

Does the Dragon Really rule the Roost?

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In august 2010, all national dailies literally shouted about a development which sent jitters across almost all the developing and developed nations in the world (particularly India).

“China overtakes Japan in the list of the topmost economies worldwide, expected to catch up with uncle Sam’s economy in the coming years”

The only spot where India appeared in this whole equation was the subject of the newly intensified threat that India faced from China in matters of territorial politics or influence over other South Asian countries. But is the dragon really that powerful that it can keep growing infinitely without any stumbling blocks in its way?

A lot has been written about the subject by authors who have far greater expertise in such matters than me and therefore, it would be no less than a cliché to put forth a chart describing the growth(or should I say boom) of the Chinese economy. Of course China had a 6.1% growth rate in the 1st quarter of 2009, it managed to cope really well with the global financial crisis, with its excellent foreign exchange reserves (over \$2 trillion) acting as tool for balancing the gradually drooping western economies. Its domestic savings rate of over 50% has elevated it to the much desired rank of the ‘manufacturing Mecca’. True, India has not been able to have a spectacular growth rate vis-à-vis China but the fact that we tend to overlook is that China was ahead of India by 25 years in revamping its economy. A member of the commerce ministry of the republic of China, Yao Jin remarked at the news of the Chinese economy growing leaps and bounds by saying that ‘China remains a developing country. The quality of China’s economic development still needs to be raised.’ As a matter of fact, the truth lies within the modest comment. Although, the Chinese economy has a balance of payments surplus, which as it has been already mentioned, it took advantage of during the global economic meltdown, it still ceases to have 40 million people below the poverty line underlining the fact that China’s economy depends on Exports, unlike India, where the economy is dependent upon on domestic consumption. It’s rapidly ageing population and the undemocratically enforced Child policy eliminates a huge portion of its possible demographic dividend as well. This again, is unlike India, which has a younger workforce, more of an asset than a liability. In a recent report it has been highlighted that imports in India have surged, putting a negative impact on its superbly influential foreign exchange reserve. That, of course does not imply that trade with China makes a mammoth sized impact on the exporting nations. GDP as the exports are hardly more than 5% of this nation’s aggregate output.

What gives China the ‘power of enormous financial reserves’ is its exports and what actually has led to the demand for Chinese goods, is its policy of Currency devaluation. Naturally, this is unethical in the foreign exchange market and the dragon can’t continue with it for too long. At the same time, the onset of property boom has put the government

in a fix i.e. to appease the rich and the elite or be generous and philanthropic towards a massive population of it's not so well off citizens. Large scale underemployment in both rural and urban areas, rapid deterioration of the environment due to a huge expansion in infrastructure, Jintao's focus on the remote, backward areas rather than the comparatively advanced ones has stirred a social unrest. These issues, in addition to the large scale liberalization of thoughts and values have paved the way for democracy and are a potential source of the breakdown of the communist regime, whose strict and efficient governance keeps the capital safe and the investors interested. Scarcity of an English speaking workforce as well as government's failure to curb piracy has kept the information sector, particularly the software moguls out of China for quite a while and the saying goes, 'one's loss is another's gain', such companies absolutely fawn over India.

Furthermore, China's state directed capitalism, where in the prices of certain key commodities, especially industrial raw materials and major industrial products are determined by the state, has made the entrepreneurs state patronizing and this very idea limits the scope for a free process of globalization. The point is that although China has suffered from fewer setbacks than any other economy recently and that development in China faces a fewer bottlenecks, but that does not make China the most spectacular economy or the global power structure. Like every other economy, it has many problems making its road to development (which is already well structured and well controlled) very restricted and narrow (thanks to the rampant censorship laws). Unobtrusively, it is not the boss out there, as many have pointed it out to be and even if it attains those heights, it won't stay there for long.