

A RISING CHINA, INDIA AND THE US

A Triangular Relationship in a Multipolar World

The world has become increasingly multi-polar, inter-connected, and inter-dependent. Unlike previous times, American primacy will not always work. The shape and dynamics of the global order, however defined, are clearly changing rapidly in a multi-polar world. History doesn't end, Americana is not likely to be the same again, says Andrew K P Leung, SBS, FRSA, International and Independent China Specialist, Chairman, Andrew Leung International Consultants Limited, Hong Kong.



The paradox of GDP per capita

According to the World Bank's International Comparison Program, in the course of this year, the Chinese economy will become the world's largest in terms of purchasing power parity (PPP). This is the first time a developing country achieves this top slot, which has been held by the United States since 1872.

Measured in money-of-the-day terms, however, there is a tremendous gap between the two economies. Last year, China's GDP was estimated to be 9.3 trillion U.S. dollars while the America's economy reached 16.8 trillion. However, there is also a similar gap between the two countries' GDP

growth rates. In the first quarter of 2014, China's economy, albeit slowing, registered 7.4 per cent growth, compared with America's 0.1 per cent. Taking into account past trends, there is general consensus that China's economy in nominal terms will overtake America's by the early 2020s, if not sooner.

But, even though China will soon be able to claim the top spot, the living standards of the average Chinese citizen are likely to remain far lower than many other countries, both developed and developing. This is the paradox of China's vast population. According to the International Monetary Fund, China's economy ranks 93rd in per capita purchasing power parity terms, just ahead of Turkmenistan and Albania but well behind Libya and Azerbaijan. Yet, is GDP per capita a sure-fired

measure of a country's living standards, let alone global power and gravitas? Not necessarily. According to the World Fact Book of the Central Intelligence Agency, measured in PPP, Macao and the Falkland Islands occupy the world's 4th and 9th positions, ahead of the United States at 13th position and Switzerland at 15th.

The Middle Income Trap

However, experience has shown that when developing countries reach a certain level of per capita income up to \$12,000 in 2010 money terms, most languish in a low-value-added development, unable to lift the income and living standards to the next higher-income level. They tend to be trapped in low investment ratios, slow manufacturing growth; limited industrial diversification; and poor labour market conditions. Examples include South Africa,

Thailand, Malaysia and Indonesia, to quote but a few. In the case of China (GDP per capita at \$6,091 in 2012 money terms), added challenges include the exhaustion of demographic dividend as the population ages as well as ecological constraints inhibiting resource-intensive growth.

China's New Revolutionary Reforms

That's why China had to introduce unprecedented reforms at the latest Third Plenum of the 18th Party Congress last November, ushering an about-turn towards more sustainable and inclusive growth. This comprises rural land reform allowing peasants to mortgage or rent out their land; revamping the household registration system (hukou) so that rural migrant workers may be integrated in cities; and boosting investments in education, healthcare and welfare provisions across the board so that people do not have to save money under the mattress (or in banks with suppressed deposit interest rates).

All these measures will accelerate the growth of a better-educated, and better-cared-for consuming middle class who will serve to rebalance an economy too dependent on low-value-added manufacture. The One China Policy is to be modified to add young blood in the aging demography. In addition, some seven million university graduates are now produced every year. By 2020, the country will have over 195 million graduates, more than the current workforce of the United States.

Even as the quality of China's graduates leaves a lot to be desired, China already registers advances in innovation. According to a 2012 report of the World Intellectual Property Organization (WIPO), for the first time ever, China as a developing country tops the world in the filing of pat-

ents, trademarks and industrial designs. According to the Royal Society of the United Kingdom, China is overtaking the United States in the number of scientific citations this year.

As far as infrastructure is concerned, China is unrivalled. She now has the world's largest high-speed rail system criss-crossing the country at more cautious speeds exceeding 200 km an hour. An internet-enabled environment spawns the world's largest internet user population in excess of 618 million by the end of 2013. There is a great deal of free flow of information across the various strata of the society, the state's "Great Firewall" notwithstanding.

Moreover, China's capital is rapidly going global, acquiring assets, resources, technologies and markets. Meanwhile, the process of turning the renminbi, the Chinese yuan, into a commonly accepted international currency is gathering pace. According to the Petersen Institute of International Economics, Washington D.C. (Subramanian, 2011), more currencies now move in tandem with the yuan than with the dollar. Pending full capital-account convertibility, the days when the yuan becomes an international reserve currency would not be very far away.

All these reforms are supported by the entrenchment of China as the central hub of a global supply and value chain. This is manifested by the fact that six of the world's top busiest container ports are located in China, including Hong Kong.

A greener China in the Making

As smogs choke China's cities while drying and polluted waters threaten the very survival of the Chinese people, the country is becoming the world's biggest polluter and leading green energy developer all at once. China tops

the world in solar, wind, and water energy capacities. According to a Bloomberg report (19 February, 2014), China spent more on smart grids than the U.S. for the first time in 2013, with \$4.3 billion invested, accounting for almost a third of the world's total.

Challenges to the extant World Order and New Great Power Relations

China's economic and geopolitical footprints are now truly global. They are evident in distant shores such as Central Asia and Africa, and outward global investments in enterprises, resources and other assets in the four corners of the world. In addition to growing economic dominance, China has also witnessed milestone advances in space exploration, a rapid build-up of military capabilities, and a more assertive foreign policy, especially over disputed territories in the East and South China Seas. All these developments are seen to challenge extant American primacy in the world order.

Throughout history, from Greco-Roman times to the two World Wars, most great power transitions resulted in wars. This is known as the Thucydides Trap. Will history repeat itself? What does China's President Xi have in mind when he referred to "New Great Power Relations"? What are some of the ingredients of his concept and how could they be applied in reality? The answer may become more apparent in the context of the following regional geopolitical developments.

China Containment Strategy and the Indian Ocean

According to successive National Intelligence Council reports, U.S. global leadership will remain but her capacity to lead is declining owing to financial constraints, rise of emerging powers particularly China, as well as new state

and non-state actors. Hence, a convert China containment strategy in all but name has been introduced in the form of America's Asian Pivot, now re-branded as Asian Re-balancing. This has two prongs, military and economic. First, military ties are reinforced with a string of American allies in the Asia-Pacific. This also entails moving 60 per cent of America's global naval assets to the region and strengthening American military ties with India. Second, a massive America-centric regional economic alliance is being negotiated in the form of a new Trans Pacific Partnership (TPP) initially excluding China.

Then there is the India Ocean. Its strategic importance to America's China containment strategy is made evident in a seminal book - "Monsoon - The Indian Ocean and The Future of American Power, Random House, New York, 2010" - by Robert D Kaplan, senior fellow at the Centre for New American Security in Washington D.C., a national correspondent at The Atlantic, and a Member of the Pentagon's Defence Policy Board. The "Monsoon" idea springs from the reality that much of China's lifeblood of energy imports and trade flows traverses the East and South China Seas via the Indian Ocean. These economic routes are exposed to U.S. global naval dominance in the form of eleven aircraft-carrier battle-groups and various naval outposts in the Pacific and beyond. In particular, the narrow but indispensable Malacca Strait near Singapore, under the influence of the 7th Fleet, acts as a crucial choke-point. Linking this naval dominance with India in the Indian Ocean would tighten the containment loose against China.

Rivalry and Inter-dependence

America and China's mutual inter-dependence is well-known. Apart from certain common secu-

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rity interests such as over North Korea and anti-piracy, China needs the American market for exports and jobs-creation back home while America eyes China's gigantic market for US investment and exports. In particular, China builds up excess savings through financial repression pending development of a sound financial system. Such excess savings are sterilized through massive investment in US treasuries, supported by the greenback's "exorbitant privilege". This perpetuates America's low interest rates, low inflation, excessive consumption, minuscule savings, and use of "quantitative easing" (or money-printing) as an easy way to keep things on an even keel.

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Emerging India

On her part, India is also both a serious rival and close economic partner with China. According

to a study by the PHD Chamber of Commerce, an industry trade group in New Delhi, China has become India's largest trading partner, with Sino-Indian trade reaching \$49.5 billion during the first nine months of the current fiscal year. According to the study, China has edged out the United Arab Emirates—India's previous top trading partner—and is comfortably ahead of the US and Saudi Arabia. As China grows domestic consumption to re-balance her economy, the prospects for massive Indian exports to China are alluring.

Moreover, there are many instances where India and China's interests coincide. For example, in the World Trade Organization, both countries act as leaders in coordinating negotiating strategies amongst developing countries. At international forums such as those on Climate Change, the positions of India and China are virtually identical.

There are also mutual opportunities for learning from each other - India from China's excellent infrastructural development and China from India's creative and inclusive society and its global entrepreneurial flair.

In the final analysis, while America remains a staunch ally for India, not least as a leverage against perceived China's Indian encirclement, India has never allowed herself to be at America's beck

and call. India's sovereignty and foreign policy independence are guarded jealously.

Shifting Sands of Geopolitics

On the other hand, China has not been idle with a counter-containment strategy. Subtly, the Shanghai Cooperation Organization (SCO) has now developed as a

Central Asian alliance on a broad front, well extending beyond its original purpose of fighting terrorism and Muslim separatism. It now covers trade, investment, diplomacy, military ties, culture and other exchanges. All in all, this provides China with a far-more secure, land-based supply routes for oil, gas and other resources from the Middle East and Central Asia, away from the Asia-Pacific maritime choke-points. China is also developing strong relations with the Middle East and Israel, as American interests there seem to wane in recent years. This comes in the wake of America's recent attempts at rapprochement with Iran and America's shale gas revolution, which promises to turn the US into a net energy exporter in the not distant future.

Meanwhile, China has been cultivating Europe as the largest trading partner and investment destination. At a time of European economic anaemia, China is being welcomed by the European Union with open arms. The United Kingdom, for example, wants to grow London as the world's premier offshore RMB financial centre as the yuan continues its ascendancy towards becoming an international reserve currency.

Meanwhile, quietly, China is developing a monumental "Third Eurasian Land Bridge", linking Europe through Turkey and Central Asia to China's industrial seaboard by high-speed rail. In addition, the Nicaraguan Parliament has approved the construction by a Chinese company of a much wider and deeper canal linking

the Atlantic with the Pacific, to facilitate passage of huge container ships which even a widened Panama Canal cannot accommodate. The only container port able to berth these juggernauts is the Lianyuanguang deep-sea port outside Shanghai.

Additionally, even before the latest Ukrainian crisis, a revanchist Putin has signed a deal tripling Russian gas exports to China, making it Russia's largest energy customer by 2018. Russia is also eyeing China's Union Pay, a credit-card-cum-international payment system that has already captured the world's second largest market share by transaction value. Both are calculated to neutralize American anti-Russia economic sanctions. In sum, increasingly China is being wooed by Russia to balance against the United States, while the latter is also likely to prefer China on the side of America to balance against Russia. India, on her part, also has economic and diplomatic ties with Russia and is also likely to act in India's best national interests.

A Triangular Partnership between China, India and the United States

In other words, the world has become increasingly multi-polar, inter-connected, and inter-dependent. Unlike previous times, American primacy will not always work.

For the US, what counts is to maintain American global leadership in the Asia Pacific and in Europe's heartlands. This is where Zbigniew Brzezinski calls "a Complex East" and "the Larger West" (encompassing Turkey and hopefully if not wishfully, Russia eventually) (Strategic Vision, America and the Crisis of Global Power, Basic Books, New York, 2012). This entails a more accommodating stance towards China's core interests in the region, or at least avoiding too overt a confrontation. It also suggests greater trust-building and more coop-

erative ventures between the two countries.

For India, the need to maintain national sovereignty and an independent foreign policy is likely to remain in the foreseeable future. This may rule out a US-Indian anti-China bloc. Nor, according to Brzezinski (ibid. Page 165), would such a bloc be in the best interest of America as it could gratuitously relieve Russia of some of the burden of balancing against China. More importantly, it is likely to be misconstrued as an American alliance against Pakistan and its Muslim allies and proxies. The best option for India would appear to be developing even closer economic ties with China to exploit its vast market potential. Additionally, carefully selected military and other ties may be considered as a balancing ploy against Pakistan. At the same time, closer ties with the United States should continue as a bulwark without sacrificing cordial relations with Russia.

Future Outlook

On 23 November 2013, The Economist featured a Special Report arguing that American global primacy will endure for the foreseeable future. China is likely to want to compete within rather than overturn a long America-entrenched international order. This may be true. Nevertheless, the report asks the tale-telling question at the end whether such primacy would remain workable when other emerging powers such as India, Turkey, Brazil and Indonesia, also want to share influence within the system. Whatever the arguments, the shape and dynamics of the global order, however defined, are clearly changing rapidly in a multi-polar world. History doesn't end, as Francis Fukuyama predicted earlier (The End of History and the Last Man, Free Press, 2006). Pax Americana is not likely to be the same again.

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