

A time for muscle-flexing

As Western economies flounder, China sees a chance to assert itself—carefully.



James Miles

The room is stuffy on a sunny spring afternoon, and many of those packed into it (see above) must have regretted bringing their coats. The lucky ones have taken the few seats available. The rest are crammed shoulder-to-shoulder in this hotel-room office, listening intently to an hour-and-a-half rant on the threat of American imperialism and how the global economic crisis will result in growing confrontation between China and the West.

Sitting in front of a large portrait of a young Mao Zedong, Zhang Hongliang knows how to play to his nationalist, liberal-despising audience. His rambling discourse ranges from adulation of Mao to scorn of America (it has neither history nor culture), to warning of a “white terror” if rightists (liberals) prevail. The economic crisis is entirely the West’s fault, and as it deepens the West will turn on China. Now is the time to build an aircraft-carrier. A war with America would be “lose-lose”, but China should not be afraid of it.

China’s “leftists” are becoming more active as the global economy sputters. Mr Zhang belongs to an extreme fringe that pines for Maoist egalitarianism, state ownership and the certainty that America is an enemy. His seminar was organised by Maoflag, one of a clutch of like-minded websites in China whose nationalist, pro-communist rhetoric is suffused with a sense of their country as victim, yearning for revenge. Frequenters of these forums took heart from a flurry of spontaneous celebrations around the country in December to mark Mao’s 115th birthday. The government preferred to play it down.

Few would suggest that radical Maoists are poised to make a comeback. But their nationalism has a broad appeal. As China surveys the world, with the West in financial turmoil and its leaders seemingly desperate for cash-rich China to come to its aid, it sees strategic opportunities. Even before the financial crisis began to hit the country late last year, nationalism had been boiling up. It was evident in public responses to the turmoil in Tibet in March, the West’s support for the Dalai Lama, and China’s sporting triumph at the Olympic games in Beijing in August. Now a battered West presents a gratifying target for pent-up contempt. Even the normally cautious government is beginning to flex a little muscle on the world stage.

For most of the past two decades (flare-ups with Taiwan in 1995-96 and with America in 2001 excepted) China has played a cautious game internationally. Its approach was summed up in the pithy four-character phrases into which Chinese policymakers love to distil their thinking. The late Deng Xiaoping came up with a string of them: China should keep a low profile, not

take the lead, watch developments patiently and keep its capabilities hidden. Now the global economic crisis and the West's obvious weakness are causing officials to think again.

In public Chinese leaders still try to reassure. During a visit to Europe in late January and early February, China's prime minister, Wen Jiabao, stressed that China's development was no threat to anyone. It would be, he said at Cambridge University (an event better remembered for the shoe lobbed in his direction by a protesting German student), a peaceful and co-operative great power. Some sensitive Western diplomats pricked up their ears at the phrase "great power", but it is one Mr Wen has used to describe China since well before the current crisis. In deference to foreign feelings, an English text released by the government news agency, Xinhua, used the word "country" instead.

On the issue of Tibet, however, China has been digging in its heels. Having conceded a little to Western opinion last year by holding three rounds of talks with representatives of the Dalai Lama in the wake of the unrest in March, China has lost interest. A massive security clampdown has been imposed on the Tibetan plateau to prevent any protests during this month's 50th anniversary of the uprising that caused the Dalai Lama to flee into exile in India. Foreign journalists (despite pleas for access) have been shut out altogether.

In late February China gave a warm welcome to America's secretary of state, Hillary Clinton. It had reason to feel proud. Here was an important American official clearly looking for China's help. Mrs Clinton—who once boasted how strongly she had emphasised human rights during a visit to Beijing in 1995—was now suggesting that China's bad record should not get in the way of co-operation on the financial crisis and global warming. Mr Zhang at the Maoflag seminar certainly enjoyed her new, soft tone.

Two weeks after Mrs Clinton's departure, Chinese boats (according to the Pentagon) harassed an unarmed American ship, the Impeccable, in the South China Sea. The ship was a mere 75 miles (120km) off China's coast and was probably on the lookout for Chinese submarines. But much as China objects, the American navy frequently deploys in international waters off China to monitor military activities. In this case Chinese responded more aggressively than usual, surrounding the American ship and trying to stop it from withdrawing. America later sent a guided-missile destroyer to protect the Impeccable.

A cautious poke

China clearly does not want to push this too far, mindful perhaps of the huge crisis in relations that occurred in 2001 when a Chinese fighter jet crashed into an American spyplane, forcing it to land at a Chinese airbase. The American crew was held for 11 days. This time China's response was to send a fishery patrol ship (hardly a match for a destroyer) to the area. But Shi Yinhong of Renmin University says the latest incident is a sign of new robustness in China's dealing with the West.

Though China may be unwilling to give America more than a cautious poke, it is a different story with Europe. Its abrupt decision to cancel a summit with the European Union scheduled for last December showed that, even amid the global crisis, it was prepared to deliver a powerful snub to leaders of its biggest trading partner. The reason was a meeting between France's president, Nicolas Sarkozy, and the Dalai Lama (France then held the EU presidency). The EU and China have agreed to reschedule their summit for later this year, but Mr Sarkozy is not yet forgiven. Wen Jiabao, the prime minister, avoided France during his recent European tour. "I looked at a map of Europe on the plane. My trip goes around France," he said.

Deng's advice on avoiding taking the lead has by no means been jettisoned. China has reacted coolly to suggestions that a solution to the world's economic problems lies essentially in the

hands of two powers, China and America—what some call the G2. Fred Bergsten, of the Peterson Institute for International Economics, raised the idea in an article in *Foreign Affairs* last July. China, he argued, was continuing to act “like a small country with little impact on the global system at large and therefore little responsibility for it”. Even well before the current crisis, China had been posing an increasing challenge to international rules and institutions, Mr Bergsten said: blocking progress in the Doha round of global trade talks, aiding foreign countries without regard to human rights or the environment and resisting adoption of a flexible exchange-rate policy. Better, he suggested, that China and America work together as a G2 “to provide joint leadership of the global economic system”.

The head of the World Bank, Robert Zoellick, and its chief economist, Justin Yifu Lin, warmed to the G2 idea in an article in the *Washington Post* on March 6th. Though they did not repeat Mr Bergsten’s criticism of Chinese “recalcitrance”, they said that “without a strong G2, the G20 will disappoint”. But some Chinese officials see a trap. *Liaowang*, a magazine published by Xinhua, said Chinese scholars believed the idea “would do harm rather than good”. America would never cede control of the world order, and in any case China would never seek to exert hegemony.

China certainly delights in the notion that its global power is growing. As one Western diplomat put it, the meeting between President Barack Obama and his Chinese counterpart, Hu Jintao, in the margins of the G20 summit in London on April 2nd will be far more important than the G20 meeting itself. China stole the limelight at the last G20 summit by announcing a 4 trillion yuan (\$565 billion) stimulus package just before it. Rumours continue to circulate that it has another up its sleeve. That would please everyone.

But China is not (yet, anyway) seeking to knock America off its perch. It is pushing for a greater say for itself and other developing countries in the IMF, over which the Americans, in effect, wield a veto. But it is not demanding a veto of its own. At a press conference on March 13th Mr Wen avoided saying whether China would give more funding to the IMF to strengthen its ability to deal with the financial crisis. How much China gives, diplomats believe, will depend on how much of a say it gets. An article in the official *China Daily* newspaper on March 17th quoted an influential Chinese economist, Yu Yongding, as saying China should not give much to the IMF—not least because certain countries on the IMF’s rescue list, particularly some from Europe, had an “anti-China mentality”.

Buying into America

Some Chinese scholars and commentators have been circulating more radical visions of how China should use the current crisis to boost its strategic influence. A recent article in *Economic Reference*, a journal published by a government think-tank, said the crisis would severely weaken the economic, political, military and diplomatic power of developed countries. This would create a “historic opportunity” for China to strengthen its position. China should export capital to South-East Asian countries to strengthen their economies. By so doing, it would help prevent political turmoil and win strategic influence in the region.

In America, the article suggested, China should buy up businesses in order to acquire sophisticated know-how. If the American government balks at this, “the Chinese government absolutely can use its American dollar savings as a bargaining chip to force the American government to agree to China’s acquisitions.” Diplomats say threats have even been heard from lower-ranking Chinese officials that China might sell off American Treasury bills if Washington angers China on Tibet; a meeting between Mr Obama and the Dalai Lama, for example, could be a tripwire. Few believe that China would actually risk such a self-damaging tactic, but the airing of views like this suggests that some officials are acquiring more swagger.

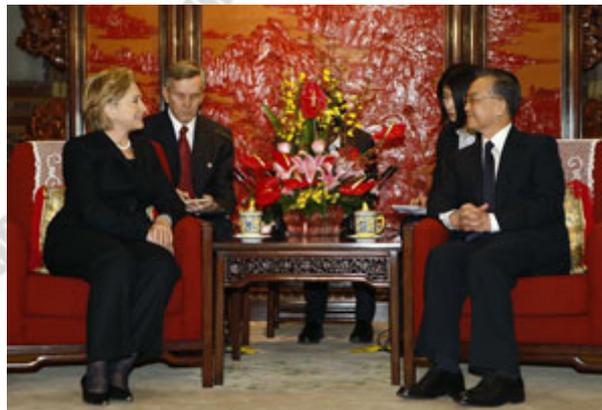
China's decision on March 18th to use anti-monopoly legislation to block Coca-Cola's \$2.4 billion bid for Huiyuan, a Chinese juice manufacturer, will be seen as evidence of this by some in America (see article).

This self-assurance was on show, too, during a visit to Latin America by Vice-President Xi Jinping in February. During a meeting in Mexico with overseas Chinese, Mr Xi, who is widely believed to be the heir-apparent to President Hu Jintao, accused "well-fed foreigners with nothing better to do" of "pointing fingers" at China. His country, Mr Xi said, was not exporting revolution or poverty or hunger or "messing around" with other countries, "so what else is there to say?" Mr Xi's more diplomatic colleagues thought this was an outburst too far; though nationalist websites exulted, the domestic media were banned from reporting his comments.

Chinese leaders have been at particular pains to avoid giving the impression that China is wavering in its commitment to market capitalism (albeit with a heavy admixture of government control). But China's own economy is being battered by the turmoil. Officials estimate that some 20m migrant workers have lost their jobs as labour-intensive industries, churning out cheap products for export, put up their shutters. White-collar workers are beginning to suffer, too. Some are being laid off and many more having their bonuses and wages cut. China's leaders still say the country can achieve 8% growth this year, down from 9% last year; the World Bank, forecasting growth of only 6.5%, still notes that China is "a relative bright spot in an otherwise gloomy global economy". But the boom times are definitely over.

Adam Smith's disciples

Throughout the crisis China's leaders have railed against the dangers of protectionism, knowing that trade with the West is vital. Much to the chagrin of China's online leftists, Mr Wen has repeatedly sung the praises of Adam Smith in speeches and meetings with journalists. In London he revealed to the Financial Times that he was carrying Smith's "The Theory of Moral Sentiments" in his suitcase.

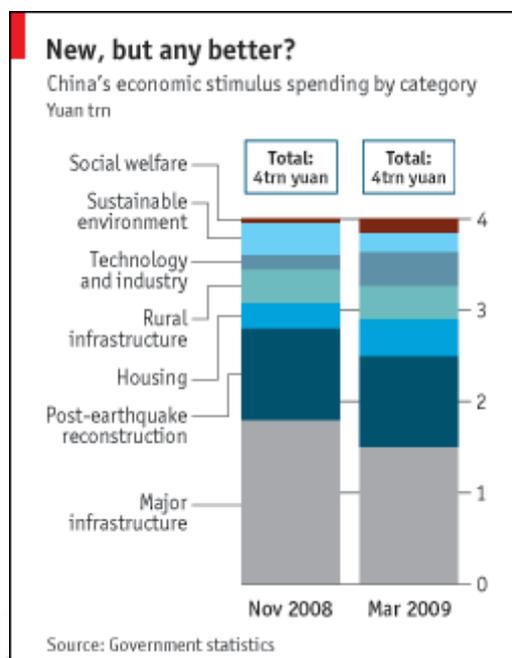


Hillary and Wen, great powers co-operating
Reuters

As Mr Wen explains it, an important message of this book is that if the fruits of economic development are not shared by all, that is "morally unsound", as well as a threat to social stability. This view resonates powerfully among the many Chinese who are embittered by the very uneven distribution of the fruits of China's own rapid growth. Chinese leaders may be able to score points at home for standing up to their Western counterparts. But they know they are vulnerable to criticism that they are not doing enough to help Chinese victims of the economic slowdown. By emphasising this aspect of Smith's philosophy, Mr Wen is trying to show he cares.

The government, however, does not want China to be roiled by the same debate that is plaguing Western governments over how to handle the crisis. This month's annual session of the National People's Congress, China's parliament, was convened for only nine days instead of the usual two weeks. Although even the official media wanted more details of spending plans, the government-set agenda was strikingly sparse. The parliamentary chairman, Wu Bangguo, used the occasion to launch a lengthy tirade against Western-style democracy. "Leadership by the Party can only be strengthened and in no way weakened," he told the delegates. For Mr Wu to get so worked up, serious voices must have been suggesting otherwise.

But few new details of the stimulus measures were revealed at the congress. The government airily said that details of a separate massive spending programme on health-care reform (850 billion yuan over three years) would be finalised only after the parliamentary session. In a cursory nod to public concern, it revealed that spending on welfare projects would be increased from 1% to 4% of the stimulus package (see chart). Spending on infrastructure would drop from 45% to 38%. But spending on environmental projects would also be cut from 9% to 5%. China's commitment to greenness appears to be ebbing.



The left does have some cause for celebration. State-owned enterprises (SOEs) will be huge beneficiaries of the stimulus spending (Maoflag's supporters are still in uproar about the dismantling of many of China's SOEs a decade ago). But liberal economists in China fret that state-owned banks and their SOE cronies will carve up the spoils, leaving small and medium private enterprises by the wayside. They also worry that reforms may stall.

The China Institute for Reform and Development, a prominent liberal think-tank, has just published a 171-page report entitled "The International Financial Crisis Challenges Reforms in China". It describes the economic crisis as the biggest problem the country has faced in the 30-year history of its reform-and-opening policy (and it has faced some big ones, not least the Tiananmen protests of 1989, the Asian financial crisis of 1997-98 and the SOE restructuring which threw millions out of work).

The report says that, without further market-oriented reforms, the stimulus package will not only fail to achieve its goal but will also store up long-term problems. In need of change, it says, are government controls on prices of water and power and government monopolies in industries such as telecoms, railways and aviation. It calls for faster financial reforms such as

encouraging the development of non-state financial institutions, freeing controls on interest rates and allowing the yuan to float.

On March 13th, at the end of the parliamentary session, Mr Wen said that to counter the crisis China "would rather speed up reforms". He said it should "give full play to market forces in allocating resources" and encourage the development of the private sector. It must also, he said, carry on with political reforms in order to "guarantee people's freedom and rights". But the economic crisis will not have increased officials' appetite for change. Many will be all the more convinced that the government's big role in the economy (not least its ownership of the banks) and the country's one-party system (where else could a government announce such big spending plans without time-wasting debate?) are a help, not a hindrance.

It is more likely that, as the crisis deepens, the government will become increasingly cautious in its approach to domestic policy. But if protectionism grows in Western countries, Chinese nationalists will be all the more inclined to demand that their government stand up to them. A book published in China this month, "Unhappy China" (with an initial print-run of 70,000, says a publicist), aims to tap into what the authors believe is a widespread public feeling of disgruntlement with the West. One of the essays argues that the financial crisis could result in an envious West going to war with China to keep it down.

Few are quite that gloomy. One of the book's authors (speaking in a branch of Starbucks in a luxury mall) says the government worries about books like this because they fuel suspicions in the West that China is a threat. The publishers removed one part about India's annexation of Sikkim in 1975 because they thought it might upset India. China would like to be number one, but it would still rather get there without making big enemies.

The Economist, New York, 19 mar. 2009, Briefing, online. Disponível em <www.economist.com>. Acesso em: 25 mar. 2009.

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