

China: The Global Economic Superpower?

One of the topics informally discussed amongst delegates to the recent IMF/World Bank Annual Conference was how long the US would retain its present supremacy and status as the sole superpower on the globe. This status has two different origins: military and economic. As for the former, the status is likely to be retained for the foreseeable future. Question marks are however being raised about the latter given that, at least in purchasing power parity terms, China is now the world's largest economy, even as US economic power is increasingly hamstrung by the divide between the President and the Congress, as also pressures on its fiscal resources. Arvind Subramanian, Chief Economic Adviser, Government of India, has been quoted as saying, *"People can't be too public about these things, but I would argue this is the single most important issue of these spring meetings."* One important, if symbolic, test will come when the IMF's SDR basket is reviewed next year: will the yuan, the world's 5th largest invoicing currency, be included?

One pending issue directly relevant to the two institutions is increase in the quotas and voting powers for emerging economies: the revision was agreed several years back but a recalcitrant US Congress is not ratifying the changes. The US obviously wants to retain its "veto power" in the IMF. President Obama believes that, *"if we do not help to shape the rules so that our businesses and our workers can compete in those markets, then China will set up the rules that advantage Chinese workers and Chinese businesses."* (Business Standard April 19, 2015). Is he implying that the so-called "Washington Consensus" really favoured US businesses and, particularly, Wall Street?

China is obviously not waiting for favours from the US Congress. For one thing, China has provided balance of payments support, hitherto a monopoly of the IMF, to countries like Russia, Argentina and Venezuela. It is promoting new institutions which, in many ways, parallel the objectives of the Bretton Woods Twins. Separately from the BRICS Bank, it is promoting the Asia Infrastructure Investment Bank. Despite US's public opposition, most of its allies in Europe, including the UK, have committed to join the

AIIB. Its lending policies are likely to parallel/compete with those of the World Bank and the Asian Development Bank: many member countries see the two being too much under the influence of non-governmental organizations which lobby for environmental issues. Chances are that the AIIB may not give them as much weight.

On a bilateral basis China has made large investments in developing infrastructure in resource-rich countries in Africa and Latin America. (It is already the largest trading partner of Latin America, the US's backyard.) China is, and is likely to remain, the largest importer of commodities in the world: one of the important reasons behind the recent fall in the price of oil and other commodities, is slowing Chinese growth and therefore demand. China has been equally aggressive in other parts of the world in Europe and Asia. The so-called "silk road" project from China to Central Asia to Russia and Northern Europe has been mooted to strengthen trade ties. If the expression silk road goes back a long time in history (being the route traditionally used for export of Chinese silk), China is also aggressively investing \$ 40 bn in a 21st century version, linking China with Vietnam, Indonesia, Sri Lanka, East Africa and Suez. Nearer home is the development by China of a Pakistani port on the Arabian Sea, which it has taken on a long term lease. The port will be linked by highways to the Xinkiang Province of China. All these infrastructural investments in Asia and Europe could well end up costing something like \$ 150 bn.

Nor is the Chinese private sector sitting idle. For one thing, they are aggressively buying businesses in Europe, now available at much cheaper prices, given the continuing slowdown. Chinese fund managers and commodity traders have also become much more aggressive in expanding in Europe. Nor are Chinese companies lagging in development of technology from world beating high speed trains to telecom equipment to storage batteries to solar power to genetic engineering to....

It is not that there are no problems. While the growth slowdown can be attributed to a deliberate effort to rebalance the economy from emphasis on manufacturing and exports, to domestic consumption and services, other major problems remain: environment (they can now afford to sacrifice some growth to improve the environment) and corruption. Last year something like 230,000 officials (both government and the

party) were prosecuted for corruption. (While we can rival China in corruption, what is the number of officials prosecuted?)

Inflation is near zero thanks to a rapidly aging population. A major issue is going to be the total debt, which is close to 300% of GDP, the world's highest ratio. There is a huge "shadow" banking sector, not very tightly regulated, and there are apprehensions that the "debt bomb" may explode one of these days, particularly in the property sector. But to come back where I started, overall, China seems to be well on the way to becoming the 21st century economic superpower. To be sure, Marx (Groucho, not Karl) once famously remarked that forecasting is very difficult, particularly about the future! Karl obviously had different views: once communism is established, the future would be determined by the planners.

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