

BiPolar World Order: 2020-2035

Dr. Arvind Virmani
Chairman EGROW Foundation
President FSI, Delhi

(Follow on Twitter @dravirmani)

Introduction

- Papers, book (2004 to 2009), Author Projected
- Unipolar (1990) => Bipolar World (2025)
 - Changes driven by Ec Gr & founded on Ec Power
- Multipolar Transition (economic multipolarity)
- Recent Developments, Actions & Reactions, have started fleshing out the nature of this 21st C Bipolarity
- Why & How this has happened & its Implications
- Key Developments:
 - Global Financial Crisis: GFC
 - China's Understanding of GFC & its reaction: G2
 - USA Counter reaction

Multilateral Transition I

- US, Developed countries (DC) gave **Carte Blanche** to Communist China (1990+) on unrealistic assumption that this will help make China into a free market open democracy (like other E & SE Asian countries).
- Communist Party of China (CPC) played along with this **Illusion**, to maximize the growth rate of the Chinese economy (Avg 10% for 35 yrs).
- CPC Created an Institutional Mask, Puppet Institutions which look superficially like similar ones in rich countries, but are not (Laws, Courts, Private Cos) as the attached strings lead back to CPC leader

Multilateral Transition II

- Illusion become a **Delusion** because of failure of DC Intellectuals, Experts and Business to understand
 - Communist Party Dictatorship: Communism with Maoist Characteristics (V different from Stalinist Centralization or Communism with Russian character)
 - Imperial history as Foundation of Communism (Communism with Chinese Characteristics)
 - Non-Market economy run by CPC: **Unfair Trade (NTB)**
 - Difference between Public & Private goods aspects and between Monopoly & Competitive aspects of technology
 - Wide & Deep (comprehensive) **Technology Theft**

Bipolar World Order Emerging

- Global Financial Crisis
 - Deceleration of demand in all DCs,
 - Growth collapse in Euro Area.
 - Chinese Export collapse & growth deceleration
- Underlying Economic Developments
 - Globalization pre-GFC
 - China appropriates incremental gains
 - De-Globalization post- GFC
 - Chinese pushes ahead despite losses
- Geopolitics: Blunt & aggressive leaders
- Xi(G2,ECS, SCS, MIC2025), Trump (Tech & Trade)

Fig 1:China GDP Gr; Soft Landing?

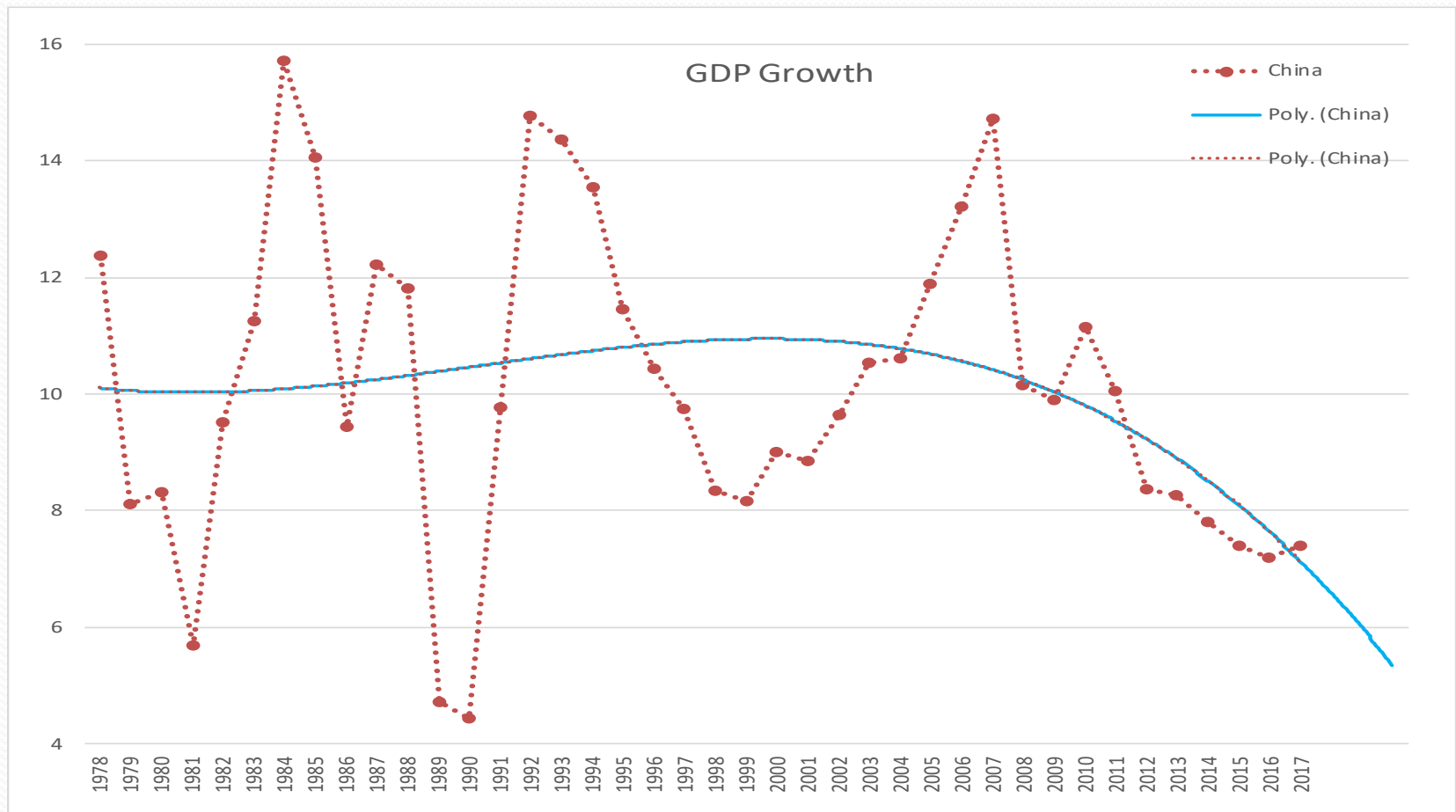


Figure 2: Globalization of International Trade

Post war Globalization Era (1990s & 2000s): Global Trade/World GDP rises dramatically .

Export Oriented Economies (Export Promotion-EP) benefit enormously (China, E Asia, Germany, SE Asia).

Era ended with GFC 2008 (Trade/Gdp peaked in 2008).

Export led Growth model which flourished, is now at disadvantage. Countries with Neutral trade policy better positioned to continue growth

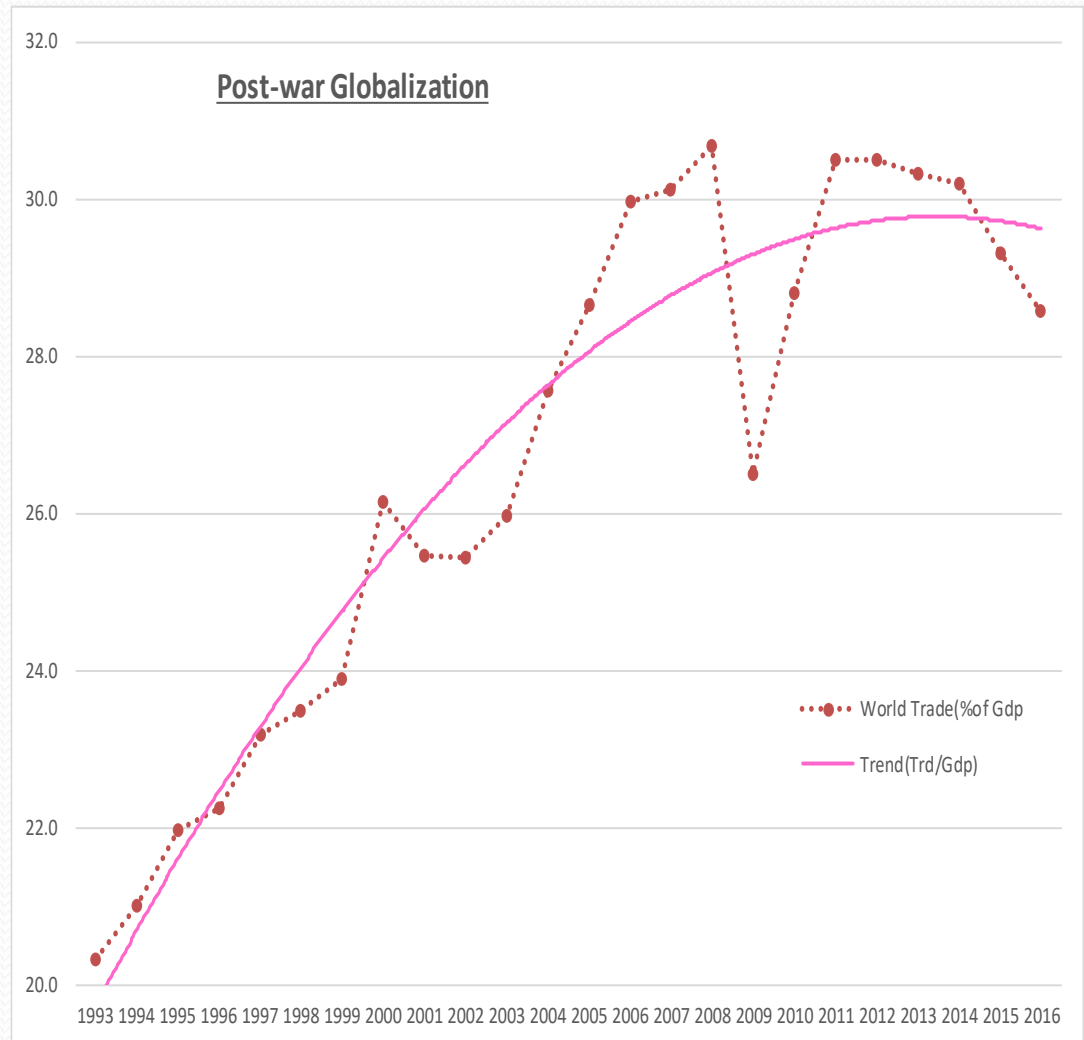


Fig 3: China Merchandise Export share

China continues to pursue export led growth (EP), supplemented by Import substituting (ISI) growth. China had marginally lower export share than Germany (8.9%) in 2008.

China becomes largest merchandise exporter in 2009 & increases its global export share by 54% to 13.7% by 2015.

Resistance builds in affected countries, particularly USA, exploding in latter just after China export share peaks in 2015. Declines by 1% point in next two years.

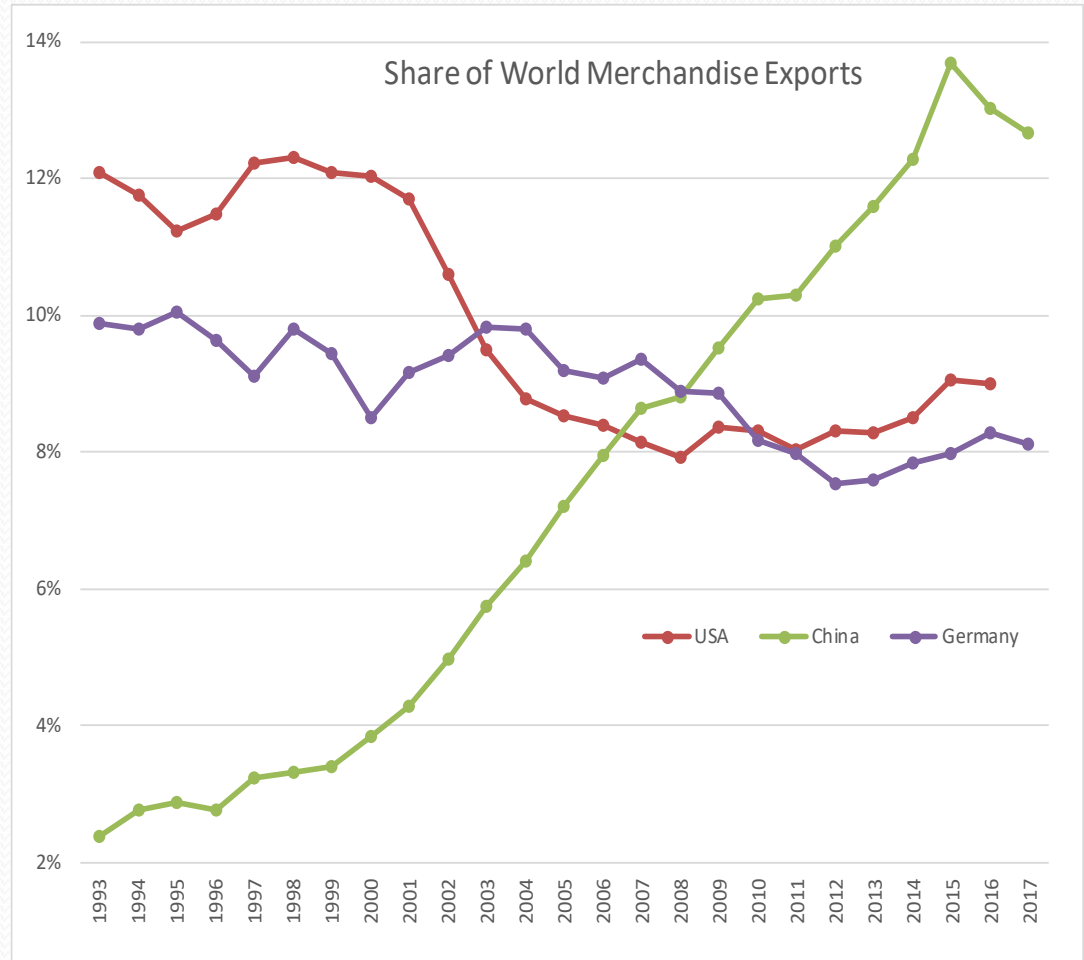
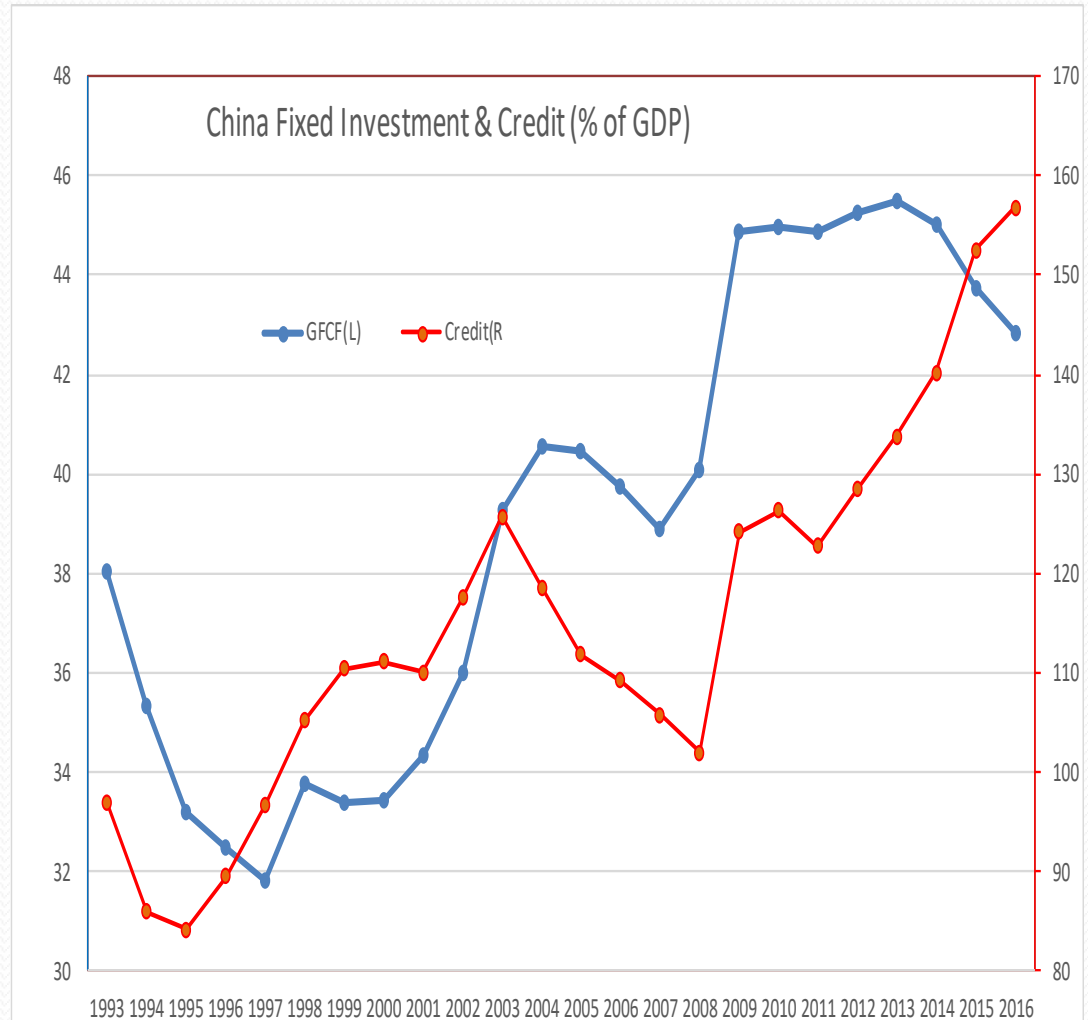


Fig 6: China: Credit fueled Investment

The enormous increase in credit (% of GDP) since the GFC 2008 has been noted by many (red, R scale). With variable lags it is correlated with (GFCF) fixed investment (blue, Left scale).

Pre-GFC credit led GFCF suggesting demand factor;
Post-GFC credit leads GFCF suggesting credit supply driven effort to sustain investment.

Credit worked best during the crisis in pushing up investment (2009), it was able to sustain investment rate till 2014. Since 2015 its become ineffective in sustaining GFCF



Tariff War: India Opportunity

- Higher USA tariffs on Imports from China=>
 - Trade Diversion to India & other Asian countries
- Higher Risk and Uncertainty for FDI in China
 - Shift of Supply chains to India: LI goods
 - Indian Wages much lower than China
- Technology Theft Sensitive Investment: SI goods
 - Rule of law & legal security
 - Availability of high skilled persons
- Rfrm EXIM policy(QRs), Import tariffs, Export duties
- External EoDB: Digitize & integrate: Customs, RBI payments systems, Bank Credit to exporters, GST
- Labor Flexibility: Simplify Labor rules, procedures
- RCEP => TPP11

Impact on China

- China's sustainable growth rate is 4.5% to 5.5%
 - GdpGr 5% (I=30%, C=55%, G=15%, X-M = 0% of Gdp)
- Domestic Credit bubble burst & “Tariff War” (trigger) likely to bring growth down to ~5%
 - Short term pain for Asian economies dependent on China for intermediate & capital goods export
 - MLT: Excess Investment and Excess capacity in tradable goods will decline thereafter.
 - Good for India (& RoW) as Profitability of Tradable goods investment will improve.
- Growth rate will decline further as Tech bipolarity & partial economic de-coupling proceeds

Nature of Bipolarity in 21st C:

1) Bipolar Technology Regime

- Frontier Technology: R&D, Labs (govt & pvt), Startups, Grad students/Phd training.
- Defense Production & Strategic Technology: Deconstruction/Separation of Defense Supply chains.
- FDI in component goods supplier to Defence industry and Dual use technology firms, both inbound & out bound.
- Tightening of US IPR regimes wrt all of the above
- Indian Challenge heightened with respect to,
 - IPR pressures from USA & its IPR allies
 - Managing Defense Technology relationship with Russia

Nature of Bipolarity in 21st C:

2) Partial Trade De-coupling

- China & Other non-market economies & strategic partners (e.g. Russia).
- Market and Semi-Market economies
 - Most serious problem for capital goods and high tech exporter to China (eg Germany, Japan, S Korea, Taiwan) and intermediate goods & component suppliers (eg Malaysia)
 - Little problem for economies which are unconnected with China based supply chains and connected to US, EU etc.(e,g. India)

Bipolar To Tripolar: 2035-2045

- Indian Ec integration with Advanced Market econs
 - Focus: High tech & Defense supply chains
- Reform of STEM to promote Phd ed (Dom) & attract NRIs, PIOs, Pvt & foreign sub-contracting of R&D
- Defense R&D Commission (DRDC) with Mission mode development of Frontier/Strategic Technology
- Create Indian Financial (Payment) and Digital (Web) Systems(Hardware & Software)
- Create a rational Global IP structure (based on econ of Public goods, externalities & competition)

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