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The looming United States pivot towards containing China's influence

V. Anantha Nageswaran and Pranay Kotasthane[1]

EXECUTIVE SUMMARY

The United States of America has played a big role in the economic and political transformation of China since the Sino-Soviet clashes in 1969. This long run seems to be nearing its end. Citing evidences from recent developments with respect to macroeconomics and trade, we demonstrate that the US has decided to counter the rise of China.

We argue that the US has begun to take rather seriously, the possibility that it is facing a deliberate challenge from China. This constitutes a decisive and an important shift in the US policy towards China, which has, for the most part of the last quarter century ranged from benign neglect to active encouragement.

It is not the first time however, that the US will be following this trajectory. The US had also facilitated Japan and West Germany's rise after the World War II, in response to the Soviet challenge. However, by the eighties, as these two economies succeeded too well and US felt that its exports were no longer competitive, US was able to successfully contain the two rising economic powers.

We contend that the US has reached the same policy reversal point vis-a-vis China. Recent economic downturns have only exposed the sheer scale of China's economic vulnerability, presenting the US with a golden opportunity to wrest geopolitical advantage, once again.

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[1] V. Anantha Nageswaran is co-founder and Fellow for geoeconomics, and Pranay Kotasthane is a Research Fellow at The Takshashila Institution, an independent think tank on strategic affairs and public policy contributing towards building the intellectual foundations of an India that has global interests.

CONTEXT

> *"Is this [China's fortification of new islands] a deliberate, frontal challenge to the US and the existing Pacific order? Is it a feint, which the government will back away from as it has some others? Is it mainly a chest-beating gesture aimed at an audience inside China, to demonstrate that the country's leaders are strong, strong, strong? I contend that no one knows for sure. The US has to prepare for the possibility that this is a deliberate challenge—while remaining aware of the other possibilities, and gaming out its own reactions accordingly. That means being ready for a confrontation with China if it comes, but not acting as if one is inevitable and thereby insuring that it becomes so."*[2]

James Fallows, a long-time China watcher, wrote the above paragraph in a recent essay in *The Atlantic*. We contend that the US has indeed begun to take rather seriously the possibility that it is facing a frontal challenge from China, marking an important shift in the US policy towards China, which has, for the most part in the last quarter century ranged from benign neglect to active encouragement.

In the first section, we briefly review the historical role that the US played in the economic transformation of China since the eighties. In the second section, we analyse the US role in China's geopolitical rise after the Sino—Soviet clashes in 1969. In the next two sections, we set out the conflict between China and US for influence and military dominance, particularly in Asia. We study recent developments, with respect to macroeconomics and trade that suggest the US has decided to counter the rise of China. The final section concludes with some possible implications and action-points for India.

1. THE UNITED STATES' ROLE IN CHINA'S ECONOMIC RISE

In the last four decades, the US has helped China become a global economic power. US firms invested in manufacturing in China; the US government facilitated China's entry into WTO and the Treasury Department refrained from naming China a currency manipulator. US became the biggest destination for China's exports.

[2] James Fallows, "Just How Great a Threat is China?", *The Atlantic*, June 4, 2015. goo.gl/fzo6eu

As Izabella Kaminska summarised in FT,

> *"... for China to run a continuous current account surplus the US, it's main trade partner, must run a corresponding deficit as well.*
>
> *For a long while, the dollar's exorbitant privilege as the world's reserve currency allowed China to push the US further than most other nations could go. Yet, even so, there was a clear limit to how much of that deficit could be handled by the public purse. With the public sector budget unwilling to stretch much further (despite the Greenspan conundrum) China was eventually forced to diversify its holdings.*
>
> *It did so by investing into the next best thing to safe government debt: US government sponsored enterprise [GSE] paper (Fannie, Freddie etc).*
>
> *Before long, system-destabilising defaults were plaguing not just the western banking system but the return on Chinese GSE investments as well.*
>
> *What's often forgotten in the banker bashing which followed 2008 is that the public's bailout of the GSEs was in this way as much a bailout of China's dollar claims as it was of the US financial system."*[3]

We need to go back in time to show how much the US helped China come in from the cold after an opening was made in the 1970s by the Nixon administration.

To put China's rise in context, end of the seventies was also the time when the US had managed to slow the economic juggernaut of West Germany and Japan, both of whom it helped rehabilitate after their defeats in the World War.

The US had earlier displayed both political and economic pragmatism not only in accommodating but also in facilitating Japan and West Germany's rise from the ashes of the World War II. It helped US contain the spread of Soviet influence and a ready market for its exports as these two countries were reconstructing. However, as they succeeded too well and US felt that its exports were no longer competitive, US was able to contain the two rising economic powers.

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[3] Izabella Kaminska, "What are Chinese capital controls really? Part 1", *FT Alphaville*, August 14, 2015. goo.gl/oZTYpd

Towards the end of the eighties, once the US had successfully dismembered the Soviet Union, it turned its sights on Japan, which had begun to threaten the hegemony of the US in many ways. A strong yen coupled with low interest rates fuelled real estate and stock market bubbles in Japan.

When they burst, US tightened the screws further by calling for further yen strength, even as Japan was struggling to deal with the aftermath of the bursts in stock and real estate markets. It twisted the knife into their economic wounds and by spring 1995, when the USDJPY exchange rate reached a low of 79.0, the Japanese economic goose was well cooked.

Interestingly, around the end of 1993, China undertook a massive devaluation of the currency with no objections raised by the US-dominated International Monetary Fund and the US Treasury. Among other things, it completely upended the competitiveness of Japanese exports and that of exports of Southeast Asian nations. Within three years, most of these countries faced an economic and banking crisis. The US made no particular effort to help these countries. If anything, the US Treasury was blamed for supporting the commercial claims of US banks by arm-twisting the sovereign governments in Asia to discharge private obligations.

Then came the crowning event of US role in China's economic transformation. It played a big role in the admission of China into the World Trade Organisation. In 1999, in a testimony to the Senate Finance Committee, US Trade Representative Charlene Barshefsky praised China as having gone farther than any other WTO member country in liberalising its markets. That paved the way for China's accession to the World Trade Organisation in 2001. Two-way trade between China and the US rose from around USD5 billion in 1980 to little over USD590 billion in 2014. Despite repeatedly warning China of being labelled a 'currency manipulator', US never really took any specific action against the Chinese mercantilist policies.

2. THE UNITED STATES' ROLE IN CHINA'S GEOPOLITICAL RISE

The US also helped China attain the status of an influential geopolitical actor. After the fallout between Russia and China in 1969, the US and China collaborated on a variety of issues.

The first signs of a thaw in bilateral relations happened with China's invitation to members of the US Ping-Pong team in 1971, subsequently termed Ping-Pong diplomacy. In the following year, President Richard Nixon visited China, setting the stage for normalisation of relations between the two countries.

In 1972, the US agreed to a "One China" policy. In 1979, the US severed its normal diplomatic relations with Taiwan and established full diplomatic relations with China.[4] This bonhomie between the US and China was briefly interrupted by the Tiananmen Square incident, leading to a freeze in the diplomatic ties.

In the covert domain, there was deeper collaboration on weapons and technology transfers. The Christopher Cox Report (1999), investigating Chinese espionage and illicit technology acquisition from the US concluded — 'US and international and domestic policies and practices have facilitated the PRC's efforts to obtain militarily useful technology'.[5]

Going beyond the allegations of the Cox Report, Jonathan Pollack from the RAND Corporation detailed the political, military, intelligence, and dual-use technology ties with China, assiduously pursued at the highest levels of the U.S. government during the 1970s and 1980s. He described how senior US officials provided Chinese interlocutors with highly sensitive US intelligence data on Soviet military capabilities and deployments—without the Chinese having ever solicited this information. The US and China also collaborated against the USSR in Afghanistan and Cambodia. Besides military and intelligence ties, significant technology transfers were initiated under foreign military sales (FMS) to China. Avionics packages, anti-submarine warfare torpedoes, artillery-locating radar and Blackhawk helicopters were transacted.[6] The US also financed over two-dozen satellite launches by Chinese rockets, which enhanced Chinese missile capabilities.[7]

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[4] "US Relations with China", *Council on Foreign Relations*, May 21, 2012. goo.gl/RMkPFG

[5] Anjali Bhattacharjee, "Analysis and Summary of the Cox Committee Report and the Allegations of Chinese Nuclear Espionage", *Berlin Information Center for Transatlantic Security*, June 1999. goo.gl/oybp08

[6] Jonathan D Pollack, "The Cox Report's dirty little secret", *Arms Control Association*, April 1,1999. goo.gl/sqdkDh

[7] Hui Wang, "US—China: Bonds and Tensions", *RAND Corporation*, 2001. goo.gl/wPsOCd

At the same time, the US consciously downplayed China's acts of nuclear weaponisation and proliferation. More recently, US tried to downplay the clashes that China has had with its important allies in the region – Philippines and Japan. On Taiwan too, the US has been benignly watching China make many moves towards eventual integration of Taiwan, RoC as part of the People's Republic.

3. ACCOMMODATION TO MAKE WAY FOR CONTAINMENT

Evan Feigenbaum and Robert Manning wrote in January 2013, "after four decades during which Washington has enabled China's rise through large-scale economic interchange, technology transfer and support for a larger Chinese role in global institutions, the idea that the US is 'containing China' is fanciful."[8]

The idea of the US containing China might have sounded fanciful more than two years ago but not so fanciful right now. However, more important than that is the acknowledgement that the US had facilitated China's economic and political rise for nearly four decades.

Has the US concluded that it had done enough to help China and be helped, in return? After all, China directed its trade surplus to the purchase of US Treasuries and allowed US citizens to consume beyond what they produced and financed that arrangement too.

We feel that the US may have just reached such a conclusion because China might have flexed its muscles too much. To explain how China has moved to a more confrontational approach towards US, we sight evidences from economy and geopolitics that suggest a shift in Chinese position since 2008.

China's attitudes towards the US changed to one of overt aggression after the 2008 financial crisis. It is quite likely that China interpreted the crisis as marking the apogee of the US era and that the US was headed downhill after that.

In March 2009, the governor of the People's Bank of China called for the creation of a 'neutral' reserve currency. He wrote that the desirable goal of reforming the international monetary system was to create an international reserve currency that would be disconnected from individual nations.

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[8] Evan Feigenbaum and Robert Manning, "The problem with two Asias", East Asia Forum, January 25, 2013. goo.gl/pWvBSL

Such a currency would be able to remain stable in the long-run, thus removing the inherent deficiencies caused by using credit-based national currencies.

More recently, China has created the Asian Infrastructure and Investment Bank (AIIB) that, over time, aims to supplant the World Bank and its Asian offspring, the Asian Development Bank (ADB). While US dominates the World Bank, ADB is dominated by the US and Japan. US and Japan have not joined the AIIB while most European nations, led by the United Kingdom, have jumped on to the AIIB bandwagon. China is now writing the operating rules for AIIB that grants it veto powers.

Related to AIIB is the One Belt, One Road (OBOR) initiative, through which China envisages economic integration with the countries in its vicinity. As part of this framework, China aims to focus both, on land-based and maritime silk roads. With massive trade and infrastructure networks, this project has been referred to as China's Marshall Plan[9]; competing directly in influence with the US led Trans-Pacific Partnership (TPP).

On the political side too, there has been a perceptible rise in China's assertiveness since 2009. Yasuhiro Matsuda chronicles this change in attitude thus:

> *"This [China's attitude towards its neighbours] modest approach disappeared in 2008, especially after the conclusion of the Beijing Olympic Games. The Chinese navy undertook a number of fleet exercises that crossed into the western Pacific from the East China Sea via waterways along the Ryukyu Islands. The frequency of such exercises grew annually, suggesting they were part of a broader, purposeful strategy. There were only 2 such passages in 2008; by 2013, they had increased sevenfold to 14."*[10]

In November 2013, China unilaterally imposed an Air Defence Identification Zone (ADIZ) over parts of the South China Sea. Many observers noted this act as an indicator of China's attitude on maritime disputes.

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9 Shannon Tiezzi, "The New Silk Road: China's Marshall Plan?" *The Diplomat*, November 6, 2014. goo.gl/Fq17na

10 Yasuhiro Matsuda, "How to Understand China's Assertiveness since 2009: Hypotheses and Policy Implications", *Center for Strategic and International Studies*, April 2014. goo.gl/ZBwKDw

Zachary Keck of *The Diplomat* noted "China's approach to the South and East China Seas has been to try to establish its sovereignty over contested areas through the use of a combination of military power and international law. Specifically, as is well known, it has sought to increase its maritime patrols over the entire South China Sea through the creation of Sansha City garrison, and has seized control over the Scarborough Shoal and, increasingly, the Second Thomas Shoal. It has also sought to challenge Japan's administrative control over the Diaoyu/Senkaku Islands by increasing its maritime patrols and air flights over them."[11]

China's belligerent posture in the South China Sea continues to be a cause for concern for its other maritime neighbours. In order to strengthen its ambitious claims in the region, China has been feverishly piling sand onto reefs in the South China Sea for the past year, creating seven new islets in the region.[12]

China has also pursued a deliberately aggressive policy in the information domain. US has been at the receiving end of many cyber-attacks from China starting from 2010. Most recently, the US federal government had to concede that the personal information of more than 20 million US citizens from the databases of the Office of Personnel Management was stolen in an attack originating from China.[13]

As China asserts itself militarily, threatens the US dollar's polar position as the global reserve currency while, at the same time, being of lesser or no use to the US in terms of financing its budget deficits, it is possible that US has concluded that it was time to put China 'in its place', in more ways than one. As the US helped revive Germany and Japan after World War II and then cut them down to size once they threatened its pre-eminence, the US might be about to embark on a similar mission with respect to China.

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[11] Zachary Keck, "With Air Defense Zone, China is waging Lawfare", *The Diplomat*, November 30, 2013. goo.gl/2GqbOe

[12] Derek Watkins, "What China Has Been Building in the South China Sea", *The New York Times*, July 31, 2015. goo.gl/6p8oep

[13] David Sanger, "US Decides to Retaliate Against China's Hacking", *The New York Times*, July 31, 2015. goo.gl/bQXVN8

4. IS THE UNITED STATES READY FOR CONTAINMENT OF CHINA? EVIDENCE FROM ECONOMY AND TRADE

At the outset, it must be clearly understood that no country, except in cases where economic sanctions are imposed, announces publicly that it has decided to desist from active support to another nation with whom it has normal relations on the surface. It can only be surmised or deduced from various seemingly independent or disparate actions and announcements. Observed closely, they may and usually do fit into a pattern.

Trans-Pacific Partnership

In economic terms, the most important symbol of the hardening US attitude towards China is the Trans-Pacific Partnership (TPP) agreement that the US is crafting. It excludes China but extends all the way from Chile to Vietnam. Alan Krueger, who was the Chairman of the President's Council of Economic Advisors from 2009 to 2011, was in Singapore recently to speak at a conference. He specifically mentioned the importance of TPP for US allies. He specifically singled out how Japan would benefit from it. Vietnam too is expected to be a big beneficiary. Interestingly, both countries are in the frontline of the battle with China on its various land claims against neighbouring countries.

After many tortuous negotiations, twists and turns, the US Congress had given the Fast track authority to sign the TPP deal. It means that the Congress can either accept or reject the trade deal that the President signs but cannot vote on it clause by clause. However, after navigating the storms in the US Congress, the TPP deal appears to have run into rough waters with US allies such as Japan, Canada and New Zealand.[14]

Edward Luttwak, author of 'The rise of China and the Logic of Strategy' reckons that strategy trumps politics, which trumps trade. However, if the deal were not to be ratified soon, it might have to wait for the next US President to conclude it in 2017. By then, economic headwinds might hinder whatever support that remains for free-trade deals in the world. If the deal remained stillborn, it would deal a heavy blow to US efforts to set global trade rules such that China would either have the choice of playing by them or be excluded. Indeed, it might push more nations to embrace, accept and reconcile to China's rise, for sheer lack of other options.

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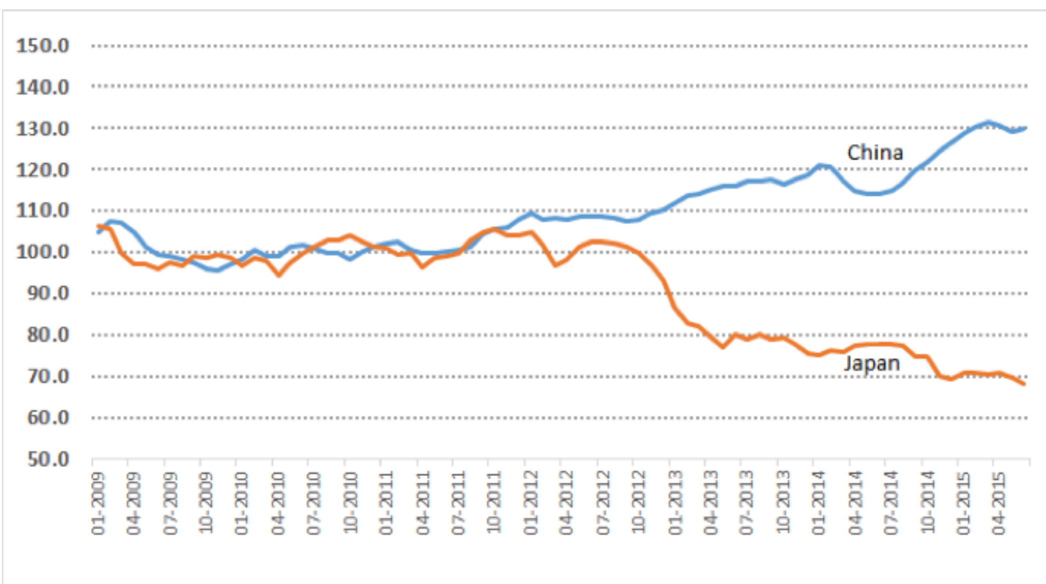
[14] Angelo Young, "Trans-Pacific Partnership: Is TPP Dead After Key Sticking Points Block Recent Progress?" *International Business Times*, August 3, 2015. goo.gl/8n5Q99

Exchange Rate Competitiveness

On exchange rates, the US attitude is less clear-cut, on the surface. From what we gather, US has quietly facilitated and encouraged a relative overvaluation of the Chinese currency. By keeping the US dollar stable, by dangling the carrot of a membership of the Special Drawing Rights and by keeping up the pressure on China to rebalance towards more consumption and less exports, US has encouraged the steady appreciation or overvaluation of the Chinese Yuan in real effective terms. The chart below shows the dramatic surge in competitiveness of the Japanese yen vs. Chinese yuan. The chart (Chart 1) represents the Real Effective Exchange Rate indices of the Chinese yuan and the Japanese yen with the base year (2010) value of 100. A rise in the REER suggests that the currency has become rich, overvalued, or uncompetitive, in inflation-adjusted terms. That is what has happened to the Chinese yuan whereas the converse is true for the Japanese yen. Unlike in the 1990s, now, the US has not batted an eyelid for all the quantitative easing undertaken by Bank of Japan and the resultant yen weakness. The wheel has come a full circle for Japan. Indeed, the United States might well be practising one of the oldest aphorisms of war: to murder with a borrowed knife.

Chart 1: REER for Chinese yuan and Japanese yen



Real Effective Exchange Rate (REER) for CNY and JPY (2010=100). Data up to June 2015. Source: Bank for International Settlements.

SEC subpoena

Then, the Securities and Exchange Commission recently subpoenaed JP Morgan for all the correspondence that the firm had engaged in with 35 mostly high-ranking government officials, including with Wang Qishan, the powerful official leading China's anti-corruption campaign.[15] The SEC subpoena also requires J.P. Morgan to produce a list of any officials at six Chinese government agencies who asked the bank to hire job candidates, provide all communications between the officials and the bank and then give details of interactions between the official and the bank for a year after any such job request. The agencies flagged by the SEC are the State-owned Assets Supervision and Administration Commission, the China Insurance Regulatory Commission, the China Banking Regulatory Commission, the China Securities Regulatory Commission, the Ministry of Finance and the Ministry of Commerce. The *Wall Street Journal* thinks that the request pertaining to Mr. Wang could be construed by China as an unfriendly act.

Planning for China's Hard landing

In one of its regular monthly commentaries (*Data Flash*, May 2015) issued to its clients, *Conference Board*, a well-known and widely respected independent business membership and research association, noted that China's economic growth would soon be around 4% and that multinational businesses should note that recent developments in China question two long-standing assumptions about China. One is that Chinese leadership could dictate an economic growth bottom-line and, secondly, that the Chinese government has the necessary tools to manage an orderly slowdown. It then went on to advise businesses to include in their plans the contingencies that China's downturn was deeper and that the ride to the bottom could be more volatile. It repeated its warnings in a note on the second quarter growth estimate for China, published in July. It noted the disconnect between the topline GDP print and underlying economic data becoming increasingly pronounced: "Indeed, second quarter y-o-y growth in industrial production, consumption, investment, and construction were all below the rates seen in Q1, and yet the headline number stayed even."

China's external debt and Fed tightening

China has an external debt problem, particularly of the short-term variety that needs to be rolled over. China's overall external debt is not big – in relation to its GDP but the short-term debt is more than 70% of overall debt.

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[15] Ned Levin, "U.S. Seeks Details on Top China Official Amid Bank-Hiring Probe", *The Wall Street Journal*, May 27, 2015. goo.gl/OojVJE

It stood at USD645.9 billion in the third quarter of 2014 whereas its total stock of external debt was USD905.2 billion. Of course, this figure does not include the liabilities incurred by the financial sector. Data on China's Net International Investment Position (Net IIP) at the end of 2014, available from the State Administration for Foreign Exchange, shows that the total short-term external debt (including that of the financial sector's) might be of the order of around USD837.4 billion. We caution that this is our guesstimate.

In this scenario, the timing of the US interest rate hike is not just a matter of the US Federal Reserve assessing domestic conditions and making a decision. It is an international geo-political decision. On the one hand, hiking the Federal funds rate would make rolling over short-term external debt more expensive for China. But, will 50 basis points be a disaster? Perhaps, not. However, in the context of large capital outflows from China, it could be the straw that broke the camel's back.

In the first quarter, China's foreign reserves fell by about USD80 billion even as current account surplus and net foreign direct investment totalled USD129.2 billion. That means that capital outflows (recorded and unrecorded) were about USD209.5 billion, an annualised USD838 billion or about 9.25% of GDP. Goldman Sachs reckons that around USD200 billion left the country in the second quarter of this year.

Formidable economic headwinds for China

China's economic growth is much slower than what official figures indicate. Its exports are no longer competitive and the currency is becoming increasingly overvalued. China has a big domestic debt problem and it has at least temporarily abandoned attempts to reduce it. Capital is leaving the country. The Communist Party of China is not about to relinquish its tight grip on the economy and it stoked a stock market bubble to shore up equity in State-owned enterprises. When the party in the stock market ended abruptly in June, the government panicked and brought out all forms of intervention in sheer panic, much to the bewilderment of international observers. In effect, China banned all selling in the financial markets and buying stocks became an act of patriotism.[16]

[16] James Kynge, "Prestige of the Communist party tumbles in the Great Fall of China" *Financial Times*, July 9, 2015. goo.gl/JkRIZz

These moves prompted the *Conference Board* to observe that, for the time being at least, the China stock market was no longer a market. We agree. It is a mockery. It has exposed the sheer scale of China's economic vulnerability, presenting US with an opportunity to wrest geopolitical advantage.

The New US strategy — an assessment

The real question is whether all these things add up to a coherent strategy with an end game in mind or stray and unrelated developments that we have strung together to form a coherent story. That is impossible to prove, of course. After all, the perception is that the Obama Administration is unwilling to take strong action against the US government. Second, the US might deem 'China too big to fail' and hence might be prepared to 'bail out' China as it faces a treacherous economic situation by not reacting to its currency depreciation and other similar protectionist measures.

In the final analysis, we reckon that the patience of US businesses, Congressmen and public might wear thin if the US's fragile economic expansion turns south. That might be arriving sooner than we think as the US economy is already in its sixth year of expansion. Profit margins have begun to shrink while economic, and financial market imbalances have built up. The year of reckoning for the US economy and thus for the US—China relations could be in 2016.

5. MAPPING INDIA'S RESPONSE TO CHANGING UNITED STATES—CHINA RELATIONS

The power play between the US and China puts India in an interesting position. In the short to medium term, India will try to position itself as a "swing power" between the US and China. A swing power is an economically and militarily strong state can shift the global balance of power.

This concept of India's position as a swing power in the US—China equation has gained traction with various stakeholders in all the three countries involved over the last few years. A policy Q & A by the US National Bureau of Asian Research for the Senate India Caucus described India as a quintessential "global swing state" in July 2013.[17]

[17] "India as a Global Swing State", *The National Bureau of Asian Research for the Senate India Caucus*, July 2013. goo.gl/KTxu5w

Back in 2008, K. Subrahmanyam, one of the leading thinkers on India's grand strategy alluded to India's role as a swing power when he said: "India has to leverage the situation and change the US-EU-China triangle into a rectangle. Until then it is in our interest to help US to sustain its pre-eminence. After all, in a three-person game, if US is at Number One, China is at Number Two and we are lower down, it is in our best interest to ensure that it is US that remains Number One."

India's unique position as a swing power also means that it will be at the centre stage once the US chooses to intensify its attempts at containing China. At the zeroth level, this will operate as follows:

China's strong growth (backed by the US) over the last four decades had made it see itself as a power that would challenge the US. However, if it's economic power declines (and that of India's grows), the vast gap between India and China will start reducing. This means that China might become more aggressive in its dealings with India. A China that declines as a global power will have fewer tools to operate with, but it does not mean that it will be friendlier to India. Hence, India will have to invest in building its economic power and diplomatic capacity so that it is rightly placed for the time when China confronts India as an equal.

Beyond this zeroth level, India can respond to specific items in Indo—China bilateral relations in the following way:

On land border dispute with China

India can play a wait-and-watch game instead of pushing for any negotiations. Nuclear balance of power means that any major conflict on this border is unlikely. Given that US is more likely to reprimand a partner rather than China, entering into discussions on this subject at this point of time will result in a solution detrimental to India's interests. India should wait for a moment when China's economic power declines considerably.

On collaboration with other countries in East Asia

India can take two distinct, parallel approaches: With countries that have territorial disputes with China, India should scale up its efforts in building broad-based relationship, not constraining itself to the defence co-operation only.

A broad based relationship will give India multiple points for leverage in strenuous times. East Asian countries that do not have territorial disputes with China, will be more reluctant to engage with India on strategic issues. Engaging such countries will require India to wait for the time when China's power declines substantially.

On the economic front

India can still rely on China for financing its infrastructure. As China discovers a sluggish domestic market, it will look to invest outside in the short-term. India should take advantage of this. In any case, investments in road and rail infrastructure will not undermine India's security, nor will they lock India with Chinese technology. In that sense, India has done well to join the China-led initiatives on the BRICS Bank and AIIB. It has the ability to shape their governance and lending decisions. If China imposed its will on the lending decisions of these institutions, it would greatly undermine its efforts to become a global power, which plays by the rules of the game.

CONCLUSION

In this paper, we first demonstrated that China's economic and military growth since the 1970s was at least in part due to US encouragement. We then presented evidences to show the change in China's attitude towards the US to one of overt aggression after the 2008 financial crisis. Taking note of this deliberate challenge, and aided by the visible cracks in the Chinese economic miracle, we conclude that the US has decided to counter the rise of China.

From an Indian perspective, we assess that a China that declines as a global power will have fewer tools to operate with, but that does not mean it will be friendlier to India. Hence, India will have to invest in building its economic power and diplomatic capacity so that it is rightly placed for the time when China confronts India as an equal.