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Is America ready to be number 2?

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China's GDP will soon eclipse America's, but it might not matter in the grand scheme of things

In early October 2014, the International Monetary Fund released its latest [World Economic Outlook Database](#). In it, [China's GDP was forecast to be \\$17.632 trillion](#) for 2014 based on purchasing price parity – just marginally more than the \$17.416 trillion for America. Nominally, China's GDP is forecast to be \$10.355 trillion and still just two-thirds of the American economy. China's nominal GDP will only eclipse America's after 2020, and that is assuming the U.S. economy does not grow any further.

“The thing about GDP is that, by itself, it's a flawed indicator,” says **John Donaldson**, Associate Dean of External Relations at Singapore Management University's School of Social Sciences. “If China continues on its current trajectory, it will eclipse the United States in terms of GDP, but so what?”

“When people talk about number one, GDP always comes up. It has symbolic value and it make for good headlines, but it may not be the best indicator. Power is multi-dimensional: you have to look at military and economics, but you also have to look at ideas, human capital and other factors.”

Defining power

Donaldson made those remarks at the recent recording of a discussion panel for Singapore-based station Channel NewsAsia's Perspectives programme, “*Is America Ready to be Number 2?*” With regards to the statement about power being multi-dimensional, one needs only look at the disparity in military might: the U.S. government has budgeted US\$756 billion dollars for FY 2015; the Chinese military budget for 2014 is US\$132 billion. Even if the Chinese catches up on spending,

it will be difficult to build the operational experience that America has incorporated into its command and control systems following many wars in the 20th century.

Another member of the panel, the Founding President of the Singapore University of Technology and Design, **Thomas Magnanti**, pointed out one of the other dimensions that Donaldson spoke about: human capital and specifically, education.

“There are causes for concern. In the U.S., about 5 percent of graduate degrees are in engineering. In Asia it’s about four times that, and in China it’s six times. The U.S. needs to invest in that, and I think they will. There are lots of business and educational leaders who are pressing for more investment in R&D.”

Kirk Wagar, the U.S. Ambassador to Singapore, weighs in on the education debate: “If you delve deeper, you’ll find the real truth. If you’re talking about the R&D that different nations are doing, it could be making better shampoo. But if you’re talking about hard science, the U.S. invests \$74 billion a year. Second on that list is France at \$13 billion a year. The U.S. has no equal right now.”

Not a zero-sum game

“Too often, journalists and academics want to make this a zero-sum game,” Wagar points out, singling out the tendency to focus on the different models of government in China and the U.S. While Capitol Hill is stuck in gridlock, one wonders if the American model of government is ill-suited to a globalised world that rewards decisive government interventions a la China, even if it comes without democratic representation.

“I think the diversity of our political discourse sometimes get elevated into a caricature of what all of America believes,” laments Wagar. “Our system is an antagonistic one. It’s built on conflict, and it’s worked thus far although it does get messy. You don’t want to see sausage being made when it comes to legislation, and we don’t make sausage. It’s worked for the U.S. thus far.”

Manu Bhaskaran, CEO of Centennial Asia Advisors, questions the assumption that Chinese leaders have it much, if any, easier than the Americans regarding political efficacy.

“I would question whether China’s leaders really have that easy a task. They have to balance so many factions to get things done. China is a pluralistic, complex society. China’s leaders have chosen to manage it in a certain way but it doesn’t mean that way is superior to other ways.”

“The lack of representation is the cause of some of their problems,” Donaldson remarked just days before the Occupation Central movement in Hong Kong gained popular momentum. “The issues that you see in Tibet and Xinjiang, if you have meaningful representation then it might have been easier to resolve. Then you have things in the countryside [land grabs] that are making the news. The lack of representation is part of the cause for all this.”

Show me the money

Amidst the attention on China, one member of the floor asked if a traditional, if currently underperforming, economic powerhouse has been overlooked: Europe.

“If any currency can challenge the U.S. dollar as the global currency, it will be the Euro, not the Renminbi,” Bhaskaran asserts. “People are far too pessimistic about the Eurozone. I think Europe will sort out its problems. In terms of the currency and the capital markets, Europe is more than capable of challenging the U.S.

“We are moving towards a multi-currency world although it would be at least another twenty years before we get there. I foresee the U.S. dollar, the Euro and the Renminbi sharing the cake, as

it were. I don't think that will undermine U.S. power. At best, being the global currency gives you greater leeway in terms of policy, and monetary policy for instance. You don't need that to have global supremacy. It is technology and how you govern your systems that really matter."

Wagar summed up the panel as such: "As one country rises, the question is: Where does it fit in the global system? The rules that have allowed the countries to rise, and the safety and security that America and its partners have created – should that be strengthened with help from the rising power? The system we have right now is neither an American system nor a Western system, it is a global system.

"Those rules are in place for a reason, and they have allowed countries and their people to improve their situation. Fundamentally, the reason why people talk to the United States is because of who we are and what we believe, not how much we provide."