

The Globe's Second Super-power

Henry Luce, the founder of Time magazine, had proclaimed back in 1941 that the twentieth would be “American Century”. And, he was right. A couple of years before the century ended, the so-called neo-conservatives in the U.S. (a group of right-wing conservative Republican intellectuals, who were the architects of the Iraq invasion of 2003) promoted The Project for the New American Century – namely the twenty first: The disintegration of the Soviet Union a few years earlier, removing the only military/ideological challenge, had obviously emboldened American conservatives.

Barely a decade in the new century, however, things are looking different. To be sure, for the foreseeable future the U.S. is likely to remain by far the most powerful military power despite the limitations of that power as manifested in both Iraq and, increasingly, Afghanistan. (This would not surprise Paul Kennedy who, a quarter century back, argued in his *The Rise and Fall of the Great Powers*, that, at some stage, great powers suffer from “imperial overstretch”: “*the awkward and enduring fact that the sum total of the United States’ global interest and obligations is nowadays far larger than the country’s power to defend all simultaneously*”).)

While the twenty first century has still a long way to go, it is becoming increasingly likely that a strong contender for economic super-powerdom is China. Regrettably, much of our media is paying very little attention to the events in our Northern neighbour: they remain focused on the declining West rather than the rising East. Will their coverage change now that The Economist has started a separate section on China? – hitherto, the only countries with a section of their own were the U.S. and Britain itself, the latter perhaps more because of The Economist’s patriotism than its importance to today’s global economy. Even Japan has not had this privilege when it was the second largest economy in the world and widely expected in the 1980s, to dominate the global economy.

To quote a few numbers, China produces something like 700 mn tonnes of steel (45% of the global output) while the second largest producer, Japan, produces barely a seventh of that; overall, China accounts for something like 30 to 60% of the global demand for most commodities. Its aid budget for Africa and Latin America is bigger than World Bank assistance and it is already the largest trading partner for both these continents. Its ever growing hunger for commodities means that almost a million Chinese workers are today working outside China, on Chinese projects mainly for extraction and transportation of commodities from resource rich countries in these continents – as also Mongolia and Russia.

30 years back, China accounted for barely 2.2% of global GDP while the U.S. contributed almost 25%. Chances are that before the end of this decade, Chinese GDP may surpass the U.S.'s. Arvind Subramanian of the Peterson Institute for International Economics has estimated that, in purchasing power parity terms, the Chinese output already exceeds that of the U.S. Dr. Subramanian forecasts that, by 2030, China would account for 18% of global GDP, the U.S. about 10% -- and India, the 3rd largest, about 6%, just about a third of China's. (Considering also that by then our population would be more than China's, the gap in per capita incomes would be much higher, even if we manage to maintain our growth rate.) In fact, with each passing year the clubbing of India and China by the media is becoming less realistic – in terms of literacy, consistent growth, financial power, infrastructure, life expectancy and, indeed, any other economic criterion one may choose.

But to come back to China, it is already the global leader in many high tech segments – superfast railways, renewable energy – and such industries are expected to contribute 15% of its GDP up from 3% today. There are of course major challenges: income inequalities between individuals on the one hand, and coastal provinces and the hinterland on the other; pressures for greater democratic freedom; the environment. So would the expectations about China prove as unrealistic as those about Japan did? Unlikely: in my view – unless China, like Japan, succumbs

to pressures for free capital flows and move to a market determined (i.e. volatile) exchange rate. (Surely the volatile yen exchange rate is an important element behind two decades of economic stagnancy.) Currently China is the world's largest creditor nation (as Japan then was), even as the U.S. is the world's largest debtor! (But China's current account surplus is coming down rapidly.)

In many ways, China's rise should not be surprising – after all, historically, it was the world's most advanced economy till the middle of the second millennium, until it cut itself off from the world. It seems poised to retake that position once again. Chances are that just as the U.S. took over from Great Britain in the 20th century, China will take over global economic leadership and dominance in the 21st. We do need to take much greater interest in the Chinese miracle and learn from it, rather than in the often self-serving pronouncements of the West.

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