighth or ninth thing that I've left out, and it's quite hard to get rid of any of the six and still have a compelling argument that answers all the big questions about Western predominance.

What am I wrong about? Well, if I knew that... I think one of the points I try to make in the book is that the process of historical change is non-linear and it is characterised by a really high level of unpredictability. It's not a question of smooth trend lines that you can project forward to 2050.

Each of the empires whose collapse I describe in the book was in some measure taken by surprise by the speed of the collapse, including not only the Soviet Union but also the British Empire and indeed Ming China. So my reason for being cautious in anything I say about the future is there's no such thing as *the* future. There are multiple futures. And what I'm trying to suggest is that one of the futures that looks pretty plausible right now is that China continues to grow at this rate, overtakes the United States, retains a pretty stable internal political structure with the Communist Party's monopoly on power intact, and therefore poses the biggest challenge to the international system that we've seen since the fall of the Soviet Union.

I could be wrong about that. I freely admit it. I really hope I am. What I really hope is that in my writing, I'll sufficiently change policy that we won't be taken by surprise by this new discontinuity.