Dealing with the Rise of China: What Should the World and India Do?

Speaker: Dr. Arvind Subramanian, Chief Economic Advisor, Government of India

Chair: Dr. Muchkund Dubey, President, Council for Social Development

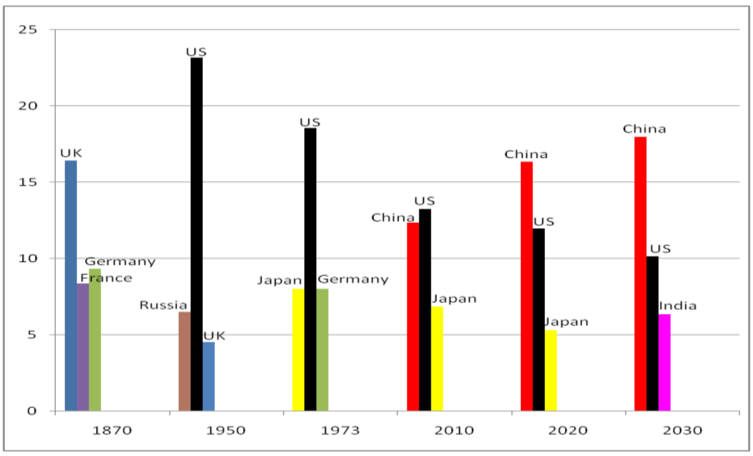
31 August 2015
Venue: Seminar Hall 1 & 2, Kamala Devi Block, India International Centre
Time: 5.00 PM

The Institute of Chinese Studies and the Council for Social Development jointly organized a special lecture by Dr. Arvind Subramanian, titled **'Dealing with the Rise of China: What Should the World and India Do?'** Dr. Muchkund Dubey (President, Council for Social Development) chaired the session. Prof. Alka Acharya (Director, Institute of Chinese Studies, Delhi) opened the proceedings and welcomed the speaker.

Dr Subramanian's chief argument harked back to the analyses and predictions he had made in his book '**Eclipse: Living in the Shadow of China's Economic Dominance'** published four years earlier, in which he had hypothesised that the global economic system 'would survive China's dominance. Dr. Subramainan extended the argument further by saying that China's economic dominance is more imminent, larger in magnitude, and broader in scope than currently believed. In the backdrop of China's assertiveness in the South China Seas, China has also taken new initiatives such as the BRICS New Development Bank and the Asian Infrastructure Investment Bank, which have worked towards rejuvenating multilateralism. It has also announced the New Silk Route. Besides, China has started to open up to capital account in its attempt to get to a more market-based system. The latest episode of Yuan devaluation was a prerequisite for inclusion in the SDR (Special Drawing Rights) basket of IMF (International Monetary Fund), part of its RMB internationaliation strategy.

He charted out an Index of Dominance from the 1870s to the present, that shows the trajectory of China's rise as the top economy and relative decline of US economy followed by rise of Indian economy.

Fig. 1: Index of Dominance



However, the slowdown in its economic growth, the recent upheavals in the stock market, the Tianjin explosion and other events have triggered off a wide reassessment of China's ability to deal with this slowdown and thereby its growth prospects. He reiterated the point made in his book that China's rise was not based on the assumption of continued high growth and felt that China had the requisite mechanisms (surplus forex reserves among others), the political will and the deep desire for stability, to tide over the present crisis, although, it would by no means be an easy task.

Dr. Subramanian evaluated the three broad categories of assessments about the current economic sitation in China:

One, contrary to popular perception, the Chinese economy is not slowing down – rather the growth is shifting from the manufacturing to the services sector.

Two, the slowdown and the complications created by the asset bubbles that have been created, which we are witnessing, is a transient phase.

Three, and this was closer to Dr Subramanian's analysis, the problematic aspects of Chinese politics – anxieties about the anti-corruption movement of the Chinese government, and the greater centralisation of power – and its economy, are coming together to worsen the situation and the contradictions are appearing more frequently. However it was important to understand that China is a different kind of emerging economy, with huge reserves to cushion the shocks and so the usual explanations for crash landings, need not necessarily apply.

Commenting on the current situation in the Chinese economy, Dr. Subramaniam opined that the Chinese model was probably running out of steam, given the massive capacity that had been built up, and expansion of credit to the tune of around 250 per cent of the GDP. Secondly, while China's manufacturing was slowing down, there was a turn towards less investment and more consumption. But the reallocation of resources that would be required was truly enormous and could lead to turmoil. In this context the importance of political institutions was tremendous. In his view, China was too rich for the level of its political development whereas India was too poor for the level of its political development. However, China would continue to rely on trade. China is also becoming a hub of 'criss-crossing globalisation'.

Dr Subramanian was doubtful whether China would be able to provide Global Leadership, which imposes a massive fiscal burden, that may not be of immediate gain to its national economy. The IMF, he said, has been baised towards advanced coutries and he took a critical view of the unwillingness of the US to reinforce the development of multilateral institutions. China, on the other hand, moved swiftly to reddress this underrepresentation of   developing countries with the creation of the AIIB. In this context, it was interesting to see the US' own attempts to enter into new trading arangements, with China keen to come on board.

Insofar as India's repsonse was concerned, Dr Subramanina felt that India should strengthen multilateral institutions and with specific reference to the AIIB, work towards making it as universal as possible, or as he put it, 'multilateralize China's regional initiative'. He also believed that India had an 'unambiguous' self-interest in supporting China's efforts at internationalising the RMB, since it would both open up and tie China down. Finally, as regards India's trade strategy vis-à-vis China, he said that the two countries had many commonalities and shared an interest in pushing a global agenda for a Clean Coal strategy. By way of concluding, he refererred to the question whether the Chinese model could work for India and said that India has a lot to learn from China, especially its Geo-Economic Strategy. 'India should seek to emulate the Chinese model of development that is based on exports and building reserves', – and quoted the noted Indian economist Vijay Kelkar that 'the best foreign policy is 10% growth'.

In his remarks, the Chair Dr. Muchkund Dubey said that days of China's spell of high growth fuelled by excessive credit are over. It is now faced with huge regional disparity and had launched its 'Western Development Program' which entailed massive public spending on infrastructure. Prof Manoranjan Mohanty remarked that with evolving multilateral formations, countries of various sizes have opportunities to intervene. Answering a question relating to India's relatively low share in the global value added chain, Dr. Subramanian said that South Korea and Taiwan will suffer to varying degrees, as these countries are connected with China's value added chain - however, there will be no immediate loss to the Indian economy. A participant from Arunachal Pradesh raised the matter of the easy availabilty of Chinese exports as compared to consumer goods from India, to which Dr Subramaninan said that connectivity between the Northeast regions and the rest of India needed to be improved. On the economic dimensions and implications of China's 'New Silk Route' initiative, Dr. Subramaniam took a supportive stance, saying that it would improve regional connectivity among prospective partners.

Prof Ashwini Deshpande, (Delhi School of Economics) and Honorary Fellow of the ICS thanked the speaker and audience for their contribution to the quality of the discourse and policy discussion.