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China and South Asia- I

How the Collapse of ‘Chimerica’ Will Affect South Asia

India and Pakistan, the two large countries in South Asia, must work for the region’s collective good rather than moving closer to the United States and China, respectively, and promoting the interests of these two external powers, says the author.

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The main argument advanced in this paper is that the momentous change that is taking place in the global political and economic structures will profoundly affect the countries of the South Asian subcontinent. The most significant aspect of this change is the collapse of the marriage between the United States and China, a union which the

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historian Niall Ferguson and the economist Moritz Schularick once called “Chimerica”.² They saw them as two countries with interests so intertwined that a new term was needed to refer to them.

For more than two decades, Beijing and Washington enjoyed an almost perfect symbiosis. China used its enormous foreign exchange savings to bankroll consumption in the United States. The firms in China produced items of consumption for the US markets at prices that would not have been possible had they been produced in America. “Made in the United States” most often was not a viable option. China’s inward-looking foreign policy did not fundamentally undermine US hegemony. Beijing was more interested in pursuing abroad the policies its citizenry wanted – such as settling old scores with Japan – than in pushing for those the leadership considered to be in the nation’s long-term strategic interest.

The Beijing-Washington marriage was made in heaven. It accounted for around 13 percent of the world’s land surface, a quarter of its population, more than a third of global domestic product and about two-fifths of the global economic growth in the ten-year period before the beginning of the Great Recession of 2007-09. The association also had positive externalities for the rest of the world. Global trade boomed, and nearly all asset prices surged. But not all marriages remain happy; that, Ferguson and Schularick believed in a 2009 article, was also happening to Chimerica. Two years after they wrote the original study, they revised their view of the marriage. “While the temptation to continue business as usual might be great, it is ultimately no longer in the American interest to remain in such a dysfunctional marriage”, they wrote.³ China was also not prepared to play second fiddle. For instance, rather than using its cheap labour to produce lucrative products such as the iPhone and the iPad for Apple whose profits soared while the wages of its workers increased modestly, it sought to encourage its own enterprises to step in. Beijing encouraged the Guangdong-based firm Huawei, which has been

² Niall Ferguson and Moritz Schularick. “Chimerica and the Global Asset Market Boom,” *International Finance*, 10 (3) pp. 215-239, 2007.

³ Niall Ferguson and Moritz Schularick, “The End of Chimerica,” *Harvard Business School Working Paper*, 10-037.

extremely successful in making and selling smartphones that mimic the iPhone, to expand. It did, and the profits it makes stay home in China rather fattening those of the Seattle-based Apple. With the marriage dissolved, the two major powers struck out on their own.

What is of great concern now for the large global powers is: how will China use its economic strength on the world stage? Under the new leadership that assumed power in the spring of 2013, Beijing has become more assertive. President Xi Jinping has begun to talk of the “Chinese dream” by which he means recapturing some of the glories of old China. But that interpretation is too abstract by which to judge the intentions of the new leaders. The basic aim appears to be that the country must continue to advance its economy and reach the point where its citizens have comfortable lives. Relations between China and the United States will have enormous consequences for the world’s future. It could be argued that there will not be a repeat of the Cold War that ended with the collapse of the Soviet Union in 1991. Although the marriage has dissolved, China and the United States continue to have many common interests. “Today, it is their increasing similarities, not their differences that are driving the two countries apart”, wrote Mark Leonard in an article for *Foreign Affairs*.⁴

China has begun to move aggressively and decisively in asserting itself in the regions of great interest to it – Central and Western Asia, the rest of Middle East and Europe. One big part of this effort was the US\$ 46-billion investment programme in Pakistan as a part of what is called the “China-Pakistan Economic Corridor”. The announcement that Beijing would invest on this scale was made by President Xi Jinping during his visit to Islamabad in April 2015. “The decision to make such a high profile investment in its long-time partner is indicative not only of the enduring regional dynamics that have compelled the two countries’ alliance but also of China’s increasingly global ambitions”, wrote Louis Ritzinger in an assessment published by the National Bureau Asian Research. “The motivations behind China’s promised investment in Pakistan are

⁴ Mark Leonard, “Why convergence breeds conflict: Growing more similar will push China and the United States apart”, *Foreign Affairs*, September/October 2013, p. 125.

primarily three-fold in order of global relevance: providing economic support to a long term ally and strategic hedge, facilitating trade, and building linkages to the west by which China can expand its influence”.⁵

The United States was not inactive either. The Obama administration announced during its first term what it described as the “pivot to Asia”. That essentially meant refocusing attention from the Atlantic to the Pacific. A significant improvement in relations with India was an important part of this effort. New Delhi would help to bring about a balance within Asia with regard to the rising economic and political might of China. But Washington had assumed that the world would stay still as it made this Europe-to-Asia switch. The rise of Islamic extremism in the form of the Islamic State in Iraq and Syria (ISIS) was an unexpected development. The 14 July 2015 agreement with Iran to control the latter’s nuclear ambition was another game-changing event that will need Washington’s continuing attention towards the Middle East. The pivot to Asia may not work as smoothly as the policymakers in Washington had hoped.

In this whirlwind of change, how should South Asia conduct its affairs? It could act collectively which it is not always disposed to do. Or, conversely, the large nations in the area could adopt the narrow approach, acting to advance what they consider to be their own interests. The latter seems to be the approach they are taking.

Breaking from the past would require strong leadership, particularly from India, by far the subcontinent’s largest country in terms of both the size of its population and the size of its economy. It has also the region’s most robust political system.

For a few months after being sworn in as Prime Minister in May 2014, it appeared that the country had found a strong leader in Narendra Modi who arrived in New Delhi with an extraordinary mandate to change the direction in which the country was going. The electorate wanted to see changes in the way the economy was being managed and also

⁵ Louis Ritzinger, *The China-Pakistan Economic Corridor: Regional Dynamics and China’s Geopolitical Ambitions*”, The National Bureau of Asian Research, 5 August 2015.

the way external relations were being handled. By inviting all the heads of state and government in the SAARC (South Asian Association for Regional Cooperation), Prime Minister Modi seemed to be moving in the direction in which India needed to go. It seemed that he had joined the group of strong leaders around the globe that a series of unrelated political developments had brought to the fore. The group included Barack Obama in Washington, Xi Jinping in Beijing, Shinzo Abe in Tokyo, Vladimir Putin in Moscow and Angela Merkel in Bonn/Brussels. On a larger scale these leaders needed to act collectively rather than separately, much as the leaders of South Asia should have done. Unfortunately both groups are failing.

How should south Asia react to the ongoing and constantly increasing global change? “Collectively” is the answer. It needs to become more of a region than a bunch of countries thrown together by geography. In the SAARC they have a regional arrangement that can help them to do precisely that. Instead, India and Pakistan, the area’s two largest nations, seem more inclined to join other regional organisations dominated by other powers such as China than work on strengthening their own. Both sought and received membership in the Shanghai Cooperation Organization (SCO) which will further the regional interest of its sponsor, China. New Delhi, Islamabad, Dhaka, Colombo and Kathmandu should work together in a number of areas: security and control of terrorism, trade, investment, and connectivity are the four obvious ones. If that were done there will be a greater impact on the region than from New Delhi getting close to Washington and Islamabad to Beijing. By doing the latter they are serving the interests of the United States and China, not of South Asia. The region’s leaders need to show greater awareness of the change occurring around them and move in the right direction – right for the whole region.

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