

## **Eclipse: living in the shadow of China's economic dominance**

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Guest speaker **Arvind Subramanian**, Senior Fellow at the Peterson Institute and the Center for Global Development, discussed his new book: **Eclipse: Living in the Shadow of China's Economic Dominance**.

**André Sapir**, Senior Research Fellow at Bruegel introduced Prof. Subramanian.

Prof. Subramanian began by discussing the change in convergence<sup>1</sup> rates across time. The predictions of the book are that: the rise of the RMB is conditionally imminent; the dominance of China is imminent, larger, and broader in scope than predicted. Prof. Subramanian poses the economic worry that the current open economic system may not survive the rise of China, and argues that we need insurance in the form of a return to multilateralism to survive this rise.

The book discusses the vulnerability of the US to the repeat of a Suez-type episode (where the English-French-Israeli invasion of Egypt over the nationalization of the Suez was resolved partly due to pressure from the US sale of sterling which caused devaluation of the currency). In order to quantify the vulnerability, Prof. Subramanian used three determinants of economic power: GDP, trade<sup>2</sup>, and external financial strength. He asserts that the conclusions in the book are more radical but the assumptions were conservative.

Although China will have a standard of living which is 50% of the US, a very rich middle income country (not the richest) could still be dominant due to its size. We are looking at G1 except the identity is no longer the USA but China. Prof. Subramanian predicts that the RMB will become the premier reserve currency in the next 10 years or soon after. Although the GDP of the US passed that of the UK approximately 50 years before the dollar overtook the sterling, if the power calculation is used instead of GDP, the lag would only be around 13-15 years. In addition, the US share of GDP to labor has collapsed over the last couple of years. China's convergence is far from finished but relies on an open system and on trade, unlike the US after World War II.

We must think cautiously about bilateralism against China. If China does to others what others would do unto it, we could end up with a much fractured system. Although Western powers need multilateralism as a protection against assumed unbenign hegemony, China's rise could be a good thing if it funds borrowers such as Greece, Spain, Portugal, etc. Should debtors still have the power of veto in the IMF? Debtors can't call the shots and thus China needs to gain veto power in exchange for becoming the world's largest creditor and possessing the reserve currency.

Next, **Pierre Vimont**, Secretary General of the European External Action Service, commented on the presentation. Mr. Vimont expressed concern that new powers in the IMF may be the beginning of trouble. He asserted that China can't go on with what they are doing in Africa and South America, looking only after their own selfish interest, and getting away with it for much longer. What happened in Libya is seen as revenge by Britain and France. People will not watch the rise of China without political reaction on protecting ourselves against this global economy which is destroying our jobs. Innovation remains something that may be a weakness of China, where it is copying innovative breakthroughs of other countries.

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<sup>1</sup> Faster growth than the USA

<sup>2</sup> Determinant of economic power and vulnerability

## Discussion

André Sapir chaired the discussion, agreeing that multilateralism may be an idea for insurance but who is going to provide the leadership for the multilateralism? It is a circular argument to say that the new dominant player should command itself. Europe is genetically multilateral but does not have the ability to give this leadership, where the US gave it before.

Jean Pisani-Ferry then commented that the horizon still has many multiple powers rising which is much different than a substitution of one power by another. There could be a very new situation in which one country may be no more dominant in terms of sheer power but may be much ahead in terms of innovation/lifestyle due to GDP per capital. The thing about debtor countries is not correct. The EU is not, as a whole, a debtor, just in terms of capital outflows within Europe.

Other participants raised issues concerning domestic issues in China which may conflict with the book's predictions such as: problems with censorship, political instability, intellectual property, demographics, water, etc. China is also outsourcing tremendously. China will be busy with itself for a long time.

Prof. Subramanian responded that although China may be way behind on openness, government support for innovation is way ahead – for example on the green side. In addition, China has a narrative of “never again” with regards to impacts due to crises in importing countries. The question is, if there is political change, will it be trouble-free or will it be a collapse? Can this be a managed process? As long as there are not overpowering domestic issues, it will be able to contend with both. Prof. Subramanian also expressed that he recently learned that China was dominant between 500-1500 AD and thus for China, the view may be that this was only an aberration.