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CRYSTAL-GAZING THE EMERGING INTERNATIONAL ECONOMIC ORDER

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On 29 June 2015, China along with 49 other countries from across the world signed the Articles of Agreement of the Asian Infrastructure Investment Bank (AIIB), which determines the vote share of the member countries. Again, on July 8, 2015, BRICS' New Development Bank (NDB) started operations on the eve of the BRICS Ufa summit. While China-led AIIB received a warm welcome from many countries, including the European countries, it remains to be seen if China's initiatives are reactive or revisionist. Is the rigidity in governance of the present international order forcing nations to turn to the only country that seems capable of tipping the balance of power in favour of the global South? If yes, will this lead to emergence of a new international system led by China - a possible *Pax Sinica*?

What Ails the Existing International Economic Order?

The present international system, which in the political sphere is governed by the United Nations and in the monetary front led by the Bretton Woods Institutions, was established after the end of the World War II. Countries like Brazil, China, India and South Africa did not have the relative clout in international affairs in 1945 that they enjoy today. Aggregated GDP of the BRICS countries today is more than that of the industrialised countries when the Bretton Woods institutions were founded.ⁱ For their part, the nations who pride themselves on being at the helm of affairs in these international institutions might not want to give away their position of privilege easily.

In the IMF, China has nearly the same weighted vote as Italy. Although the G-20 agreed to increase China's IMF quota in 2010 from 3.65% to 6.19%, the U.S. Congress has not ratified the agreement, thereby preventing the reforms from being implemented.ⁱⁱ Since 2010, China's GDP has more than doubled from \$4 trillion to \$10 trillion. So, even if the Congress ratifies the agreement, it would still be a case of too little too late.



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A major criticism against these institutions also has been that their policies are dictated by the G-7 countries, who are also the largest stakeholders. Loans provided by the International Monetary Fund (IMF) and World Bank are often preconditioned on the recipient countries' readiness (political will and capacity) to adopt the 'Washington Consensus'. According to economist and Nobel Laureate Joseph Stiglitz, this has led to deindustrialisation and declining income in Sub-Saharan Africa.ⁱⁱⁱ

Moreover, bureaucracy in the Bretton Woods institutions has made quick decision making difficult. According to Mr. Abdoulaye Wade, the former President of Senegal, a contract which takes five years to discuss, negotiate and sign with the World Bank, takes only three months while dealing with the Chinese authorities.^{iv} It is the same bureaucratic hassle that made countries like France, the United Kingdom and Germany who are major players in the IMF join the AIIB.

China's Role in the Emerging World Order

So far, China has aided the formation of the AIIB and the NDB. China is also in talks with the members of the Shanghai Cooperation Organisation (SCO) to set up another development bank. The purpose of both, the NDB and AIIB, is to fund infrastructure projects in member countries and especially Asian countries in the case of the AIIB. Both these banks are meant to serve as alternatives to the existing international monetary system, governed by the Bretton Woods institutions, and which include the World Bank, which is led by the U.S. and IMF, controlled by Europe; and the Asian Development Bank (ADB) led by Japan.

It is estimated that total infrastructure spending the world over will have to increase from \$800 billion to \$2 trillion annually in order to achieve long term growth and poverty reduction. The existing monetary institutions will not be capable of financing the infrastructure needs of the developing countries. Infrastructure finance from the development banks and development assistance provided by the developed countries is expected to amount to no more than \$40-60 billion, which is a mere 2-3% of projected needs. The private sector has so far shied away from investing in infrastructure projects given the risks and costs involved, coupled with the sensitivity of the global financial markets.^v



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China's unique model of mixing state owned enterprises with government targeted investments and private enterprises provides a viable solution.^{vi} China uses the coffers of EXIM Bank and China Development Bank to grant loans to countries in order to finance infrastructure projects, which are in turn undertaken by Chinese construction companies like China Railway Construction Corporation and China State Construction Engineering. China Development Bank has now emerged as the largest financial institutions for overseas loan, overtaking both, the World Bank and the Asian Development Bank.^{vii} Moreover, China's ambitious 'One Belt One Road' project that is meant to facilitate trade in the Eurasian continent will see investments affecting nearly sixty countries.^{viii}

Leaders from countries all over the world, right from Cambodia to Venezuela and the Democratic Republic of Congo find Chinese infrastructure investments as practical assistance that their country need. In Africa, China has provided grants and interest free loans in wide range of areas like hospital building, hydropower, telecommunication, irrigation, building government institutions like the African union Headquarters etc. While such policies lead to a significant increase in China's soft power on one hand, there also exists an immediate economic incentive. Chinese company, Sinohydro for example, is currently engaged in nearly 70% of all current constructions the world over, making it the largest developer of dams.^{ix}

Conclusion

Last year, in Shanghai, President Xi Jinping gave a slogan of 'Asia for Asians', while delivering a keynote speech on Interaction and Confidence Building Measures in Asia. Given China's geopolitical heft in the international system and its position over disputes in East and South China seas, it was all too easy to draw corollaries with the 1930s and Japanese idea of "East Asia Co-Prosperty Sphere", which was used as a cover to achieve their imperialist ambitions. However, it is premature to presume that China intends to overhaul the entire international system.

In 1945, when U.S. emerged as a global power after the World War II, it was sharing the spot light with another. Over the years, through increasing its influence around the world and becoming a global leader in Science and Technology, Innovation, building the most powerful military in the world



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and through its strong economy U.S. was able to emerge out of the Cold War as the sole surviving super power. By building a narrative over liberal democratic values, U.S. was able to create an image of a benign hegemon. China at the moment seems to be focused on achieving its economic interest, while catching up to the U.S. in other spheres. At a broader strategic level, China's policy can be defined as '*not mixing business with politics.*'

After spending more than two decades knocking on the doors of existing institutions, the newly emerging powers, led by China, have finally decided to create a space for themselves. The existing hegemon has a good reason to worry as China's leaders seem to be following Sun Tzu's maxim of subduing the enemy without fighting. It can be argued that U.S. brought this upon itself by turning a deaf ear to emerging powers like Brazil, China, India, Russia and South Africa. China seems to be using what Prof. Walter Mead of Yale University once described as sticky power, by using its economic policies and institutions to attract other countries and make it economically dependent on China.^x One of the reasons for promoting the NDB by BRICS countries has also been to reduce dependence on US Dollar for loan repayment. By extension, this can be a step ahead in making Yuan a global currency.^{xi}

It is not surprising that the West feels betrayed by China's attempt to create an alternative to the present system. U.S. President Barrack Obama in an interview last year called China a 'free rider', for its failure to fulfil the responsibilities expected of a global power.^{xii} However, it cannot be expected of China to reflect the same values US wants it to stand for and to remain ever grateful to the powers that were and not demand a position at the high table that it deserves. While BRICS economies are projected to surpass the G-7 in the near future, it is pertinent to understand that China can outspend the World Bank and IMF today. Thus, there exists a possibility of emergence of a new international economic order that is dominated by China. This will raise the same concerns as was raised by Roman satirist Juvenal: Who will watch the watchman?

(Disclaimer: The views and opinions expressed in this article are those of the author and do not necessarily reflect the position of the Centre for Air Power Studies [CAPS])

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