In today’s multi-polar world, history’s pendulum is swinging back to leading ancient civilizations after their centuries of decline. According to the Banco Bilbao Vizcaya Argentaria (BBVA), a Spanish bank and Goldman Sachs, the Emerging and Growth Leading Economies (the EAGLEs, including China, India, and Turkey) are together expected to contribute 68 per cent to world growth between 2012 and 2022. China and India are each expected to contribute a higher share than the US. The G7 economies together will add a mere 16 per cent. By 2050, the combined economic weight of the top six EAGLEs are expected to be over two and half times more than the economies of the US, Japan, the UK, and Germany combined. By then, India would be just behind the United States as the third largest economy in the world, according to Global Sherpa statistics.

Dynamics of China’s Economic Power

According to The Economist, China is likely to overtake the US as the world’s largest economy by 2018 at market exchange rates. The International Monetary Fund (IMF) puts the date earlier, by 2016,
on the basis of purchasing power parity. As of February 2013, China has surpassed the United States as the world’s largest trading nation. It has become the largest trading partner for 124 countries worldwide. The world’s top ten busiest container ports are mainly in China including Hong Kong, occupying the 1st, 3rd, 4th, 6th, 7th and 8th positions, a testament to the country’s status as the centre of a global production and supply chain. A question often asked is whether China could rise above export dependency to a more consumer-oriented economy.

According to the Brookings Institution, China’s middle-class is expanding exponentially, from 12 per cent (157 million consumers) now to 70 per cent of China’s total population by 2030. China’s mass affluent category (those with household income of $40,000 - $80,000 in purchasing power parity terms) is expected to grow from 9.8 per cent of the population in 2005 to 36.4 per cent by 2025. An estimated 80 per cent of them are under 45 years of age.

China became the world’s largest e-commerce market by 2010. The McKinsey Global Institute reports that China is now the world’s largest e-commerce market, worth $190 billion in 2012. There are 130 million broadband accounts and 6 million e-merchants on Taobao, China’s e-Bay, registering an annual compound growth of 120% since 2003. In October 2012, Reuters reported that for the first time, consumption (55 per cent) exceeded investment (50 per cent) in contribution to China’s GDP growth. According to Credit Suisse, rising from a fairly low percentage (36 per cent) of the GDP at present, China’s aggregate consumption is expected to surpass that of the United States by 2020, thanks to sheer size and accumulation of household wealth.

These dynamics are driven by the largest and fastest urbanization the world has ever seen. According to the McKinsey Global Institute, China is building 221 third and fourth-tier cities in the inner provinces, each with a population expected to be over one million by 2025, compared with 35 cities of such size in the whole of Europe currently. In 20 years, China will have added 300 million urbanites, more than the entire population of the United States. This urbanization is in line with a global trend.

Is the “China Dream” Sustainable?
Evidently, all that glitters in China is not gold. China’s former Premier Wen Jiaboa pointed out repeatedly that the country’s development is “unstable, unbalanced, uncoordinated, and unsustainable.” China is facing a mountain of challenges, including rampant corruption, abuse of power, acute inequalities, ecological degradation, deficits in the rule of law, human rights violations, limitations of freedom of expression, ethnic unrests, imbalance between investment and consumption, inefficient allocation of capital, and worsening relations with Asian neighbours. What is more, China’s workforce is expected to dwindle by 2015 as the demographic dividend of a cheap labour pool is being exhausted with a fast-aging population profile, thanks to the One Child Policy. So is the China Dream attainable and sustainable?

Professor David Shambaugh, a Senior Fellow at the Brookings Institution, doubts if China can achieve breakthrough innovations under authoritarianism. The specter of a collapse, like the former USSR (referred to as the “Soviet shadow”) serves to reinforce political inertia, entrenched by powerful vested interests including the military and large state-owned enterprises. An assertive nationalism borne of
centuries of victimhood feeds into belligerence towards neighbors. Professor Shambaugh’s well-placed skepticism must be seen in the following context:

- **Economics**

At the start of China’s 11th five-year plan (2006-10), the so-called “five imbalances” had started to be addressed. Initiatives have been launched to hone a “nation of innovation”. These included the promotion of precisely the kind of needed “soft infrastructure” highlighted by Shambaugh: education, science, cutting-edge technologies, innovation, and cultural creativity.

China has been churning out some seven to eight million university graduates a year. According to the Center for American Progress, by 2030 China will have some 200 million university graduates, more than the entire American workforce. In the current five-year plan (2011-15), a total of 35 projects are supported under seven broad strategic categories: energy saving and environmental protection, next generation IT, bio-industries, high-end assembly and manufacturing, new energy sources, new materials, and new energy-powered cars. There is a broad-based awareness that the cheap labor pool is dwindling and China must redouble its efforts to respond to the challenges of the “Lewis Turning Point” and the “Middle Income Trap”.

The 2012 Report of the World Intellectual Property Organization (WIPO) shows that for the first time, China as a developing country tops the world in the filing of patents, trademarks, and industrial designs. According to the Royal Society, China will surpass the US in citations in scientific literature by end of 2013. The Samsung Economic Research Institute reports that in China, “plans are underway for 1200 education facilities – or ‘talent incubators’ – by 2020. The government is also funding initiatives to develop leaders in philosophy, social science, publishing, culture, the arts and heritage protection. The goal is to transform Chinese firms into multinationals ranking among the world’s top companies”.

On the other hand, China is mandating a target of 13 per cent annual increase in minimum wage to 2015. According to a report in The Economist, owing to rising costs, there is now a movement of bringing outsourced productions in China and elsewhere back home to the United States. Moreover, advanced manufacturing technologies such as robotics and 3-D printing are making labour intensive operations less competitive overall.

Another reason is proximity to home research facilities and markets. There is also the socio-political angle as bringing jobs back home wins popular kudos. So how soon will China cease to remain the factory of the world? A blog in the Financial Times (25 January, 2012) advances five reasons why this is unlikely to come about – China’s wealth of outsourced skills, massive economy of scale, excellent infrastructure, central position in the global supply chains, and huge potential of future customers.

This is echoed in a podcast by McKinsey experts. Indeed, according to a special McKinsey report, notwithstanding many obstacles, a new age of manufacturing in China promises to unfold with burgeoning innovative talent and enterprises, supported by the country’s rising research and development. It is instructive that China is also starting to adopt 3-D printing technologies where ever appropriate.

While pollution remains a plague in many parts of the country, China is amongst the world leaders in renewable energies, including solar, wind, and hydro. According to HSBC’s Director for Climate Change Strategy in Asia-Pacific, the State Council plans to grow China’s energy-saving and environmental protection industry by 15 per cent a year – double the rate of projected annual GDP growth – to a market worth RMB4.5 trillion.
(USD734bn), or 6-7 per cent of GDP by 2015. The tools to be used include green credits, tax breaks, innovative technologies, beefing up environmental protection laws and standards (for which US$6.5 billion has been set aside), and stringent enforcement of EIAs (environmental impact assessments). Beijing’s resolve was demonstrated in August 2013 when the Ministry of Environmental Protection said it would stop approving new projects for Petro China and Sinopec, China’s two largest (and politically powerful) oil producers and refiners, after they failed to meet pollution targets for two consecutive years.

- **Socio-politics**

As for the “Soviet shadow” highlighted by Professor Shambaugh, the Communist Party is caught in a quandary. “Extractive institutions” have resulted in an estimated 180,000 social unrests annually, threatening the stability of the whole regime. It is perhaps no surprise that a set of reform proposals in a 468-page World Bank report were given the rare imprimatur of the Development Research Center of the State Council. These include the promotion of civil society, the role of the media in monitoring governance, though initially only at the local level, and the strengthening of rule of law. Likewise instructive is the recent example of Foxconn, Apple’s main Chinese subcontractor with 1.2 million workers in Mainland China. According to a report in the Financial Times, the company is allowed to invite help from the US-based Fair Labor Association (FLA) to train workers in voting for representatives on 18,000 union committees.

Regarding factional vested interests, the Bo Xilai Affair was an epiphany that corruption and vested interests must be reversed, if not totally eradicated, including those represented by monopolistic state-owned enterprises. Fighting corruption has been termed by the leadership as a matter of “life or death” for the Party and the nation.

- **International Stakeholder**

Externally, China has grown too big to ignore its own role in the global commons. The country is the largest contributor of peacekeeping forces amongst the permanent members of the UN Security Council. China was instrumental in brokering the six-party talks on North Korea and is recently beginning to take a keener interest in addressing conflicts in the Middle East.

**Turning of the Tide**

Benn Steil’s recent book “The Battle of Bretton Woods” expounds on how the world’s tide last turned shortly before the end of the Second World War. At that time the old superpower Britain saw its strengths ebbing as the British Empire crumbled in India, the Middle East and other parts of the world. Due to War commitments and the destruction of its economy at home and abroad, Britain became highly indebted to the then-rising superpower, the United States. The Bretton Woods negotiations ended with the dismantling of the old Sterling Area in favour of free trade dominated by the United States and the dollar, sidelining the British Pound. This paved the way for subsequent years of American supremacy, which was later consolidated in 1989 with the collapse of the former USSR.

Now the tide is turning the other way - from the West to the East, from the developed to the developing countries, particularly China and India, and from the US overall dominance to multilateralism; notwithstanding the views in some quarters that the 21st will still remain essentially an American Century. Although China is still many years behind the United States in comprehensive world power, China’s indisputable ascendancy is perhaps exemplified by a recent research finding that the RMB, the Chinese yuan, has already eclipsed the dollar as an ipso facto “reference currency”. More currencies now move in tandem with the RMB than with the greenback.
The eclipse is helped by China’s strategy of hastening the RMB’s internationalization, through currency swaps, use of the RMB for international settlements, and issuance of RMB-denominated bonds and other financial instruments. China’s State Council has recently called for a detailed roadmap to achieve “basic” full convertibility of the RMB by 2015. Pending this eventuality, some countries, including Australia and Japan, have already allocated a small percentage of their foreign currency reserves (5 per cent in the case of Australia) to the RMB.

Naturally, even with full convertibility, the RMB is unlikely to displace the dominant role of the US dollar anytime soon. However, even if the RMB becomes just one of several major international reserve currencies like the euro, the British Pound or the Japanese yen, the change in world dynamics is likely to be dramatic because of the sheer size of the Chinese economy. This is likely to be compounded by restrained or reduced investments by China in US treasuries.

There seems an on-going attempt by China to get out of what Paul Krugman, the Nobel laureate in economics and New York Times columnist, calls, “China’s dollar trap”.

Reconfigured Geopolitics

The 2008 National Intelligence Report outlined America’s declining global capacity to lead in the wake of the financial crises and wars in the Middle East. This heralded the Foreign Policy article “America’s Pacific Century” by former Secretary of State Hilary Clinton, ushering in the US’ “Pivot to Asia”. This reconfiguration of geopolitics has taken the form of boosting regional military, diplomatic, and economic ties with a large number of countries neighboring China, including the launch of a Trans-Pacific Partnership (TPP), which, tale-tellingly, still excludes China. In response, China has supported a Regional Comprehensive Economic Partnership (RCEP) which excludes the U.S. This comprises 10 Association of Southeast Asian Nations (ASEAN) members and their Free Trade Agreement Partners (Australia, China, India, Japan, the Republic of Korea, and New Zealand) (33).

Redoubled American military support has emboldened a number of Asian countries on long-standing territorial disputes with China in the East and the South China Seas. For China, apart from the raw nerves of territorial integrity, these waters are critical Sea Lines of Communication (SLOC) for the nation’s lifeblood in terms of maritime trade and energy imports from the Middle East and other regions. They also contain cornucopia of strategic resources. Therefore, tension in the region remains high.

The Importance of Central Asia for China’s Energy Security

To ensure energy security, China has in recent years developed a network of gas and oil pipelines in Central Asia and in Southwest Asia, notably in Pakistan and Myanmar. China is also building a Eurasian transportation network of railways, highways, and associated maritime routes. These infrastructures connect the Gwadar Port in Pakistan to the oil reserves in Iran and onwards overland to pipelines in Xinjiang province. Given China’s strategic consideration of bypassing vulnerable sea lanes in the Pacific and India Oceans and her substantial interest in energy resources in Afghanistan, this Eurasian overland network is likely to assume increasing importance.

A significant anchor of China’s energy security is the Shanghai Cooperation Organization (SCO). Since its foundation in 2001, the SCO has been widening its geographical scope and operational agenda. Now, India, Pakistan, Iran, Afghanistan, and Mongolia have become Observer Countries; Turkey, Belarus, and Sri Lanka have become Dialogue Members; and ASEAN, CIS, and Turkmenistan, Guest Attendees. What distinguishes the SCO is its
significant Islamic representation. At a time of the global rise of Islam, this gives the SCO special gravitas to counterbalance the influence of NATO in the region.

**The growing importance of Africa for China**

Africa accounts for a third of China’s crude oil imports. It is also rich in terms of mineral and other resources. For the first time in many centuries, China surpassed the U.S. as Africa’s leading trading partner in 2012. China’s state-sponsored financial loans combined with various forms of aid, grants, and investments have outsized those of the World Bank. China’s state-run radio and TV networks have the largest number of bureaus in Africa. There are now 28 Confucius Institutes in Africa as well as a “Peace Corp” type program for Chinese young volunteers.

**The idea of a BRICS Development Bank**

At a declaration on 27 March 2013 concluding a summit in Durban, South Africa, the BRICS countries agreed to set up a development bank primarily aimed at Africa. It is too soon to conclude whether the joint venture can work, as each has its own agenda and some mutual rivalry. The devil is in the detail, which is still to be hampered out.

Nevertheless, each BRICS member is already proactively engaged in the young continent. If successful, this new BRICS initiative may turn out to be an alternative to balance against the World Bank and the IMF. The latter are often viewed by some developing countries as West-dominated Bretton Woods institutions geared towards a “Washington Consensus” model of fast-track liberalization and democratisation, usually before local conditions are ripe. Past experience of this model is littered with glaring examples of failures as in the case of Argentina during 1999-2002 and Asia during the financial crisis of 1997-8.

Though their priorities may differ, it is likely that BRICS can still bind where it suits their common interests. Given deep pockets and increasing weight in Africa and the rest of the developing world, China is likely to try to win the rapport of the other BRICS members to make the proposed new development bank a credible success story.

**China’s Military and Security Developments 2013**

The U.S. Department of Defense has released its 2013 Annual Report to Congress on the state and development of China’s military. According to the comprehensive report, China has dramatically improved a wide-range of military capabilities including A2/AD (Anti-Access/Area Denial), C4ISR (Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance), survivable long-range nuclear deterrence, nuclear submarines, guided missiles, stealth fighters, complex-environment information-warfare (IW), cyber warfare, space warfare, and civil-military integration.

The Pentagon Report nevertheless notes that China’s military is primarily defensive, in particular over Taiwan and its other territorial claims in the East and South China Seas, as well as guarding vital Sea Lines of Communication (SLOC). The latter, however, would necessitate the expansion of China’s blue-water navy and military projection to distant shores, supported by the development of longer-range transport planes.

Professor Andrew Erickson of the Naval Defense College offers an in-depth assessment of China’s military fortunes (40). This highlights China’s nuclear-powered ballistic-missile submarines (SSBNs), nuclear attack submarines, the world’s only long-range anti-ballistic missiles (ASBMs) with a range over 1,500 km, and a probable program of building multiple aircraft carriers. These are said to aim at distant “access points” in the form of agreements for refuelling, replenishment, crew rest, and low-level maintenance, possibly in the Malacca, Lombok and Sunda Straits, some of the “choke points” along China’s vital sea lanes. The development of a credible blue-water navy is supported by China’s world-class shipbuilding and nanotechnology capabilities. The Report also highlights the efforts of China’s military to provide common goods such as anti-piracy, UN peace-keeping operations, and confidence-building joint military exchanges and exercises, including those with the United States and other non-allied nations.

There is little doubt that China now possesses credible deterrence against any aggression, especially critical threats to her “core interests” of national security, territorial integrity, regime stability, and economic development.

The Report refers to China’s identification of the first two decades of the 21st century as a rare window of opportunity to grow “comprehensive national power” in order to attain the status of a global power. It hints
at China’s increasing interest and capability in projecting power further afield. It emphasizes the need for the United States to remain vigilant in managing US-China relations during China’s ascendancy in order to safeguard American interests as well as world peace and regional stability in the Asia Pacific.

Soft Power

Meanwhile, China is embarking on a long-term mission to promote the country’s soft-power, including Confucianism and other aspects of China’s culture and heritage. However, notwithstanding the gravitas of China’s economy and growing world-wide interests in the Chinese language, doubts remain about the merits of the so-called “Beijing Consensus”, even though China has repeatedly stressed that her own unique development model is not meant to be copied. In any case, until the country succeeds in showcasing a heart and soul that appeal to the spirit of the times, China is unlikely to have many unreserved followers.

Strategic vision of Global Rebalancing

Zbigniew Brzezinski, a doyen in foreign policy, offers a grand strategy for the United States to advance its national interest in his new book “Strategic Vision: America and the Crisis of Global Power”. There are two main strands in Brzinksy’s Strategic Vision: a renewed “Larger West” by drawing Russia and Turkey into the European Union (EU) through gradual democratization and eventual conformity with Western norms. The second, and inter-related, strand is the “Complex East”, where U.S. best interest would be served by acting as “regional balancer”, “replicating the role played by the United Kingdom in intra-European politics during the nineteenth and early twentieth centuries. Seemingly echoing America’s “Asian pivot”, he suggests that the United States “should help Asian states avoid a struggle for regional domination by mediating conflicts and offsetting power imbalances among potential rivals”.

However, contrary to the popular rhetoric of American military power projection in the Asia-Pacific, he points out that “the United States must recognize that stability in Asia can no longer be imposed by a non-Asian power, least of all by the direct application of US military power. Indeed, U.S. efforts to buttress Asian stability could prove self-defeating, propelling Washington into a costly repeat of its recent wars, potentially even resulting in a replay of the tragic events of Europe in the twentieth century. If the United States fashioned an anti-Chinese alliance with India (or, less likely, with Vietnam) to promote an anti-Chinese militarization in Japan, it could generate dangerous mutual resentment”. He recognizes that “in the twenty-first century, geopolitical equilibrium on the Asian mainland cannot depend on external military alliances with non-Asian powers”.

Instead, Brzezinski advocates that America “should respect China’s special historic and geopolitical role in maintaining stability on the Far Eastern mainland. Engaging with China in a dialogue regarding regional stability would not only help reduce the possibility of US-Chinese conflicts but also diminish the probability of miscalculation between China and Japan, or China and India, and even at some point between China and Russia over the resources and independent status of the Central Asian states. Thus, the United States’ balancing engagement in Asia is ultimately in China’s interest, as well.” The lynchpin of this realist strategy is a “US-Japanese-Chinese cooperative triangle” to be nurtured through progressive, but lasting reconciliation between China and Japan, similar to that between France and German and between Germany and Poland after World War II. In this context, “the guiding principle of the United States should be to uphold U.S. obligations to Japan and South Korea while not allowing itself to be drawn into a war between Asian powers.”

“In that context, China should not view U.S. support for Japan’s security as a threat, nor should Japan view the pursuit of a closer and more extensive U.S.-Chinese partnership as a danger to its own interests. A deepening triangular relationship could also diminish Japanese concerns over the yuan’s eventually becoming the world’s third reserve currency, thereby further consolidating China’s stake in the existing international system and mitigating U.S. anxieties over China’s future role”.

What is perhaps the most striking in Brzezinski’s China engagement strategy is his recognition of and suggestions for adopting a more accommodative approach to the three sticking points in US-China relations: US reconnaissance operations on the edges of China’s territorial waters or within China’s economic zone; manoeuvres over US commitments to Japan
and South Korea; and a long-term solution over Taiwan in the light of improving cross-Strait relations. Brzezinski suggests that the first of these sticking points be resolved in the near future, the second over the course of the next several years, and the third probably within a decade or so. Brzezinski’s whole rationale is summarized in his opening remarks –

“The United States’ central challenge over the next several decades is to revitalize itself, while promoting a larger West and buttressing a complex balance in the East that can accommodate China’s rising global status. A successful U.S. effort to enlarge the West, making it the world’s most stable and democratic zone, would seek to combine power with principle. A cooperative larger West – extending from North America and Europe through Eurasia (by eventually embracing Russia and Turkey), all the way to Japan and South Korea – would enhance the appeal of the West’s core principles for other cultures, thus encouraging the gradual emergence of a universal democratic political culture.”

Drawing distinction from historical geopolitics governing the separate fates of the Eastern and Western Roman Empires, Brzezinski opines that in a globalized and inter-connected world, “the West and the East cannot keep aloof from each other: their relationship can only be either reciprocally cooperative or mutually damaging”.

It is no coincidence that at this critical juncture of relations between the world’s extant superpower and its perceived challenger, President Obama and President Xi Jinping, respectively, chose to meet in a California ranch during 7-8 June. The unspoken ongoing agenda is to map out a new mode of engagement between these two powerful countries to avoid the risks of repeating past world calamities during former periods of global power transition.

China’s Challenges – Aplenty and Unresolved

Metaphorically, China has now grown into a 1,000 pound panda whose presence in the global commons can no longer be ignored or belittled. It is no longer feasible for China to continue to hide her light under the bushel by slavishly following Deng Xiaoping’s earlier 24-word dictum of caution. When the full productivity begins to be unleashed of a fifth of mankind in the centre of a global supply and production chain, it is only natural that the existing world order is shaken and needs to change to accommodate this reality.

In her own way, China will continue to reform and modernize to maintain the Party’s legitimacy. However, notwithstanding impressive achievements, the country is still mired in herculean challenges, economic, social, political, environmental and international. Even when its economy manages to exceed that of the United States by a large margin by 2050, China will by then still remain a middle-income developing country, similar to the level of Turkey in relative per capita GDP terms, thanks to her huge and rapidly-aging population. China is likely to grow old before becoming truly rich.

Doubts about China’s declared peaceful intentions notwithstanding, it is clear that the country can ill afford illusions of hegemony. Moreover, in the midst of a breathless transition and transformation, China needs all the harmony in the world, both domestically and internationally, to stay on an even keel.

As the world becomes more multi-polar and entails more re-balancing, India as a developing country is likely to find more in common with China than in conflict. In the final analysis, there is no denying that China is keenly aware that she needs to build her strengths to compete globally.

If there is one lesson in the China story for India, it is the advantages of good infrastructure and administrative efficiency, and a marshalled and dogged pursuit of carefully-thought-out development goals.

On China’s part, there is a lot to learn from India’s much more open and liberal society and the soft power that it exudes, without which a true “China Dream” is unlikely to be fully realized, let alone embraced by the rest of the world. Yet...