

We all learned at school how the status quo powers mismanaged the rise of Germany before World War One, a strategic revolution so like the rise of China today. We learned how the Kaiser overplayed his hand. That much was obvious.

Yet it is hard to pinpoint exactly when the normal jostling of the Great Powers metamorphosed into something more dangerous, leading to two entrenched alliance structures unable or unwilling to avert the drift towards conflict. The Long Peace died by a thousand cuts, a snub here, a Dreadnought there, the race for oil.

The German historian Fritz Fischer has muddied the waters with his work, "Griff nach der Weltmacht" (Bid for World

Power). He draws on imperial archives to claim that Germany's generals were angling for a pre-emptive war to smash France and dismember the Russian Empire before it became an industrial colossus. Sarajevo provided the "propitious moment".

Kaiser Wilhelm's court made up its mind after the Social Democrats won a Reichstag majority in 1912, seeing war as a way to suppress dissent.

This version of events is too reassuring, and not just because the Entente allies had already fed Germany's self-fulfilling fears of encirclement, and emboldened Tsarist Russia to push its luck in the Balkans. A deeper cause was at work. "The only condition which could lead to improvement of German-English relations would be if we bridled our economic development, and this

is not possible," said Deutsche Bank chief Karl Helfferich in 1897. German steel output jumped tenfold from 1880 to 1900. Sound familiar?

Is China now where Germany was in 1900? Possibly. There are hints of menace. Defence minister Liang Guanglie says China's armed forces are "pushing forward preparations for military conflict in every strategic direction".

Professor Huang Jing from Singapore's Lee Kwan Yew School said China's young officers are taking control of strategy, replicating what happened in Japan in the 1930s. "They are on a collision course with a US-dominated system," he said.

Yet nothing is foreordained, which is why it was so unsettling that much of the US Congressional leadership



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declined to attend the state banquet for Chinese President Hu Jintao, including the Speaker of House.

Senate Majority Leader Harry Reid called Mr Hu a "dictator". Is this an apposite term for a self-effacing man of Confucian leanings, who fights a daily struggle against his own hotheads, and who will hand over power in an orderly transition next year?

President Barack Obama has

bent over backwards to draw China into the international system through the G20, the World Bank and the International Monetary Fund. You could say Mr Obama has won little in return, but that is a complex calculus. What would crude containment do to China's psyche?

Heaven protect us from neons such as ex-UN ambassador John Bolton, hankering to send aircraft carriers into the Straits of Taiwan. Yet Boltonism is gaining ground on Capitol Hill.

Yes, China's leaders should tread carefully, eschewing the Wilhelmine illusion of conflating economic and strategic momentum with actual power. There is a new edge to Chinese naval policy in the South China Sea, causing Japan, Vietnam, Indonesia, and the Philippines, to cleave closer to the US alliance.

Factions in Beijing think China will win a trade war if Washington ever imposes sanctions to counter Chinese mercantilism. That is a misjudgment. The lesson of the 1930s is that surplus states buckle when the guillotine falls on free trade, while deficit states revive their industries behind barriers.

The political reality is that China's export of manufacturing overcapacity is hollowing out the US industrial core. The roots of this imbalance lie in globalisation and East-West capital flows; but China plays a central role.

The undervalued yuan is the visible tip of mercantilism, but a diminishing factor as dollar stimulus from the Fed's quantitative easing drives up Chinese wage inflation. What matters is that China's entire credit and tax system is geared

towards subsidised capital for exporters.

A cocky China needs to watch its step, as does a rancorous America, before resentments feed on each other in a Wilhelmine spiral.

China has no recent history of territorial expansion (except Tibet). The one-child policy has left a dearth of young men, and implies a chronic ageing crisis within a decade. This is not the profile of a bellicose nation.

The correct statecraft for the West is to treat Beijing politely but firmly as a member of a global club, gambling that the Confucian ethic will over time incline China to global as well as national concord. Appeasement, your hour has come.

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