

Competition for Supremacy Between US and China : An Analysis

Shri JK Dadoo, IAS (Retd)*

Abstract

Jeremy Friedman, in a Harvard Business School case study, analyses as to who will be the world hegemon in future, as China becomes the largest economy in the world by 2030 according to various experts. German Foreign Minister expects China to “put its stamp on the world”. Prof. Rawi Abdelal of Harvard Business School, studying the above case questions Chinese capabilities to become the world hegemon in view of its autocratic leadership. However, if several data points are examined globally, increasingly China is seen to flex its muscles worldwide. It boasts of being the largest factory of the world and gives enormous indications of dominating this universe with economics, technology and demographics.

Introduction

In 2007, China became the largest exporter in the world. Four years later, it turned out to be the largest manufacturer on the globe. This rapid incline will only stop when China beats United States (US) in GDP, which is considered the holiest of hegemon indicators. Experts believe that this is likely to happen in 2030, by which time China would have gained world ascendancy.

The crucial question is what are the indicators to decide who is the world's hegemon? While GDP serves as a benchmark, a penetrating analysis will need to look at several indicators to grade world's number one. With every passing year, China is adding titles in various indicators and, therefore, inching closer to the target of ruling the world in the near future. This is further elucidated in succeeding paragraphs.

*Shri JK Dadoo, IAS (Retd) is an alumnus of Indian Institute of Management, Ahmedabad. He served the Indian Administrative Service for 34 years and retired as Secretary to Government of India and Chairman, Delhi State Civil Supplies Corporation.

A Look at Various Indicators

Mobile phones are ubiquitous. China today is 11 times bigger than US in terms of share of mobile payments, due to its very large population compared to US. It has invested \$ 180 billion to deploy 5G network in the next five years. No other country can match this size.

New conglomerates are emerging in China every year, at a pace faster than anywhere else in the world. Experts, therefore, deduce that the day is not very far when China's economic might will become its stupendous strength to run the world.

In artificial intelligence, experts are of the view that China will be the forerunner by 2030. Already, in facial recognition technology, it is world's number one. It claims to have the largest number of smart cities and automotive cars. The title of big brother worldwide, it is felt, is no longer elusive for China.

By 2030, world's population is likely to rise from the present 6.5 billion to nearly 8.5 billion. Severe constraints on global food supply are likely to arise. The famous Science magazine predicts food riots in future. Here too, China is expected to become the world's largest supplier of food, enabling it to dictate terms and prices. It boasts of lifting 800 million people above the poverty line, with adequate food supply to feed its population. A day is not far when it will feed the whole world.

To demonstrate its trade might, China held an International Trade Fair in November 2018. The idea was to challenge all countries of the world to come and display their products and bridge their trade deficits. Each of these offerings had to compete with Chinese products. Sitting on \$ 3.16 trillion of foreign exchange reserves, China could afford to do this. No other country is even close enough to challenge the foreign exchange potency of this country. The response to the fair was lukewarm as penetrating the Chinese market was not easy.

Yet, China is likely to become the largest global buyer by 2022, demanding goods and services worth \$ 10 trillion annually. The only country with which China has a trade deficit today is South Korea. Imagine, countries wanting to sell to China to tap its enormous market, and not able to do so, competing on prices and quality. India has a trade deficit of \$ 58 billion with China. As the

only other developing country which can ever come closer to China, it is not in a position to bridge this trade gap. Trade experts believe that if Regional Comprehensive Economic Partnership (RCEP) fructifies, the trade deficit with India may touch \$ 100 billion as lower tariffs would have to be offered to China, and this would give legitimacy to the large magnitude of dumping operating today.

One indicator of trade supremacy is the number of containers which a country possesses to execute foreign trade. China leads from the front with 234 million containers which is four times the size of US's strength. As a result, one third of global container traffic is in China, 20 times bigger than India. It is clear that the future hegemon will control the tentacles of sea trade worldwide by the sheer size of its receptacles.

Skyscrapers indicate skyline of the country. 89 skyscrapers were completed in 2018 in 34 cities, surpassing the total number of skyscrapers in New York. Out of these, only 14 were in USA with nine in New York alone. 60 of the 89 skyscrapers were in 10 cities of China which is a clear evidence of how fast the Chinese cities are growing. And if you look at the spread, remaining 29 skyscrapers were in 24 other cities of the world. Undoubtedly, China is growing in all directions.

In drone delivery, China has already acquired second position in the universe, integrating it with the distribution channels of trade. China today delivers goods to thousands of villages using drones in far flung areas. Chinese experts believe that the target is to service the entire population of China by drones to ensure quicker and faster delivery of goods and enable better and higher standards of living. Online rural retail touches the lives of 600 million Chinese daily, with a total business size of \$ 180 billion. This is seven times the size of India rural retail. China's growth story, therefore, is trade based largely.

Five top US companies, known by the title of FAANG (Facebook, Amazon, Apple, Netflix and Google), are competing with the largest four firms of China, popularly known as BATS (Baidu, Alibaba, Tencent and SNP). One yardstick of world hegemon is who overtakes the other. A stray example of this is that Amazon pumped in \$ 5 billion investment in India. Promptly, China matched it by an \$ 8 billion investment through Alibaba.

Global market supremacy is, therefore, becoming another engine of hegemony. Another example is traditional bicycles including e-bikes. China caters to 30 million bikes domestically, but in an effort to capture the world market, it exports 80 million bikes to all corners of planet earth. These examples will multiply every year and become a yardstick to decide who rules the world.

In terms of rare earth production, which is vital for manufacturing sensitive products, China controls 85 per cent of the world supply. US is trying hard to drop its dependence on Chinese imports, but China is merrily buying mines of important metals wherever it can lay its hands. Whether it is graphite or vanadium or cobalt, required for leadership in battery production globally, China has a clear lead. Undoubtedly, it has become the largest manufacturer of lithium ion batteries which will fuel all electronic vehicles and several electronic products in the future.

In ocean wealth tapping, China is scouting for fist sized mineral nodules in Clarion Clipperton Zone, reports the Economist. This area is the richest source of ocean wealth with huge reserves of nickel, cobalt and manganese, five km below the Pacific Ocean. Other countries are still searching for the elusive gold, diamonds, iron and copper, little realising that these are no longer the metals of the future.

US opened its gates for 75 million tourists last year. China has already attracted 61 million tourists despite being a very late starter. Its tourism revenue touched \$ 640 billion and as it gains ascendancy in several world parameters, it will become a beehive for tourists.

The traditional GDP yardstick is also being breached by China, as it is estimated that by 2030 China will contribute 35 per cent to the world's GDP. It has 100 cities with one million or more population today and three out of eight cities in the world exceeding 10 million population. By 2025, China is expected to have 221 cities grossing population beyond one million. At that time, this would be about half the number of cities globally with one million plus population – 500 cities to be precise. Just seven Chinese cities namely, Shangou, Suzhan, Hangzhou, Wuxi, Nantong, Changzhou and Nanking account for GDP of \$ 2.6 trillion, which is equal to India's GDP with 5000 towns.

Looking at the top seven airlines on earth with revenues in excess of \$ 15 billion, Visual Capitalist reports that US is one ahead of China. Air space will be breached by China through cheap fares, and air travel predominance will also pass on to Chinese carriers, in the next few decades.

World's financial currency USD is anathema to China. Accordingly, it is reducing dollar's international supremacy wherever it can. One example is that China is arm twisting Saudi Arabia to quote its oil prices in yuan. This, Prof. Friedman, in the Harvard Business School case, concludes, it will be a crucial blow to the US and its dollar heritage. China is doing yuan based deals with several countries. All future oil contracts are being attempted in yuan. President Xi and President Putin are romancing to put dollar to shame. Examples of this abound including, Alibaba developing Russia's e-commerce market; Siberian natural gas pipeline assuring large supplies to China; and continuation of Liquefied Natural Gas (LNG) supplies to China from Russia, all happening in bilateral currencies and not the dollar.

China is also not happy with US control of the World Bank and the International Monetary Fund (IMF). It has begun the Asian Infrastructure Investment Bank (AIIB), drawn on the support of 57 member countries and created a capital base of USD 100 billion. This bank is funding infrastructure projects in Asia including the massive Belt and Road initiative of China, which will open transport links within Asia and Africa. China has committed \$ 300 billion to this project which has a projected trajectory of \$ one trillion. If China succeeds, it would have gained clear ascendancy in these two continents.

Economist reports that China wants to become a leading scientific power. In the first 16 years of this century, China's R&D expenditure has jumped 10 times resulting in several firsts for the country. Today China has the world's largest radio telescope and the world's largest particle accelerator. It has the world's second most powerful super computer. It is one of the few countries to have underground neutrino and dark matter detectors. It has created a new anti-malarial drug and started the world's largest genome sequencing centre. It is the first country in the world to send a quantum encrypted message via a satellite. It has become the biggest nuclear power producer, adding 15 nuclear reactors to

its strength of 43, and not stopping before putting 43 more as work in progress. China did 38 orbital launches in 2018 surpassing 34 of US, thereby creating a real threat in the space of Space. The Commercial Aircraft Corporation of China is making C-919 commercial aircraft to replace Boeing 737 in China. If they succeed effectively and efficiently, they would have hit the monopoly of Airbus and Boeing for decades to come. The writing on the wall is clear – science is an important part of the hegemon planning process. China showed that it wants “half the moon”, when it landed its spacecraft in January 2019 on moon’s earth facing side. How and how far this scientific conflict will grow, between the two giants, remains to be seen.

Trade war began between US and China with additional tariff of 25 per cent on \$ 50 billion worth of goods imported by each other. It has further escalated with additional tariffs imposed by US of 15 per cent on \$ 200 billion worth of Chinese imports. Retaliating as best as it could, China has increased tariffs on \$ 60 billion worth of US goods, including natural gas. As against additional tariffs of \$ 250 billion of Chinese imports, the retaliation is on \$ 110 billion of US imports. The crucial equation here is that \$ 525 billion of Chinese imports support 25 million jobs in China, causing huge implications. Comparatively, any effect of Chinese imports is only on one million US jobs. This trade war is a war between two giants because trade between China and US is \$ 2 billion daily. Chinese exports are now dearer by 25 per cent on a total value of \$ 560 billion. Even if China puts additional tariffs on 100 per cent of US imports, it will be able to touch only \$ 180 billion. This trade war is also an important indicator of the power of the hegemon today. China calls it “naked economic terror”. Economist reports that “economic iron curtain” is dividing China and US very badly and this war may escalate dangerously. IMF warns that global economic production may reduce by 0.5 per cent in 2020 due to this trade war. China is already facing a domestic deceleration. How the trade war fans out in the future is anybody’s guess, but it has sent a shiver down the spine of all financial markets in the world.

US considers China to be the most comprehensive threat because the ‘Made in China 2025 Plan’ encompasses building world class firms in 10 high technology fields. US feels that crucial technologies, like chip making and 5G, have equal implications for trade and national security. US accuses China of hacking and

stealing secrets in several sectors like aviation, space, pharma, oil and gas, maritime and other technologies. It is clear that the world hegemon is sensitive to its exorbitant threat from China, and wants to contain it in all possible ways.

Prof. Friedman, in his Harvard Business School study, focuses on the power of US as a hegemon. After the First World War, US developed the largest financial muscle with dollar as a reserve currency. It also amassed enormous global security power through 800 military bases in 70 countries. China is far behind in this race as its military spending is one third of US. However, China cannot be kept down as it prepares for a real comparison through its blue water navy in 2020.

Prof. Abdelal has other issues for China. He calls it an autocratic leader creating global mistrust by curbing human freedom. Its focus on bilateral trade is against the principles of globalisation. It is encouraging fear in Asia and Africa and infringes the territorial integrity of its neighbours. Hence, its global economics and dynamics will prevent yuan from ever becoming a reserve currency to threaten the dollar.

Conclusion

Prof. Abdelal, concludes that US must counter balance China with the help of India, Japan and South Korea, especially in the five forces that matter the most namely food, water, environment, skill sets, and technology to harness outer space. His telling comment is that conscience and concessions are both required to become a world hegemon and China has none.

The world has to wait and watch the next decade to decide the next hegemon.