

The rise of China

One British statesman of an earlier era once argued that “*Britain has no permanent friends; Britain has no permanent enemies; Britain has only permanent interests*”. When he made the statement, the principal “interests” were those of an imperial power; now, of course, while the statement remains true, the nature of the “interests” has changed – to commercial interests.

This was illustrated recently during the contrast between the behaviour of the British Prime Minister during visits to Sri Lanka, for the Commonwealth Summit, and his subsequent visit to mainland China. In the former, he criticized Sri Lanka’s human rights record in relation to the Tamilians; in the latter, he was accompanied by a very large UK business delegation and the whole emphasis was on commercial relations. Now that China has become a financial superpower, and well on the way to becoming a military superpower as well, the West’s concern about its human rights record is increasingly muted. There is, of course, a recent parallel to this: hardly any western country dared criticize the US for its human rights record in relation to the detainees in Guantanamo Bay prison, the so-called “extraordinary renditions” (in plain English, kidnappings), the torture of Afghan and Iraqi prisoners, etc. after 9/11. As *The Economist* wrote recently (December 7), “*China is powerful enough to make western leaders hold their tongues*”.

Britain needs Chinese financing for its high-speed rail network, atomic power stations, and other infrastructure projects – and it is wise not to annoy your potential lender. As an old Sanskrit *subhashit* says there is a tendency in the human mind to attach all virtues to those with power and wealth! Before the UK Prime Minister, Britain’s Chancellor had also visited China to lobby for the interests of the “City”. He would like greater presence of Chinese banks in the City (after all, four of the ten largest banks in the world by asset size are Chinese, as are the three largest in terms of net interest income); and a much greater share of the offshore market in yuan denominated deposits and bonds; currency trade; etc.

The UK is by no means the only country trying to woo China: a number of mayors from US, Europe, Canada and Australia have been visiting China to attract investments for their cities; so are Governors of US states. The US Vice President also paid a visit recently. In, *Demystifying the Chinese Economy*, Justin Yifu Lin has claimed that the unprecedented growth in African economies has been in large part due to Chinese investments. And, we should not forget that the Chinese financial power is backed by its status as the world's largest manufacturer and exporter, an economy boasting the largest GDP in the world in purchasing power parity terms, and technological leadership in areas from super computers to solar energy. Its arms exports (from drones to frigates to fighter jets) are threatening another western monopoly. Jack Ma, who founded Alibaba 10 years back, was recently chosen as the person of the year by Financial Times. Alibaba is the world's most successful e-commerce company with a turnover larger than Amazon and e-Bay combined, and equal to 2% of Chinese GDP! Its market capitalization is expected to be of the order of \$ 100 bn after the expected initial public offering. In a way, Ma personifies China's innovative entrepreneurial culture as do Huawei and ZTE.

Late last year a new leadership came into power. The transition was smooth, and the ruling party's political legitimacy remains unaffected. In many ways, Chinese political stability is in sharp contrast to the increasingly dysfunctional US political system, recently exemplified by the closure of so many public services thanks to a deadlock on the budget. (Alexis de Tocqueville, who sang paeans to *Democracy in America* almost 200 years back, would not recognize today's US democracy in in-action, the polarization between the right and left!) The weaknesses are also showing in geopolitics: the Afghan President is defying the mighty superpower on a treaty about the withdrawal of US troops; the US has recently signed an agreement with Iran on its nuclear program, which seems to be much more on Iran's terms (its traditional allies in the region, Israel and Saudi Arabia, are clearly unhappy). It is withdrawing from central Asia even as Chinese influence in that region grows. A recent poll finds that a majority of Americans want the nation to mind its own business, not "spread democracy" abroad; no wonder of course after the mess in Iraq and Afghanistan. It was not supposed to be like this: towards the end of the last century, the so-called "neocons" (a group of right wing

Republicans who lobbied strongly for the invasion of Iraq) were predicting the 21st to be an American century. This seems increasingly unlikely now.

But to come back to China, major challenges remain: environment; urbanization and income inequalities; corruption; territorial disputes which could lead to an accidental war; a re-balancing of the economy from exports to domestic consumption; an aging population thanks to the one child policy; etc. Meanwhile, it is also undertaking major reforms in the financial sector, a point I would come back to in a later article.

After coming back from China David Cameron advised students in UK to throw away their French and German textbooks, and learn Mandarin, an advice perhaps equally relevant for our policymakers!

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