The New Global Economy: Rise of China, Decline of the United States?

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There is a limit to economic manipulations by empires. All empires have perished due to economic hardships. The Ottoman, Soviet and the British empires were no exception in the past century. Waste was the key product of these empires. Whether the only empire – the US – understands it or not, the fact is that its economy is being undermined due to its wasteful policies, living beyond its means and by dictating it's economic and foreign policies on free nations and by treating them as satellites. The US has used economic sanctions (strangulation) against countries to gain an advantage but these are failing. In the latest round against Russia, the US has used the instrument of oil to apply sanctions in partnership with the Europeans who themselves are in economic hardships while China has agreed to partner with Russia to thwart the objective. On 15 January 2015 a Singapore's newspaper reported that on 22 December 2014 Chinese Foreign Minister Wang Yi stated that though China is willing to help Russia if needed, it has the ability to overcome the current economic problems. China, a founding member of the BRICS, is lining up the bloc and that of the SCO – and their currencies – to support Russia in need.

The rise of the United States economy in the 70's and 80's was mainly due to the gold standard being abolished during Richard Nixon's Presidency. This event was historic as it allowed the green back to be infinitely printed. In an effort to prop up the value of the dollar, Nixon negotiated a deal with Saudi Arabia that in exchange for arms and protection they would denominate all future oil sales in U.S. dollars. Subsequently, the other OPEC countries (primarily the Arabs and Iran under the Shah) agreed to similar deals thus ensuring a global demand for U.S. dollars and allowing the U.S. to export some of its inflation. It is only a matter of time when that partnership with Saudi Arabia may collapse.

The American debt can no longer be used to sustain GDP growth. After World War 2 the American economy was creating approximately $2.50 worth of economic growth for each dollar of debt that was being generated. By the 70's that growth declined by 80% (or $0.50) and currently it is a meagre $0.05 for every dollar of debt. Jim Rickards author of the New York Times bestsellerCurrency Wars wrote: "*Currency wars are one of the most destructive and feared outcomes in international economics. At best, they offer the sorry spectacle of countries' stealing growth from their trading partners. At worst, they degenerate into sequential bouts of inflation, recession, retaliation, and sometimes actual violence.*" Rickards blames the US Federal Reserve economic policies of printing trillions of dollars to stimulate the American economy.

In an article published by International Clearing House Peter Koenig wrote that "*the US is able to maintain pressure on other currencies, currently the ruble, only as long as the petro dollar remains the major world reserve currency. This is the main reason why Washington* *gets away with a seven-fold indebted dollar (i.e. total outstanding and uncovered commitments are currently more than 7 times higher than the US GDP (US$ 17.6 trillion, 2014 est. – vs. US$ 128 trillion of unmet obligations* –unfunded liabilities*); making the US worldwide the most indebted country – by far".* But "*Once the demand for the (petro) dollar fades – as hydrocarbons are no longer dealt in dollars – the value of the dollar will decline and at worst may result in hyperinflation in the dollar economies, including those closely linked to the US economy."*

China is a fast rising economic power in direct competition with the US having overtaken it in only the past 2 decades. There are several factors which will enable China to overtake the US as the major economic power, some of those being:

THE CURRENCY WAR

In April 2013, Australia had joined the ranks of several Southeast Asian countries to trade directly with China in the renminbi (yuan). These SE Asian countries were South Korea, Indonesia, Malaysia, Singapore and Thailand. Australia's banks, superannuation funds and financial houses will be even better placed to help in the growth of China's service economy. Australian Prime Minister Julia Gillard had said: *"This is good news for the Chinese economy and good news for the Australian economy."* Australia now exports more goods to China than any other country, and trade between the countries has been growing.

In October 2013, China and European Union agreed to a currency swap deal to boost trade and investment amounting to 350 billion yuan and €45 billion. This was the first currency deal between China and a non-Asian trading partner. In June, China had struck a similar agreement with the Bank of England worth up to 200 billion yuan.

On 8 November 2014 Prime Minister Stephen Harper of Canada announced in China that the two countries have joined the ranks of several countries which have inked agreements with China to deal directly in their respective currencies. This basically removes the middle currency, the US dollar. Canadian exporters doing business with China had to use the US dollar resulting in higher currency exchange costs and longer wait to close deals. Not so any longer. Trade between Canada and China is expected to double and triple in the coming years.

The renminbi had a market share of less than 1% in 2009 but that share has been steadily growing where it has now reached a market share of 18% by mid-2014. In comparison the market share of the US dollar is nearly 65%. In early 2013, the renminbi had ranked 12th place but by March 2014, the renminbi had climbed to seventh, behind the dollar, euro, pound, yen, and the Australian and Canadian dollars when ranked by value of payments made in that currency. Another measurement of the renminbi' s acceptance is the number of global financial institutions doing business in the yuan. It has grown from a meagre 1000 in 2010 to over 10,000 in 2014. These numbers reflect the yuan gains as the Chinese economy continues to grow and more countries continue to sign agreements in currency trades.

Chinese currency manipulation and the clandestine gold purchases by China (and now Russia) is likely to aggravate the currency war looming on the horizon.

BREAKING THE CONNECTIVITY BOTTLENECK IN ASIA

The business of America has always been business. The US has played the role of Shakespeare's Merchant of Venice willing to extract the pound of flesh. The business of China is also business but without extracting the pound of flesh. Whereas China has been extending its global influence through friendship, the US has been extending its global influence through submission by using its huge arsenal of weapons. US, along with the western European nations, has been extracting its pound of flesh through the World Bank, IMF and the Asian Development Bank (ADB). The financial assistance provided by these institutions does not come without strings that exclusively benefit the sponsors and much less to the recipients.

China has been more interested in extending its influence in Asia mainly through development of infrastructure projects. In late 2013, China first announced the founding of the Asian Infrastructure Investment Bank (AIIB) with a registered capital of $50 billion and then doubling it to $100 billion in mid-2014. The financing of the infrastructure projects will lead China to play an extended role in regional economic growth and political influence. 21 countries including Pakistan, India, Bangladesh, Malaysia, Singapore, Mongolia, Myanmar, Uzbekistan and Kazakhstan signed up as founding members and recognizing AIIB.

On 8 November 2014, Chinese President Xi Jingping announced that China would contribute $40 billion towards a new Silk Road fund designed to improve trade and transport links in Asia. This is above and beyond the AIIB fund. In a meeting in Beijing with leaders from Pakistan, Bangladesh, Cambodia, Laos, Mongolia, Myanmar and Tajikistan, State media Xinhua reported Xi stating that the goal of the fund is to "break the connectivity bottleneck" in Asia.

In one of my previous articles titled "Middle East: The Regional Chessboard", I'd mentioned about several strategic alliances and relations, one among which was regarding Pakistan and China. China has built the 1300 km Karakoram highway which together with the Indus highway provides a direct link to Gwadar port. The port would serve as a direct link for China to the warm waters of the Indian Ocean. Whereas major powers Britain, Soviet Union and the US have failed to gain access to the warm waters through military adventures, China has succeeded through friendship to gain access to the Indian Ocean.

China is aspiring to build land and sea routes to facilitate trade and finance from Asia to the Mediterranean and Europe. The two key sea routes would be established through Myanamar and Pakistan. The map shows the land routes in red and the sea routes in blue. To achieve the sea route goal China plans to invest $20 billion on a BOT (Build, Operate, Transfer) basis to link Myanmar's Kyauk Phyu port on the Bay of Bengal by 800 km high speed rail to Mu Se near China's border connecting Beijing and other cities facilitating that ships will no longer need to sail through Malacca strait.

TRADE COMPETITION

The USA is the largest and most important economy in the world in terms of Gross Domestic Product (GDP). THE USA GDP accounted for US$ 16 trillion or 19% of the global GDP. In 2012, US imports and exports accounted for US$3,985 billion with imports of US$2,375 billion and exports of US$ 1,610 billion with trade deficit of US $765 billion.

China is the second largest and most important economy behind US in terms of GDP. China's GDP accounted for US$ 12 trillion or 14% of the global GDP. In 2012, China's import and export totaled US$ 4,200 billion. China's import was US$ 2,000 billion, and its export was US$ 2,200 billion with trade surplus of US$ 259.75 billion. China is the world's second largest trading nation behind the US – leading the world in exports and coming in second for imports.

China and S. Korea have recently agreed in principle for a free trade agreement (FTA). S. Korea is China's second largest trading partner where trade between the two countries amount to $230 billion. The announcement came on the sidelines of the 2014 Asia Pacific Economic Conference in Beijing.

What is most interesting between the economies of the two giants is the share of the economic structures in terms of agriculture, industries and services. The US agriculture, industries and services comprises 1.2%, 19.1% and 79.7% respectively while that of China is 10.1%, 45.3% and 44.6%.

THE STRATEGIES FOR ECONOMIC DOMINANCE

China has clearly locked in upon strategic economic partnership with Asian countries, Australia and Canada similar to what the US has with its G-7 partners. Currently the G-7 countries dominate the global trade along with their respective global convertible currencies- the US$, C$, Yen and Euro.

In closing, I reiterate that Chinese currency manipulation and the clandestine gold purchases by China (and now Russia) are likely to aggravate the currency war looming on the horizon. This will certainly lead to the decay of the US economic and political domination and the emergence of new economies dominated by a basket of international currencies to purchase oil replacing the dominance of the Petrodollar. The combined policies of US Federal Reserve and the US Treasury are leading the nation towards an economic and national security precipice. Jim Rickards said in a US Treasury meeting that "The Fed and the Treasury are the greatest threats to national security, not Al- Qaeda." Jim Rickards in his book The Death of Money: The Coming Collapse of the International Monetary System published in April 2014 wrote that: "*our biggest economic competitors—China, Russia, and the oil producing nations of the Middle East—are doing everything possible to end U.S. monetary hegemony.*"

In the coming years, the world will most likely be divided into West and East – the Western hemisphere will continue to be influenced (not dominated) by the US economic and political policies and the East by China through a partnership with Muslim nations, BRICS and SCO countries. It will be the currencies, US Dollar and the Chinese Yuan that will play the dominant roles in the hemispherical division.

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