



# INSTITUTE OF CHINESE STUDIES

## **China's Rise and its Implications for the World**

**Speaker:** Prof. Krishna Palepu

**Date:** 13 December 2018

**Venue:** Conference Room I, India International Centre

The chair for the session- Ashok K Kantha introduced speaker Prof. Krishna Palepu and also referred to the timeswherein during the India Forum on China held in Goa when the speaker spoke on innovation drives of China. Prof Palepu began his presentation by stating that China's rise, transformation and what happened in the last four decades, led to the transformation in all aspects regionally as well as globally. Later this month, China will be celebrating the 40<sup>th</sup> anniversary. It is symbolic because of change in polity. One thing that came up is the US-China trade war was not just trade but larger contestations and how their relation is undergoing a fundamental shift. He quoted Yan Xuetong who opined that the world is moving towards a bipolar arrangement and has suggested that in this bipolar arrangement, China will adopt a two-track policy-one with India and one with the rest of the world. Palepu suggested about discussions going on in China- the concept making rounds in "Wangtou" benevolent and legitimate hegemon dominant power- providing public goods for the acceptance of the leadership of the existent political party. Prof. Palepu claimed that he is not a China specialist but a comparitist. He focuses on emerging economies and markets. He compared China's to that of other economies. He has a ground level, micro understanding of China.

Prof. Palepu stressed on the importance of having a strong understanding of the historical background before discussing about the present developments. One of the questions he

raised during the seminar was “How China became the second largest economy in the world in such a short span of time”- According to him, this needs to be analyzed from the Chinese lens/perspective. He said that the Chinese people had an income which rose from 300\$ to 8000\$ and this could not have happened if their productivity was not increased. He opined that the Chinese government believed in converting people into assets rather than a source of liability. And this is how China was able to achieve such a level of productivity in a span of forty years. People cannot be productive if they are not healthy. Thus, investing in basic healthcare systems is important. Investing in education, to get massive number of people to be a productive workforce was crucial. Providing them with technology and tools was important as well. Construction has been a major driver of China’s growth. Liberalizing value chains has been done well by China. Infrastructure is also an important component. Fundamental economic started with market sensitization. According to him, a well systematic approach will also lead to productivity. Thus in India: health, education and technology need to be given utmost importance to ensure productivity and growth.

China controls the banking system and derives its resources and invests in the sectors it prioritizes. Chinese labor productivity is increasing every year and the compounding effect is amazing. Capital productivity, China has been poor. Chinese are savers but their savings are controlled by the government which then uses it for strategic purposes. Will and scale are also important factors. Only way to build scale is when one focuses on exports. China’s wage growth is contradictory to the productivity growth. If there is 8% productivity, 4 will go to workers and 5 will go to customers. Thus, the workers are at a loss wherein the buyers are at an advantage. In China industries are thriving- increased the standards of living of Chinese but laid down challenges.

According to the speaker, Japan, Korea and Taiwan have been using this model, adapted also by China as well. China is integral to the rest of the world and not a standalone economy. (Supply chain, consumption patterns). The purchasing power has been subsidized largely by the Chinese government. China is not in isolation in any pocket. Another angle that integrated China to the world is human capital development. China destroyed huge amount of everything before it could

capitalize. And now, they are capitalizing on the foreign help. A large number of Chinese students are studying abroad for education and later absorbed back by China.

Prof Palepu claimed that the challenges ahead of China are- related to human productivity that has its limit. Thus, at some point since the double digit growth cannot be sustained but some room is left since a large no of people are still not part of the larger economy. Second point is, the way capital is mobilized for the growth story in China, the capital market has now been stunted. (India has developed faster in terms of market capital). According to him, when the economy starts becoming risky, and moving up the value chain, it has to reflect on the finance chain. But the Chinese economy is not able to supply equity. State owned banks are also not very equipped. As a result there is mis- accumulation of capital and other issues and thus China is regarded as a ticking time bomb. He opined that the return capital is an important factor, which would affect the savers.

China has built human capital for innovation. There has been an insurgence of students in Chinese universities. But, human capital is not enough. Prof. Palepu juxtaposed that if a country has a repressive political system it is hard for people to think out of the box. Innovation is harder. One has skepticism that China could lead to production to innovation. Ground level evidence is large level of positivism. Alibaba, Tencent, Huawei are world class. All of them are business model innovation except for Huawei. There are actually places where market led innovation is prevalent. Cell phones created via innovative business models in China have had a spillover effect in India. Infrastructural equipment companies such as Umatsu and Caterpillars were not chosen. Sanyo is the largest equipment producer today which has a plant in Pune. Technology led innovation is much less impressive. The progress in AI Robotics, semiconductors are impressive but ground level is still questionable. One stark difference between Japan, S.Korea and China is Japan and S.Korea decided to focus on their economic development at the expense of throwing their weight in the international platform, they have become economically benign powers. S.Korea and Taiwan at this time started moving from autocratic to democratic after they adapted China's model of growth. But Prof Palepu said that China has made a different choice. The political system has become more controlling and repressive. China is positioning itself as a strategic rival vis-a-vis US. According to him, when China was admitted into the WTO, trade in general has been asymmetric the rest of the world though they are investing in china but did not

work that way. China is a communist country and a strategic rival (especially as interpreted by the US) is raising eyebrows among people. Prof. Palepu professed that China will use 40 years anniversary and negotiations with US to dial down its strategic aggressive.

In the Q&A there was an intensive discussion about how China achieved so much in such a short span of time as well as other questions were asked pertaining to the challenges faced by China and how other global powers and countries should interpret China's rise.

*This report was prepared by Prarthana Basu, Research Assistant, ICS.*