



中國金融學會
CHINA SOCIETY FOR FINANCE & BANKING

CHINA AND INDIA: SUSTAINING HIGH QUALITY GROWTH

New Delhi

March 19-20, 2012

Session II:
Development Paths

*Global & Asian Balance of Power:
Building Institutions for Peace*

Arvind Virmani

Presentation

Global & Asian Balance of Power: Building Institutions for Peace

Arvind Virmani
(views are personal)

Introduction

- World/Asian Balance of Power:
Transformed in 21st century
 - Globalization and Reform
- Projections
 - Index of Power (VIP²)
 - New Developments, Global Crisis
 - Old and New estimates
- Asia Peace or Conflict?
 - Build Inclusive Institutions

19th March 2012

ImfIndCh.av

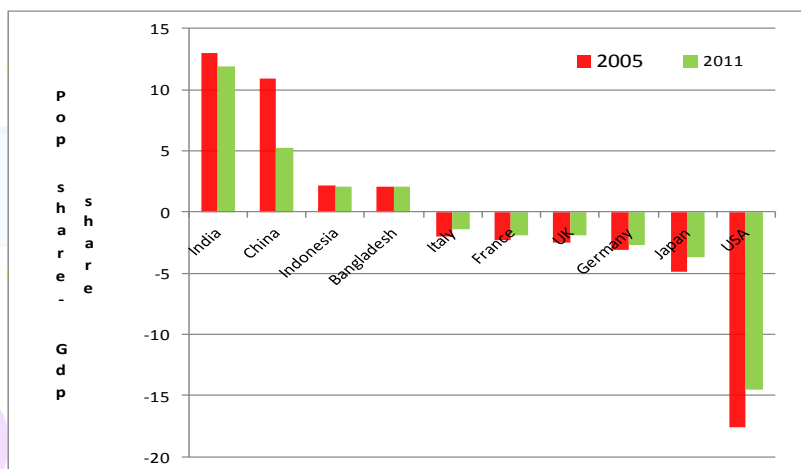
Indices of Power: VIP², VIP

- Size of Economy (GdpPpp)
 - GDP = Population * Per capita Gdp
 - Quantity Comparison: PPP
- Projections
 - Population/Demographics
 - Catch-Up growth
- Economic Power : Index(VIPP/VIP²)
- Overall Power: Index (VIP)
 - Strategic Technology and Assets

19th March 2012

ImfIndCh:av

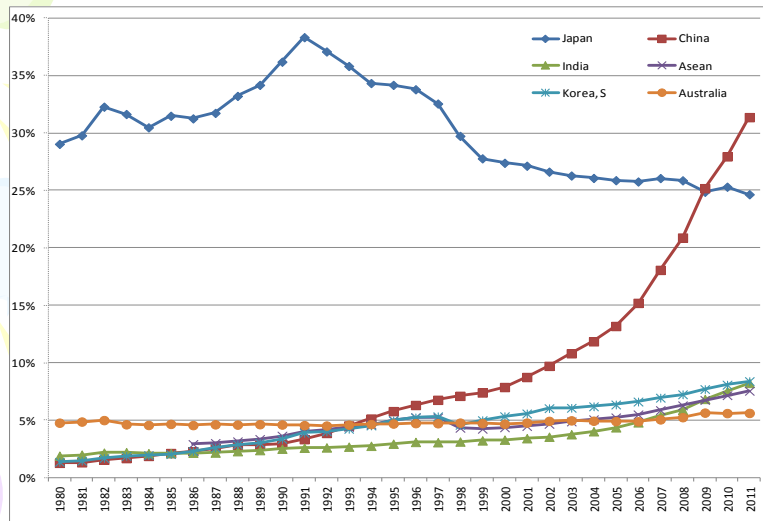
Fig 1: Catch-up Growth Potential - World Shares of Pop-Gdp



19th March 2012

ImfIndCh:av

Fig 2: Asian Country VIP²



19th March 2012

ImfIndCh:av

Uni- Polar to Bi Polar

- US NIC (Dec 2004)
 - Based on Goldman Sachs October 2003
 - China's GDP(US\$) could be 2nd largest by 2020
 - India's GDP(US\$) could be 3rd largest by 2035
- Virmani(2004)
 - China, India rise will be faster than NIC(2004)
 - Demographic decline (Russia, Japan, Ger, Itly, Fra)
 - Kissinger(94): US,EU,Russia,Japan,China,India(?)
 - Bi Polar Transition
 - China: GDP at PPP equals USA by 2015
 - Power potential 70% of USA by 2035

19th March 2012

ImfIndCh:av

Bi Polar to Tri Polar

- Virmani (2005)

- "the (current) uni-polar world will be transformed into a **bipolar** world during the first quarter of this century and into a **tri-polar** one (China, USA, India) during the second quarter of the century."

- Rise of India:

- Third largest economy 2015,
- Real GDP=USA by 2040
- Power potential 80% of US by 2050.

- China's Power potential = US 2030-35

- Virmani (2006) (Academic Foundation)

- Weakness and threats to China, India's growth
 - China: Export-Investment led growth [Gross->net; Ag->Fdi->Inf->Real Estate]
 - India: Governance/Public Goods e.g. Rule of Law (Police, legal system), Urban (planning land use, parking, public transport)

19th March 2012

ImfIndCh:av

US NIC: November 2008

- "The eight largest economies in **2025** will be, in descending order: the US China, India, Japan.."

- "By 2025 China will have the world's **second largest** economy and will be a **leading military power.**"

- A global **multi polar system is emerging** with the rise of China, India, and **others**

- The development of a globalized economy in which China and India play major roles

19th March 2012

ImfIndCh:av

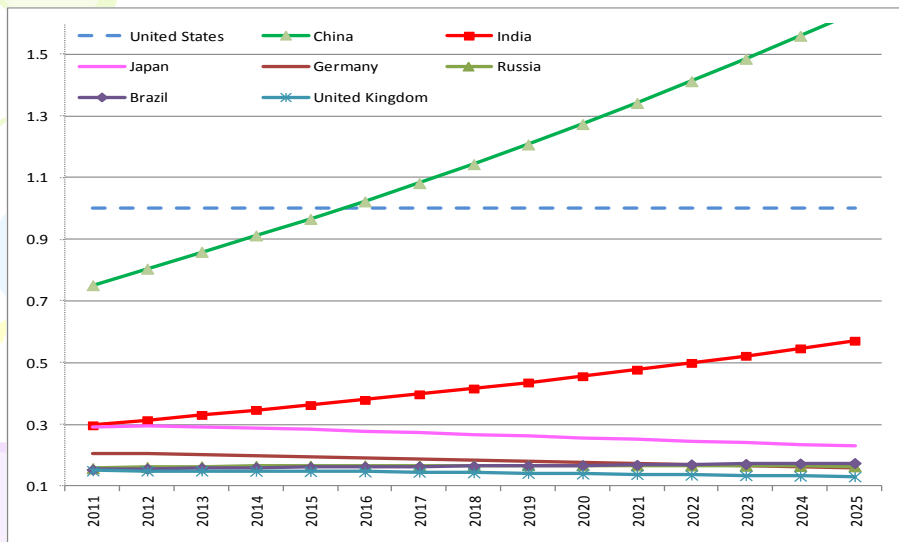
New Developments: 2008-10

- Oil, Energy Price Boom
 - Russia's comeback, Brazil
- New PPP estimates from ADB-WB
 - India, China: -36%/40%
- US-EU Financial Crisis
 - Differential Impact on economies
 - Domestic vs. Export oriented
 - Fiscally constrained vs. non-FC
- Forecasts (Ch,Ind) = Outcomes

19th March 2012

ImfIndCh:av

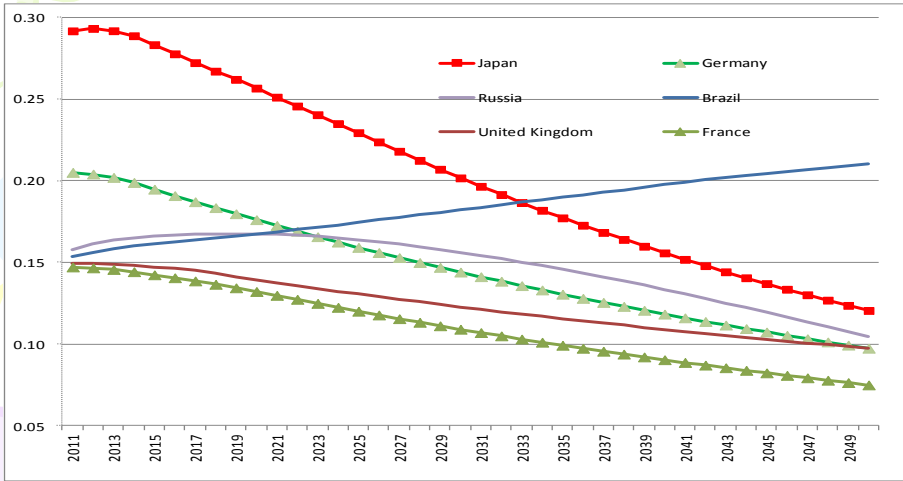
3a Economic Size (GdpPpp)



19th March 2012

ImfIndCh:av

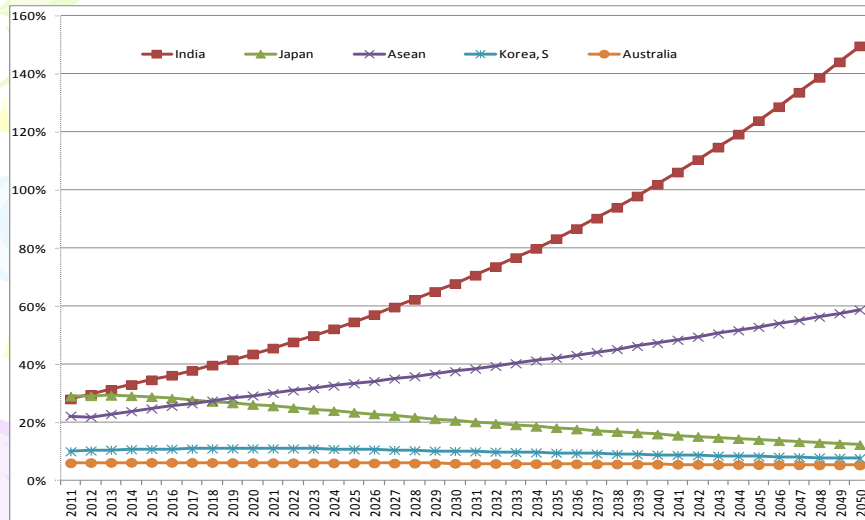
3b Economic Size (GdpPpp)



19th March 2012

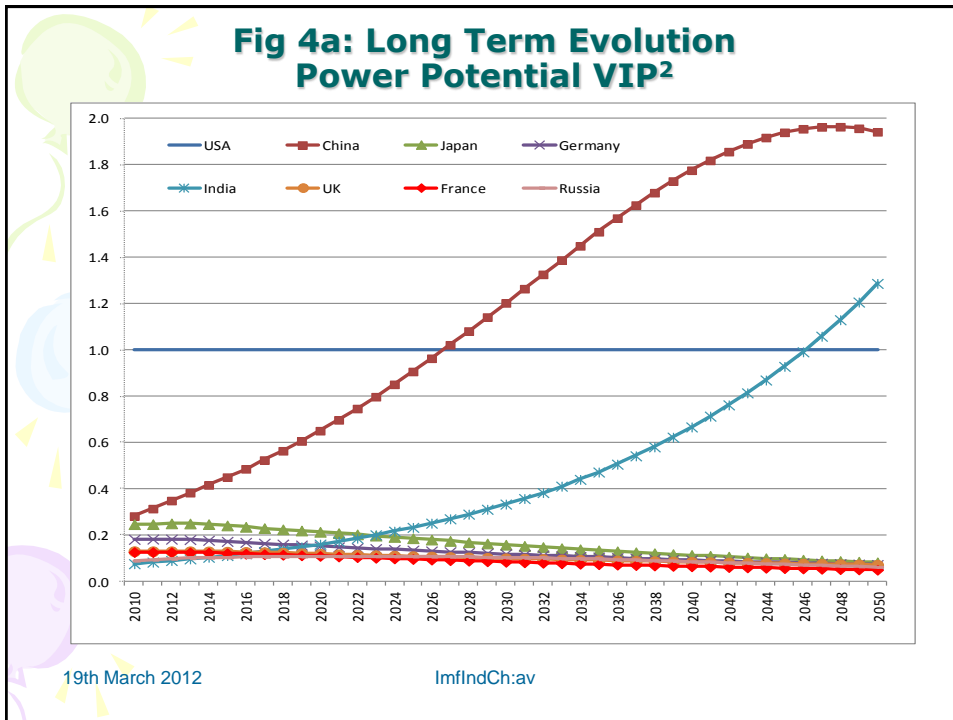
ImfIndCh:av

3c Economic Size- Asia



19th March 2012

ImfIndCh:av

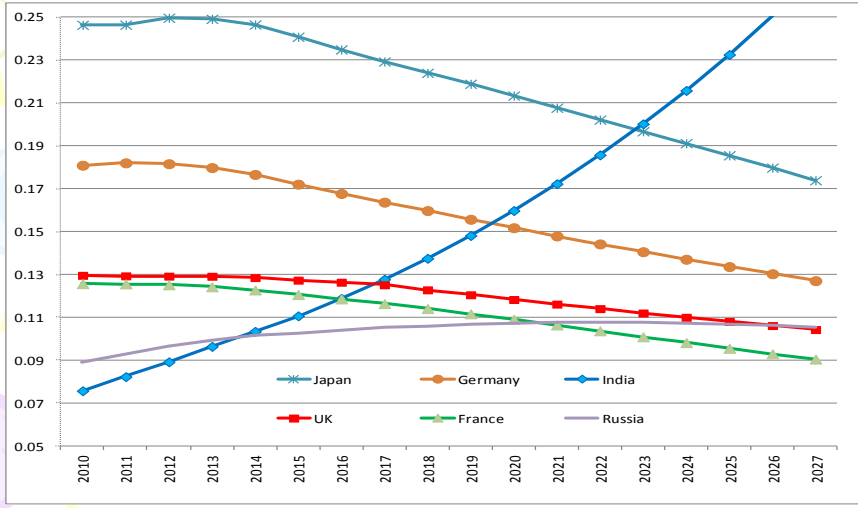


Global System: Long Term

- Global Power: $VIP^2 \geq 25\%$
 - China 2010, India 2027 (Japan -09)
- Super Power: $VIP^2 = 50\%$
 - China 2016-17
 - India 2036-37
- Uni-polar: US Sole super-power
 - Peak 1999 (1990-2010)
- Bi-Polar: 2025, Tri polar: ≈ 2040
- ASEAN: Not a virtual state

19th March 2012 ImfIndCh:av

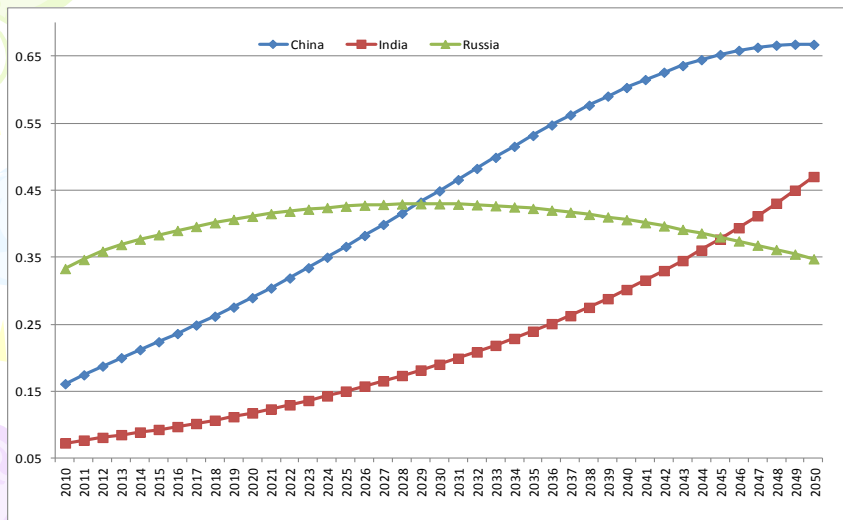
Figure 4b: Emerging Tripolar Clarity (VIPP/VIP²)



19th March 2012

ImfIndCh:av

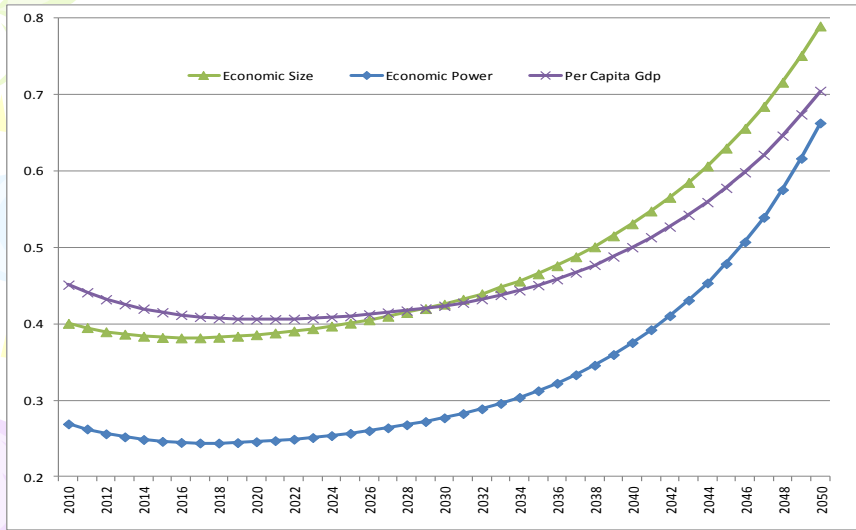
Figure 5: Sustainability of Growth- Per Capita GDP



19th March 2012

ImfIndCh:av

Figure 6: Indian Economy Relative to China



19th March 2012

ImfIndCh:av

Changing Power Balance: Risks and Opportunities

• History

- Heightened Risk of conflict, Attitude(s) of rising and declining power(s), corresponding institutional response

• Europe lessons

- Pre-WW, Cold War: Attitude of Rising power(s) 'Might is Right,' => Balancing of Power => Exclusive institutions (Seato, Cento)
- Post-War: Global Rules for Conflict Minimization / Resolution -> Inclusive Institutions (EEC, EU, IMF, WTO)

19th March 2012

ImfIndCh:av



Institutional Change

- Exclusive Institutions
 - ‘Tributary System’ (Frieberg)
 - Balancing Coalitions
- Inclusive Reform: New Reality
 - Security Council
 - Asian Security Forum

19th March 2012 ImfIndCh:av



Inclusive Institutions

- Equal Partnership (China, Japan, India, Asean, Others)
 - Asian Economic Community
 - Asian Energy community
 - Asian Monetary Arrangement
 - Asian Social Assembly: e.g. NGOs

19th March 2012 ImfIndCh:av

Conclusion

- Multi-polar World?
 - No, merely a Transition Phase
- West (US) vs. The Rest?
 - Unlikely! Diversity of Interests
- Will China Rule/Dominate the World?
 - Tri-polar(VIP²): USSR(27%), EE(37%)
 - Strategic Assets: US stock, Lags(Ec-Str)
 - Attitude/Approach of Power(s):
 - Will to Power (USA, Russia, China; India?)
 - Aggressive Action→Countervailing reaction

19th March 2012

ImfIndCh:av

References 1

- Website: <http://sites.google.com/site/dravindvirmani>
- Blog: <http://dravirmani.blogspot.com/>
- "Globalisation, Economic Growth and National Security" chapter in, **Comprehensive Security for an Emerging India**, Editor AVM Kapil Kak, CAPS 2010
- From Uni-polar to Tri polar World: Multi polar Transition Paradox, Academic Foundation, New Delhi, 2009.
- **The Sudoku of India's Growth**, BS Books, New Delhi, 2009.

19th March 2012

ImfIndCh:av

References 2

- Propelling India from Socialist Stagnation to Global Power: Growth Process, Vol. I (Policy Reform, Vol. II), Academic Foundation, 2006.
 - "A Tripolar World, India, China & US," Lecture delivered at India Habitat Centre on May 18, 2005.
 - "Economic Performance, Power Potential and Global Governance: Towards a New International Order", Working Paper No. 150, ICRIER, December 2004. (<http://www.icrier.org/page.asp?MenuID=24&SubCatId=175&SubSubCatId=233>).
 - "A Tripolar Century: USA, China and India," Working Paper No. 160, ICRIER, March, 2005. (<http://www.icrier.org/page.asp?MenuID=24&SubCatId=175&SubSubCatId=233>).
 - VIP2: A Simple Measure of Nations (Natural) Global Power, ICRIER Occasional Paper, July, 2005().

19th March 2012

ImfIndCh:av

References 3

- China's Socialist Market Economy: Lessons Of Success, Working Paper No. 178, ICRIER, December 2005.
- Global Power From The 18th To 21st Century: Power Potential (VIP2), Strategic Assets & Actual Power (VIP), Working Paper No. 175, ICRIER, November 2005. (<http://www.icrier.org/page.asp?MenuID=24&SubCatId=175&SubSubCatId=233>).
- Trilateral Nuclear Proliferation: Pakistan's Euro-Chinese Bomb, *IDS Monograph Series No. 1*, Institute of Defence Studies and Analysis, New Delhi, December 2006.

19th March 2012

ImfIndCh:av