China: the financial super-power

China's rapid growth and the economic power it has generated are being increasingly felt in global financial and commodities markets. The sheer size of its reserves (very close to $ 3 trillion) makes it by far the single largest holder and buyer of U.S. treasuries (after the Fed), and its reserves deployment policies will influence both the shape of the USD yield curve and the currency's exchange rate. A sharp fall of the dollar in global markets would inflict huge translation losses for China's reserves; contrarily, if China stops buying U.S. treasuries at a time when its borrowing needs are expected to go up to $ 1.5 trillion in the current year, this would steepen the yield curve sharply, inflicting fair value losses on China's reserves – and negate the effects of the U.S. Federal Reserve's open market operations. In effect, the U.S. has become a "too large too fail" borrower for China! Reserves apart, China's sovereign wealth fund (China Investment Corporation) has a corpus of $ 300 bn and is an increasingly active investor in the equity markets.

It is playing the role of the "lender of last resort" to troubled European countries like Greece, Ireland, Portugal and Spain, and is also becoming "the lender of *first* resort" to the poorer developing countries, particularly in Africa and Latin America. As for the European countries, it makes strategic sense for China to purchase the troubled countries' bonds, if only because the European Union is its largest single export market. Inclusive of the loans by the China Development Bank and the China Export-Import Bank, China has lent more to the developing countries in the last two years than the World Bank itself! The amount was as large as $ 110 bn as per the estimates of the Financial Times.

The loans are not just for financing China's exports (recently, an Indian power utility received a huge loan from the Chinese lenders to finance import of power plants) but, increasingly, to develop the infrastructure and raw material resources in resource-rich countries in Africa and Latin America, with the objective of securing supplies to feed China's gigantic and fast-growing appetite for oil, base metals and food grains. "Loans for oil" deals have been signed also with Russia, Kazakhstan and Venezuela, countries in which it is also a very large direct investor – and China is helping develop Myanmar's gas and other resources for import into China. It is also a very large investor in developing Sudan's resources. (It may be recalled that western oil companies keep away from the last two countries because Washington does not like the governments.) The big test will be Iran, given the sanctions against that country. In short, the financial power is being increasingly used for furthering its trading interests, given that it is not only the world's largest exporter but also imported goods worth $ 1.4 trillion last year. In particular, most east Asian economies are getting increasingly dependent on trade with China. For example, it is the largest trading partner for countries like South Korea, Taiwan and Japan, more than a 5th of whose foreign trade is with China.

Its influence is also being felt in the global commodity markets, as it is world's largest consumer of commodities from steel (44%), cotton (42%), and copper (a little less than 40%), to many other commodities. These days commodity market participants watch developments in China as closely as, at one time, they used to watch the U.S. and Russia.

China's influence is also being felt in high technology areas. Huawei and ZTE are global leaders in communication technology and operate in more than a hundred countries – so does Lenovo, the computer hardware giant. China is the global leader in high speed rail network, which is being rapidly expanded into the ASEAN countries. Another area where the Chinese are global leaders is renewable energy. Only a few years back, Q-Cells of Germany was the global leader in solar energy panels. It has been rapidly overtaken by China's Suntech. China is also extremely competitive in wind energy. Its knowledge power is also manifest in the fact that it is the world's second largest publisher of science and engineering research papers and is expected to overtake the U.S. in the number of patent applications in the current year (Time, January 31)! The largest number of foreign students in U.S. universities are now from China.

Overall, the gap between India and China in the economic and technology area seems to be as high as in the tally of Olympic Gold Medals (51 for China, one for India in the 2008 Beijing Olympics). We are obviously better in terms of the democratic freedom of our people. But what about social justice? To quote Pallavi Aiyar in *Smoke and Mirrors (An Experience of China)* "*it was authoritarian China that seemed to offer greater social justice for its people, freedom for its women, and protection for its poor* … *The legitimacy of democracy in many ways absolved Indian governments from the necessity of performing.*"

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