THEIR VIEW

How America helped China rise to challenge its own hegemony

China leveraged US strengths and actions on a wide range of fronts to craft a strategy that has turned it into a powerhouse

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Mikhail Gorbachev's resignation on 25 December 1991 marked the collapse of the Soviet empire. The United States of America became the single hegemon of a global geopolitical order which it had established along with its allies at the end of World War II in 1945. But 20 years earlier, in 1971, when US President Richard Nixon visited China along with Henry Kissinger to normalize relations with the Peoples Republic of China (PRC), the US had itself already set the ball rolling for the emergence of a new global geopolitical order in which China would challenge the hegemony of the US. Nixon was prescient in describing his China visit as "the week that changed the world."

By recognizing the PRC as the sole representative of China, the Nixon-Kissinger mission opened the first of many doors that would eventually lead to China's full entry into the West dominated global economic order. Following Nixon's visit, the PRC replaced the Taiwan-based Republic of China (ROC) as the real China at the United Nations and in the UN Security Council in 1971. By 1980, the PRC had replaced the ROC in the International Monetary Fund and World Bank, two of the three pillars of the US-led global economic order. In 1986, China applied for membership of the General Agreement on Tariffs and Trade, forerunner of the third pillar, the World Trade Organization (WTO). In 1999 China and the US signed a crucial Bilateral Market Access Treaty. In December 2001 China joined the WTO.

During this three-decade journey, much changed within China. Succeeding Mao Zedong in 1976, Deng Xiaoping launched the '*gaige kaifang*' or 'reform and opening up' programme in 1978. This led to a fundamental transformation of the Chinese economic system and its challenges. Increasing access to the global economy and its institutions was the cushion that enabled China to cope with these extensive internal changes and position itself firmly for export success. It adopted aggressively mercantilist strategies for that, especially an undervalued currency.

The energies released by Beijing's internal reforms, combined with aggressive penetration of markets abroad, led to decades of breathtaking GDP growth never seen anywhere before. By 2001, when China joined the WTO, it had already emerged as the factory of the world. But it could not continue to depend on mercantilist strategies forever, especially after joining the WTO. Its attempted switch from an export- dependent, high-savings and high-investment growth strategy to a domestic consumption-led strategy with lower rates of investment and savings didn't work. China's economy has remained heavily export dependent. However, undervalued exchange rates have now been supplemented with a strategy of exporting capital. Under the Belt and Road Initiative (BRI) launched by Xi Jinping in 2013, China's surplus savings are now used to finance a massive portfolio of infrastructure projects in some 150 (mostly) developing countries, drawing on China's surplus capital goods manufacturing capacity. There has been strong criticism of the BRI's onerous loan terms that have led many countries to high indebtedness. However, China can restructure these loans into softer packages to strengthen its alliances with these countries.

China is already the largest global economy in purchasing power parity terms and is likely to overtake the US even in conventional GDP terms within a couple of decades. But apart from the economic front, China is now challenging US hegemony on the technology front too. Artificial Intelligence (AI) is a leading example of competition on the technological frontier. Here, open-source Chinese AI models like Deep Seek, Qwen, Kimi and others are outpricing comparable US versions like ChatGPT, Gemini and Claude at a third to a tenth of the cost, just as Chinese electric vehicles (EVs) have priced out other EVs. How is this happening? In part, China has leveraged the stock of knowledge in US universities. Over decades, thousands of Chinese students have graduated from leading US universities, especially with Stem specializations. While a few stayed back, most have returned to China and are engaged in producing rival products in Chinese laboratories and enterprises. Also, many US-educated experts are teaching in Chinese varsities, indigenously producing the next generation of experts. The US has not lost its technological lead, but the gap is closing fast. The same applies to other frontier fields like biotech, space and defence.

QUICK READ

The US under Nixon recognized the People's Republic as the real China and replaced the regime based in Taiwan at multilateral institutions. This let China into the world economic order.

On every front that China is challenging America today, from trade and economic heft to technology and the global financial system, Beijing has the US to thank in some way.

The third front where China is challenging US hegemony is the global financial system. In 2015 China launched the renminbi-based Chinese Cross-Border Interbank Payment System (CIPS) as an alternative to the dollar-based Swift system. Its reach is still very modest, but China is pushing its partners to use it and it has been growing steadily. There are 121 countries directly or indirectly participating in CIPS and its transactions now extend to businesses in over 189 countries. The Swift and CIPS settlement systems are now collaborating, but the latter is much faster and cheaper. The more the US resorts to sanctions, the more it pushes businesses across the world to use CIPS.

Thus, China is challenging US hegemony across a wide front, ranging from the economy and trade to technology and the global financial system. What is interesting is how China has leveraged US strengths or actions on each front to strengthen its own position as the aspiring challenger.

MINT CURATOR

Can China's BYD zip into the hearts of Japanese car buyers?

It has a tiny vehicle that could mark its biggest ever market victory

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Japanese car-buyers are among the world's most brand loyal. BLOOMBERG

From Europe to Southeast Asia, Chinese electric vehicle (EV) maker BYD is on a roll. But its toughest challenge is much closer to home: cracking Japan, the world's fourth-largest auto market, where it has yet to make a dent in sales after years of trying. That might be about to change.

This week's introduction of the tiny Racco, which means 'sea otter' in Japanese, is the right approach in a country whose love for small cost-efficient vehicles goes back decades. The Shenzhen-based firm is the first foreign player to make a dedicated effort to tackle the boxy *kei jidosha*, or light car, a quintessentially Japanese vehicle category. Much smaller than even compact models, these autos are restricted to 3.4m in length and 1.48m wide. They even have their own tax and insurance rules.

The price of ¥2,145,000 ($13,000) for an entry-level model shows BYD is serious about gaining traction with a bespoke battery-powered design. By comparison, Nissan's popular Sakura mini has a higher sticker price, but is slightly cheaper once national subsidies are factored in. That said, Sakura has fewer features and a shorter range when fully charged, so the BYD is offering value at a comparable price.

The strategy is no accident. The four-seater *kei* was created in 1949 to provide low-cost, fuel-efficient transport during the difficult post-World War II era. After decades of refinement around a homegrown set of regulations and customer expectations, the mini segment has become a beloved institution, accounting for more than a third of annual vehicle sales in Japan.

Foreign brands make up about 5% of shipments, so even modest success would indicate a breakthrough and create a path for other Chinese companies to follow. This is important because BYD has vowed to overtake Toyota as the world's top carmaker in five years—even without access to the US, which bars Chinese vehicles with 100% tariffs plus a national security ban on software and hardware systems. With revenue shrinking at home, it must rely on new export markets for growth.

The carmaker has its work cut out. It sold only 4,500 vehicles in Japan last year. Prospects dimmed in April, when the national government changed the way it calculates subsidies for clean-energy vehicles. EV demand remains extremely low for a developed country, where hybrids are much more popular.

The previous formula rewarded driving range and energy efficiency, which benefited BYD because of its high-tech specifications. The revised version places greater weight on supply chains and cyber-security, bolstering companies that help homegrown industry, according to Ken Maeda.

Given the tense relations between Tokyo and Beijing, perhaps it is no surprise that the subsidy for BYD's entire lineup was cut by more than half to ¥150,000. The overhaul widened the gulf with Toyota, whose bZ4X model retained the maximum ¥1.3 million subsidy, and Tesla, whose purchase incentive followed closely at ¥1.27 million. In the smallest *kei* category, the subsidy gap is substantial at around ¥400,000 compared to rival models.

This is, no doubt, a major non-tariff barrier to overcome. But it was to be expected. Japan, like Mexico and Thailand, is extremely nervous about the threat posed by Chinese carmakers. That is why it was shrewd of BYD to enter the budget segment. Its reputation for offering well-equipped cars at competitive prices aligns with what many *kei* drivers are looking for. They are extremely popular as family vehicles, especially outside major cities. The Racco's pricing demonstrates the carmaker's ability to work around its subsidy disadvantage.

To be sure, it is too soon to know how enthusiastically consumers will embrace the new entrant. Japanese buyers are among the most loyal in the world, tending to stick with familiar names like Suzuki, Daihatsu and Honda that dominate the mini market. They have spent decades earning trust for reliability, resale value and dealer support.

Kei customers are particularly conservative. Many have owned several generations of the same model, making it difficult for an unfamiliar foreign brand—no matter how competitive its technology or price—to persuade them to switch.

Opening dealerships in smaller cities, where demand for tiny cars is strongest, is a good start. BYD has 77 sales locations, including dozens of official dealerships. It should press ahead with a goal of reaching 100 outlets by the end of the year and then expand further.

Winning over Japanese *kei* buyers will not happen overnight. But if BYD can convince some of the world's most demanding and loyal drivers to embrace a Chinese brand, it would be the company's most impressive victory yet. ©BLOOMBERG

GUEST VIEW

India must unlock retirement wealth locked in homes

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Indian households have been the backbone of India's savings story, accounting for about 60% of the total, with this money going into investment and economic growth. Yet, we face a paradox. Net financial savings form a modest 29.5% of overall household sector savings, with household debt having surged to 41.9% of GDP. While this may be a direct result of rising consumer spending, it puts the 'life-cycle hypothesis' under strain.

Notably, a large chunk of savings is held in assets that cannot easily finance people's post-retirement lives. Household savings are at 21.7% of GDP, but the bulk of it, 13.6% of GDP, goes into physical assets—primarily residential real estate. This is wealth locked in illiquid assets, an explanation for which may be found in cultural traditions of land and home ownership as a measure of lifelong financial security, an indicator of social status and a legacy for future generations. The idea of a diversified retirement portfolio is relatively new. However, only a marginal section receives pension of any kind, with consequences visible after retirement as the elderly must survive on interest income or family support. They are not poor in terms of wealth, but in terms of cash flow. Economists describe this as being "asset rich but income poor."

The scale of this problem has grown. The UN Population Fund's 2023 *India Ageing Report* projects India's 60-plus at 347 million by 2050; so every fifth Indian will be elderly by then. Right now, 40% of India's elderly are already in the lowest wealth quintile and nearly about one-fifth either live alone or only with a spouse.

A reverse mortgage allows senior citizens to convert part of their home equity into a regular income, while continuing to live in the same house. Instead of making monthly loan repayments, the homeowner receives periodic payments from the lender. The loan is recovered only once the property is eventually sold—after the borrower vacates the house or passes away.

It's a 20-year-old idea that never took off: India recognized its potential long ago. The Reserve Bank of India issued reverse mortgage guidelines in 2007, with National Housing Bank extending this facility via other banks. Yet, the market remains nonexistent. The reasons may include a strong bequest motive, weak property titles, risk aversion by banks and limited awareness of complex products for elders.

These challenges are not unique to India. International case studies show a way forward. The US runs the world's largest reverse mortgage scheme, Home Equity Conversion Mortgage (HECM), with a "no negative equity guarantee" mechanism; the UK has an Equity Release Council as a self-regulatory body; Australia offers direct state support through its Home Equity Access Scheme; and Japan has deposit-collateralized reverse mortgages, which let the elderly use deposits as collateral. A successful reverse mortgage market requires trust, legal certainty and consumer protection, not financial innovation alone.

The Indian debate has missed an even more fundamental question: To kick-start reforms, India must analyse constraints. We need estimates of home-ownership wealth among those aged above 60 and the proportion of retirees who rely primarily on housing rather than financial assets, apart from broad data on the distribution of housing wealth across age groups and geographies.

QUICK READ

A significant chunk of Indian household savings goes into homes, leaving many of the elderly asset rich but income poor. But reverse mortgages can turn home equity into cash flow.

For various reasons, the idea never took off in India. Its potential, though, is enormous. Those stuck with little post-retirement financial support will benefit if we make a go of it.

Financial literacy aimed at behavioural change should help the effort. A bottom-up approach to awareness generation would be ideal, with people in the workforce primed to adopt these financial products upon their retirement even as ageing homeowners are explained the benefits of a reverse mortgage. On their part, banks could facilitate adoption by offering competitive interest rates, flexible lumpsums followed by monthly but inflation-indexed payouts and also favourable loan-to-home-value ratios.

Reverse mortgages and urbanization led by housing access are two sides of the same coin, as the former unlock properties that eventually help meet an upswell in demand for urban homes.

Well-regulated insurance coverage of reverse-mortgage loans can mitigate the risk of property values dropping below loan values. This would protect lenders against losses while reassuring elderly borrowers that realty-market setbacks to their home equity will not result in their eviction. India's credit guarantee mechanism could also be leveraged for this.

Further, to keep risks low and contained, India could explore mandatory independent counselling to protect elderly borrowers, standardized contracts, a statutory no-negative-equity guarantee and a refinancing window through a developmental financial institution. Digital land records and improved property valuation systems would further reduce transaction costs and legal uncertainty, which have historically discouraged lenders more than lack of demand.

India has recently seen a spurt of nuclear families coupled with a declining trend in its total fertility rate. Old age homes are mushrooming too in several states. Thus, this is the right time to experiment again with reverse mortgage products. These should be viewed as the third pillar of retirement finance, complementing pensions and financial savings, as they allow households to convert their existing home-ownership wealth into retirement income.

These are the authors' personal views.