

Are America's days as the world's largest economy numbered? **Sir Martin Sorrell** looks at how booming trade in countries such as China and India will see the US joined at the top table.

A SHIFT IN POWER TO THE EAST

I was recently in Nassau, Bahamas, for a media conference and, as my taxi driver took me around the magnificent bay and harbour, we chatted. "This is all going to be redeveloped," he told me. "All these old hotels will be knocked down. The harbour is going to be re-dug." I said: "Gosh, that's going to cost a lot of money." "\$3.2 billion," he answered. Intrigued, I asked: "Who's going to provide that?" He replied: "The Chinese." Later, we passed Nassau Cricket Club. I asked: "Do you still play cricket here?" He said: "Yes." "I thought the kids like to play basketball." "They do actually and we've got this Olympic-sized basketball court that's just been built." Again, I asked where the money came from. Perhaps I should have already known the answer. "The Chinese."

It is a story familiar all over the world, as the Middle Kingdom strives to invest its massive foreign reserves. In embattled Greece, China owns a 35-year lease on the largest container port in Piraeus. Indeed, its coffers are probably big enough to buy a good chunk of Greece's state assets, probably even the Parthenon were it for sale.

When the United States closed its airbase in Iceland, the first people on the phone seeking to take it over were... the Chinese. And then there are the 800,000 Chinese currently living, working and running businesses in Africa.

It is inevitable that China and other rapidly expanding economic superpowers such as India and Brazil will make their presence felt around the world. China, in particular, overtook the US recently to become the world's number one energy consumer. India is not far behind. China lacks the resources to meet its surging needs, so it must go elsewhere for oil and gas, as well as seek land for food production outside its borders.





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West meets East: the US and Chinese presidents Barack Obama and Hu Jintao meet at a conference in the White House, Washington, in January 2011

01 China remains reliant on imports from North and South America, with more than 60 per cent of soybean-based products imported from the US, Brazil and Argentina

02 The US remains predominant in many fields, including technology through companies like Apple and its products, such as the iPad

03 Until it was overtaken by China last year, Japan was the world's second biggest economy. Headquartered in Tokyo, Sony is one of the world's largest media conglomerates

04 US construction and mining equipment manufacturer Caterpillar plans to spend more than \$1 billion on increasing its manufacturing capacity in China



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ECONOMIES IN RAPID GROWTH

Every time I go back to China and India – I try to as often as possible – the evidence mounts of the economic shift from West to East. Turn on the television and economic luminaries are arguing about whether India will grow at an annual 7 per cent or 8.5 per cent – while western economies are struggling to hit 1 per cent or 1.5 per cent. China's 12th five-year plan will require 7 per cent compound growth (the 11th plan demanded 7.5 per cent, but they did closer to 11 per cent). And it's not even that they want economic expansion at all costs; Beijing's state-directed capitalism is as much about balanced growth and stable consumption.

In India, you can see an economy on fire: every other vehicle on the roads is a massive truck delivering more cars, more goods, all on the most appalling roads. They've got the cars, they just haven't got around to building the highways

to accommodate them properly yet. And the more cars they have, the more problems they have. In Mumbai, it isn't just the mansions of the super-rich that take your breath away; new housing for middle-ranking executives is almost as palatial.

All this has profound implications for Washington. How does the United States feel about being talked about as a future number two or three behind China and India? Can a nation which for more than a century has thought of itself as exceptional – the model for robust democracy and the free market – come to terms with being a mere runner-up, the bronze medallist on the economic podium? More to the point, how does it feel to see a communist country parking its money in the Bahamas?

In a way, we have been here before. In the 1980s, as more fleet-footed Japanese car makers like Toyota threatened



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GO WEST: AN ABC OF AMERICA'S STRENGTH

The economies of the East may be on the rise, but the US still boasts global dominance in many fields.

APPLE: WORLD'S MOST VALUABLE

Officially the world's most valuable brand, Apple has led the way in the global computing boom. The California-headquartered business dominates the MP3 player and tablet markets with its iconic iPod and iPad respectively, while the past four years have seen approximately 73 million iPhones sold globally. At the time of going to print, Apple was the second largest publicly traded company in the world by market capitalisation and the largest technology company in the world by revenue and profit.

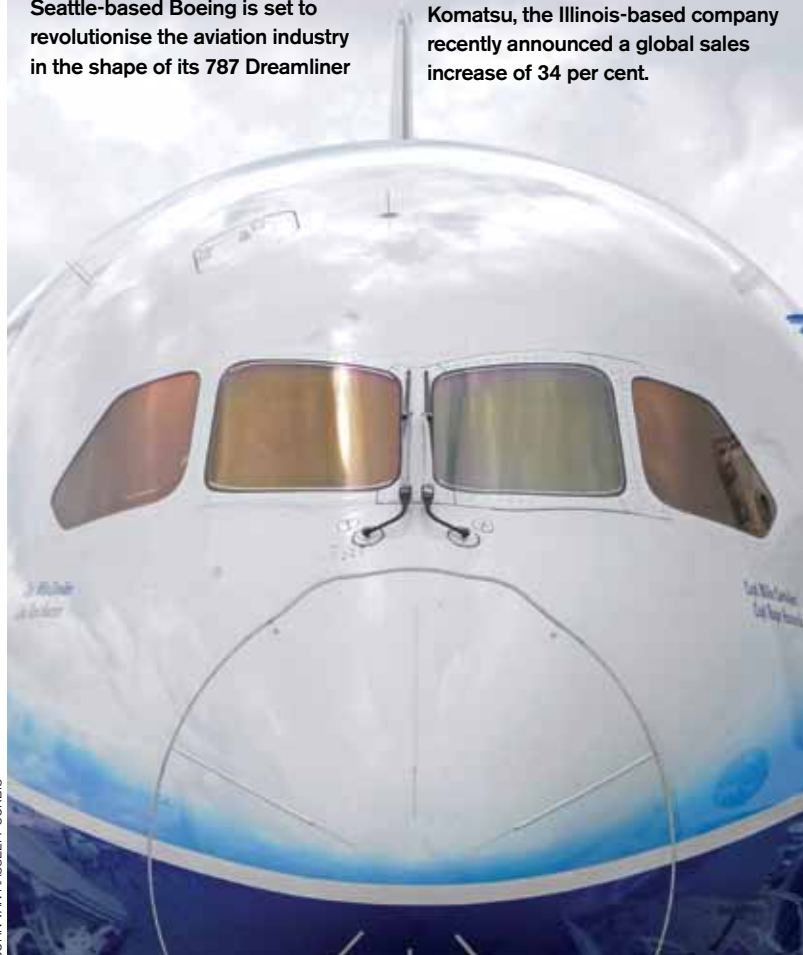
BOEING: TRANSFORMING AIR TRAVEL

Seattle-based Boeing is set to revolutionise the aviation industry in the shape of its 787 Dreamliner

aircraft (pictured). Widespread use of durable plastic in the manufacture of commercial planes should reduce fuel consumption by 20 per cent. The first 787 Dreamliner – estimated to cost \$200 million – was delivered to Tokyo in September 2011 to join Japan's All Nippon fleet. More than 800 orders have been placed for the aircraft, with Japanese airlines accounting for some 90 planes, Chinese airlines for more than 60 and Indian airlines for nearly 40.

CATERPILLAR: HEAVY MACHINERY LEADERS

Caterpillar – the world's leading manufacturer of construction and mining equipment – ensures the US retains its grip on the global market. Despite stiff competition from Japanese machinery giant Komatsu, the Illinois-based company recently announced a global sales increase of 34 per cent.



JOHN VAN HASSELT / CORBIS

America's stodgy Big Three, people talked of the US being finished. Japan was going to take over. There was much anti-Japanese rhetoric and a sense of wounded pride. Then Ronald Reagan rode to the rescue and, 10 years later, Japan entered an economic ice age from which it has yet to emerge.

It's going to be a tougher haul now than it was against Japan. The population numbers, the unstoppable growth figures and just the immense will to succeed are all against the US – all the more so as Washington struggles with its twin deficits.

AMERICA'S LEADERSHIP IN QUESTION

There can surely have been no greater wake-up call for America than the recent Standard & Poor's downgrade. Yet still, progress has been painfully slow. While the latest deal on the budget deficit kicks the can down the road, it doesn't solve the problems. America will only face the music in 2013 after the presidential election.

It is trite to say it, but it's all about leadership. If Barack Obama gets re-elected – and the odds favour him because he's a great candidate – then expect another four years of deadlock and 11th-hour wrangling with the Republican-controlled House and the Senate.

There is also the question of whether Obama has accurately judged the American psyche, or whether he is dragging the US too far to the left, too far from its political centre of gravity. The countervailing extreme right-wing

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01 Sign of a shift in power *within* the East? In 2011, South Korean car manufacturer Hyundai began advertising in London's Piccadilly Circus, replacing Japanese technology group Sanyo, which had been advertising there since 1984

02 Eastern expansion: the US technology firm Motorola's Hong Kong plant. Global growth of mobile subscribers is led by China and India

responses from the likes of the Tea Party certainly suggest as much.

Perhaps a second and final term will give Obama a chance to be more expansive and conciliatory, to get things done in a more practical way. Even if that were to happen, there is little room to manoeuvre. Some 85 per cent of the US budget is taken up by Medicare and defence, so a cash-strapped Washington is going to have to juggle its priorities. Some adjustments to military spending are inevitable.

All this leaves a vacuum. The new economic superpowers of the East will try to use these situations to their advantage by plugging the gaps and errors in American policy. As a result, the Chinese and Indian businessmen and politicians are considerably more confident than they were a decade ago. They saw how the West screwed up with the financial



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GEORGE STEINMETZ / CORBIS

crisis of 2008; now they are less reticent in saying that the US and Europe need to get their act together, less likely to swallow western criticism.

Indeed, they may be getting a bit over-confident. The more successful you become, the more arrogant you become, the more demanding. Whatever your nature, you're going to be concerned about your borders. You're going to look at parts of a country that you used to own, which you don't own any more.

DEFENCE AND AIRCRAFT EXPANSION

The Americans have been paranoid about Chinese military expansion for years, especially Beijing's claim that it controls the South China Sea. Witness Washington's twitchy reaction a few years back to Chinese investment in the Galileo satellite, which could be used for military purposes.

At a time when the US and Britain are obliged to question their defence spending, Chinese defence spending is surging. Its military budget has tripled since 1996, although it is still a small fraction of America's. In Dalian, a 60,000-tonne former Soviet aircraft carrier has been reconditioned for the Chinese Navy as its first such carrier and is now undergoing sea trials.

Perhaps most symbolic of the world's changing face is the last Shuttle flight. It signalled a halt to an adventure that began with President Kennedy's vow that America would be the first nation to land a man on the moon – itself a response to the Soviet Union's Yuri Gagarin's pioneering space flight.

This sense of finality contrasts with China's burgeoning space exploration, which only began in 2003, with its first astronaut. The first part of a project that will produce a Chinese space station has just been successfully launched. China's own space station is expected to open in 2020, just as the US-led international space station closes.

CONFIDENCE AND CO-OPERATION

This new attitude also means China can flex its muscles economically and politically. That was manifest when a Hong Kong Airlines order for 10 Airbus A380s was blocked on Beijing's orders – a protest against the EU's emissions trading scheme being imposed on foreign airlines. Certainly, the more investment China makes in Europe, the less inclined will Brussels be to pursue policies against Beijing's interests.

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01 China's first aircraft carrier, currently undergoing sea trials, is anchored at the north-east port of Dalian

02 A mechanic assembles motorbikes at the new Piaggio manufacturing plant in Hanoi, Vietnam. The Italian company also plans to increase production in India in late 2012, with the first Vespa models to be exhibited at the Delhi Auto Expo in January 2012

This can be tricky for western business in strategically important industries wishing to open plants in China. Yes, they can build, but the intellectual property rights will stay in China. Conversely, Chinese companies on the acquisition trail in the US often encounter problems.

And corruption hasn't gone away in India or China. Of course, there is graft in America, Britain, France, Italy and Russia. Perhaps India is finally getting to grips with its problems after Anna Hazare called off his 12-day hunger strike on the promise that a powerful anti-corruption ombudsman will be appointed.

There will be friction, caused as much by the losers as the winners in this global economic shift. But on the positive side, if you go back into Chinese history, you don't see expansionism. The Chinese are very sensitive to what's going on; they change and adapt quickly.

Beijing's new-found confidence on the world stage is expressed subtly. The Chinese regard their foreign investment not as triumphalism, but as offering help – a way of repaying countries for past favours. Wen Jiabao, the Chinese prime minister, speaks assuredly about stable development of the world economy and coming to the aid



JULIAN ABRAM WAINWRIGHT / EPA / CORBIS

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MARTIN SORRELL

of European nations embroiled in the debt crisis. China, he says, will continue to buy European sovereign debt. It needs to so that European consumers can continue to afford his country’s products. The Chinese want to be co-operative; they don’t want to be threatening. They want to help and invest. They want to exchange knowledge and information.

AMERICA’S PLACE IN THE WORLD ECONOMY

So will the United States turn out to be a good loser? It will be tough accepting that a lower position in the world economic table is both honourable and dignified –

as Germany and Britain have been obliged to do, the former excelling in engineering and the latter in financial services.

Certainly it would be foolish to write off the US just yet. Its size alone guarantees its future: America’s GDP is around \$15 trillion, while China’s is still only \$5 trillion. Then there is its immigrant culture and a young, ambitious population; its entrepreneurial spirit; a large, uniform middle class; its capital markets; and its vast natural resources.

People in the rising countries of the East still share a great affinity with the United States, especially with its culture, ideas and education. Zhang Ruimin, boss of Chinese appliance maker Haier, is an ardent follower of Jack Welch. Anil Ambani, the Indian tycoon, told me his children know America better than they know Britain. They are probably more likely go to an American university than a British one.

There’s a tremendous admiration for US education. Ratan Tata, chairman of Tata, has given \$50 million to Harvard Business School, where he studied in 1975. Anand Mahindra, vice-chairman of Mahindra Group, has given \$10 million to Harvard’s humanities centre. Nitin Nohria, the Dean of Harvard, is in fact Indian-born.

Obama has said: “I do not accept second place for the United States of America. As hard as it may be, as uncomfortable and contentious as the debates may be, it’s time to get serious about fixing the problems that are hampering our growth.”

Despite the rhetoric, accepting second place for the US may not be a question of “if”, merely a question of “when”. The answer is a very precise 2016, according to the IMF, though others put it nearer 2025. Quite how America deals with that and how it ensures its continued world-leading position and prosperity for its citizens depends, as I have said, on leadership. Coming to terms with the possibility of no longer being number one will require resilience and strength – probably more than is required to actually be number one.

Whatever happens, America’s democratic traditions will remain a model for freedom around the world. Its unrivalled educational institutions will be admired and favoured by the world’s new elites. Its entrepreneurial chutzpah and innovation may prevail, and there will still be much for the US to be proud of. But the East is breathing down its neck, ambitious and hungry for the economic power. The US may find itself being joined at the top table sooner than it thinks. ⑩