

## **India and China - The New Drivers of Global Change**

**by Dr. Heinrich Kreft**

### **Preliminary remarks**

Historically speaking, power shifts between states or regions are rare, and where they have occurred they have seldom been peaceful. One need look no further than Europe for ample evidence of this. It is thus to be feared that the power shifts currently under way in the international system may not remain peaceful, since they require a balance to be struck between interests and politico-cultural traditions that could scarcely differ more. This is because primarily the populous states of Asia – i.e. China and India – that are now demanding a greater role in global politics and have thus started challenging the existing international order dominated by the Euro-American "West".

The nearly simultaneous arrival of China and India ("Chindia") at the forefront of the world stage represents a tectonic shift in global affairs with few parallels in history. Some commentators have compared it rightly to such a watershed event as the discovery of the New World. In the space of no more than a few years China has moved from the periphery to the centre of international economics and politics. The country is growing stronger not only in economic but also in political terms. While China's foreign policy mainly focuses on East and South-East Asia, the country is also evincing a growing interest in other regions such as Central Asia, the Middle East, Africa and even Latin America. India's economic transformation is at an earlier stage, but its economy is accelerating and it could even overtake China as the world's fastest-growing major economy in the next 15 years.

The impact of China's and India's rise can be felt everywhere. Their ascent - and thus Asia's as a whole - has just begun and if the two giants remain internally stable their growth is likely to continue for a considerable time. China's and India's economic and political rise will probably be unstoppable from the outside in the years to come – should anyone want to stop it – and so it is high time for us to study its potential consequences on the international system as we know it.

### **Driving economic change**

The rise of both China and – increasingly – India is creating enormous socio-economic adjustment pressure in both the industrialized world and in developing countries.

With 83 million workers China's industry employs roughly as many people as the principal OECD countries taken together. And more crucially for future development, there is an even

bigger "reserve army" of potential workers who have or are acquiring comparable skills, so it is unlikely that China's average labour costs will rise rapidly. China is producing 400,000 qualified engineers every year, in comparison to just 40,000 coming from Germany. Even though the average skills of a Chinese engineer are still inferior to those of his or her counterpart in Europe, North America or Japan, the pressure is also being felt ever more by high-tech industries outside China. The People's Republic of China is already the world's largest producer of personal computers and other apparently more sophisticated products. China is well on its way to becoming an advanced technological super-state, able to compete globally not just at the labour-intensive end of the product spectrum, but also at the capital- and technology-intensive end. European and other Western companies are already competing against Chinese companies, often those with state backing, on African infrastructure projects and the market for machine tools in Latin America to name but two examples. Even more important is the protection of intellectual property rights. According to some rough estimates as many as 70% of all pirated products are counterfeited in China, causing huge losses to predominantly Western companies. India's high-tech miracle is still gathering momentum. But Indian technology is increasingly at the cutting edge – not only cheaper than western products, but often better as well.

China's and increasingly also India's impact on the industrial sectors of other parts of Asia, Latin America and Africa is at least as great. Many low-skilled manufacturing jobs in Central America and South-East Asia have been lost to superior competitors from China and India, and for example Africa risks losing its only industrial sector of importance - the textile industry.

### **Driving the energy and commodity markets**

According to the International Energy Agency (IEA), China accounted for under a tenth of global petroleum demand, but accounted for slightly more than one third of incremental world oil consumption between 2002 and 2004, contributing materially to upward price pressure in the global markets. Similarly, China is the world's leading importer of iron ore, aluminium, and paper and pulp, and drives marginal global demand growth for copper, steel, and cement.

This rising demand for the energy and natural resources that China and India need to fuel their dramatic growth is leading the two countries to intervene ever more in various areas of world politics. Both are pursuing active strategies to secure energy sources and raw materials in Central Asia, the Middle East, Australia, Africa and Latin America and even in Canada – and are in the process competing with the US and Europe.

### **Driving global emissions**

China and India are now also world players who have a measurable impact on the global biosphere. Due to their sustained high growth China and India have joined the industrialized nations as major consumers of resources and polluters of the local and global environment. By 2015 China's energy demand is expected to roughly double, India's is to rise by 50 percent. China is already the world's second largest emitter of climate-altering carbon dioxide, while India ranks fourth in its emissions. In comparison with Europe, the United States and Japan, China and India have contributed little to the heightened carbon dioxide concentrations now in the atmosphere. However, their emissions have increased by 67 and 88 percent respectively since 1990, and their shares in world emissions are projected to grow steadily in the decades

to come, making it clear that no serious solution to the world's climate problem is possible without their active participation. China is said to be planning the construction of 500 new coal-fired power plants over the next 30 years and India about 250 to meet their rising electricity needs. (China and India also have large nuclear energy programmes, building up to 30 nuclear plants over the next two decades. These will of course produce no greenhouse gases, but are problematic for other reasons.)

### **Undermining "Western" policies**

Led by its economic interests, China has developed the closest relations maintained by a major power with a number of pariah states such as Zimbabwe, Sudan, Myanmar, North Korea and Uzbekistan, and until recently Saddam Hussein's Iraq. UN sanctions against some of these countries have been undermined by China. The large currency reserves held by China allow the Beijing government to offer loans to African and other developing countries such as Angola at favourable terms and without insisting – as for example European state lenders do – that these countries accept social, environmental, human rights or general good governance conditionalities. If China continues with such policies, it will prove even more difficult in the future to implement and establish universally binding human rights standards, as well as social and environmental standards.

### **China as a model for others**

China seems to be becoming a "soft power" as well. The country has over the past 25 years fashioned a very successful model for development and societal modernization, which is embedded in Asian traditions and is extremely flexible. It combines modern but authoritarian political leadership with state-guided (Manchester) capitalism. This model is highly attractive in some parts of the developing world and reduces the influence of the competing Western principles of liberalism, democracy and the free market. The "post-Washington Consensus" is being challenged by a "Beijing Consensus". At the same time the thinking of the relevant political actors in China and India is very much dominated by traditional concepts of sovereignty and the nation-state, even though both countries like to be seen to be heralding multilateralism. In this respect Chinese and Indian leaders may have something in common with some representatives of the Bush Administration, but they are still a long way from the European concept of delegating sovereignty to a supra-national body and from the concepts of effective multilateralism and humanitarian intervention so dear to many Europeans, Canadians and other Westerners.

### **Challenging the political status quo/Involving China and India**

If China and India can continue to grow at their current rapid rates, which is likely although not guaranteed given the huge challenges both countries face, the current global order will be turned upside down. The longer their growth continues, the less likely is that the current international architecture based on Western dominance under the quasi-unilateralist leadership of the United States will endure for long. The international architecture of the future will be more multilateral with a number of different centres of economic and political power. Many Asian countries are already bandwaggoning with China after Beijing started reaching out to its neighbours. As China's influence continues to grow, some of these countries are looking to Beijing for regional leadership or are at least attaching greater importance to China's positions

and sensitivities. Beijing's engagement in regional diplomacy in Asia puts it increasingly at the centre of all regional issues, bilateral and multilateral, and thus it is increasingly challenging the position of the US in Asia, for so long the guarantor of peace and development in the region. This new rivalry and the resultant jockeying for power and political dominance are likely to create the basic line of conflict that will characterize the international system in the decades to come. Some observers have drawn parallels with the bloc confrontation that dominated the Cold War and with the conflicts between the European powers that led to World War I. The crucial question is whether the West – led by the US and Europe – will find a way and the political will to gradually integrate China and India into a system of effective multilateralism, or whether the new order will emerge as a result of uncurbed competition for power. The latter path could lead to new instabilities, conflicts and continuing turbulence.

The international community needs to recognize the pivotal roles that China and India are going to play in this century. It is in the West's interest to involve these aspiring Asian heavyweights in a fair and rule-based international system. We must regard the colossal shift in global geo-economics and geopolitics that is unfolding before our eyes as an opportunity rather than a challenge, for this is the path that holds the greatest prospect for a stable and peaceful future.



Heinrich Kreft has been until recently Senior Strategic Analyst and Deputy Head of the Policy Planning Staff of the German Foreign Ministry. He is currently Senior Foreign Policy Advisor to the CDU/CSU Parliamentary Group in the German Bundestag in Berlin. In this article he expresses only his personal opinion. A slightly different version of this article has been published under the title “Power Shifting – China, India and Global Change” in “The World Today”, Volume 62, August/September 2006.

(HeinrichKreft@msn.com)