

Beijing now accepts the importance of being a global citizen – as long as it serves China's interests, writes Minxin Pei

# Playing ball

For years, western leaders have been trying to figure out how to integrate China into the international system. It turns out that the western debate has paralleled one inside China itself. In 2005, when the west first started asking China to abide by international rules in Africa, take a lead in climate-change talks, contribute more to international security and abandon its mercantilist trade policy, Beijing didn't respond well.

Who could blame it? Until recently, Chinese leaders had been obsessed with domestic priorities and rarely considered the foreign ramifications. When they did, they figured that their greatest international contribution would be to feed and house 1.3 billion Chinese.

A conspiracy-minded minority in Beijing still views the west's requests with suspicion. This group is best represented by Jiang Yong, director of the Centre of Economic Security at the China Institute of Contemporary International Relations (an affiliate of the Ministry of State Security). Writing in mid-2007, Mr Jiang warned that Washington's calls for China to accept more international responsibility were really just a way to frustrate China's rise.

Because the existing global economic order and its rules were established by the west, he argued, they serve the west's interests, not China's. Were China to comply with the World Trade Organisation's intellectual-property protections, for example, it would trap China in its role as a low-tech, low-cost manufacturer. Rules on environmental protection and resource conservation, similarly, would hurt Chinese economic development. To Mr Jiang, it all amounted to a subtle strategy of keeping China down.

Few prominent thinkers publicly embrace such theories. That said, none believe Beijing does things purely on the west's terms, either. The furthest moderates are ready to go to accept China's new obligations as a reality and argue that Beijing should honour them as best it can. As Shi Yinhong (时殷弘), a professor of international relations at Beijing's Renmin University, wrote in a *People's Daily* online forum at the end of 2007, while China need not dance to the west's tune, it risks alienating other countries – even in the developing world – if it keeps refusing to become a "responsible stakeholder".

Liu Jianfei, a professor at the Central Party School in Beijing, echoed this perspective in a newspaper interview in

March. The professors' shared view, which has become dominant in Beijing, sees accepting a bigger global role as necessary, like it or not. The trick is to do so on China's terms. Foreign Minister Yang Jiechi's (杨洁篪) statement to the National People's Congress in March best reflects this "realist" perspective: that China should take on more international responsibility – but in an à la carte way that serves its own interests and that it helps define.

This idea has found many adherents, including Qin Yaqing, executive vice-president of the Chinese Foreign Affairs University. In a March interview with a liberal Chinese business publication, Mr Qin noted that China and the west share more common ground on some issues (climate change, energy security and environmental protection) than on others (humanitarian intervention) – implying that China should co-operate on the former but not the latter. Other areas of co-operation might include promoting Asian economic integration and helping resolve the North Korean nuclear problem. China also needs to ensure that any important reform in the existing international system serves its interests. But, above all, Beijing's foreign policy should continue to serve China's key interest: economic development.

The dominance of this realist school is a mixed blessing for Washington. The good news is that Chinese leaders now understand that it is in their interest for China to act like a good global citizen. That means they will be receptive to overtures to co-operate in areas where US and Chinese priorities overlap.

The bad news is that China sees its international standing rising while America's declines – and will drive a hard bargain before making any concessions. Gone are the days when the United States set the rules. China will now insist that its engagement with the international system proceed on its own terms. As experienced businesspeople will tell you, the Chinese are tough negotiators even when in a position of weakness. Now that the global balance of power has shifted in their favour, striking deals will still be possible – but the costs may be much higher.

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## Naval contemplation

Two Chinese destroyers and a supply ship are on their way to join other foreign warships on anti-piracy patrols in the Gulf of Aden and waters off Somalia. This is a milestone for a navy that has long focused on coastal defence and lacked the capability to project power overseas. It is likely to be the first of an increasing number of long-distance deployments as China takes its place among the top ranks of world navies in the next few decades.

Beijing's decision follows that of the other four permanent members of the UN Security Council (Britain, France, Russia and the US) to send warships to the pirate-plagued waters. It is the first time since the Communist Party came to power in 1949 that the Chinese navy has been used to protect UN aid shipments, key maritime trade routes and Chinese vessels in foreign waters.

Last April, President Hu Jintao (胡锦涛), who is also chairman of the party's Central Military Commission, inspected the naval base at Sanya (三亚) on Hainan Island (海南岛), from where the flotilla embarked. He called for a stronger navy and faster shipbuilding.

And, if there had been any doubts about China's plans to develop into a major naval power, Mr Hu dispelled them two years ago this month. "In the process of protecting the nation's authority and security, and maintaining our maritime rights, the navy's role is very important," he said, adding that it should be ready to protect the country's interests "at any time".

A report to the US Congress last month said that, since the early 1990s, China has bought four Sovremenny-class destroyers armed with supersonic anti-ship missiles from Russia and deployed nine new classes of home-built destroyers and frigates. Some of the vessels coming out of Chinese shipyards are variations of one another. They are only being produced in small numbers. However, mass production of advanced frigates has started and

serial construction of destroyers is expected to follow. These will be part of the backbone of a modern battle fleet with increasingly global reach.

According to the US Defence Department, China already has the largest force in Asia of principal surface combatants, submarines and amphibious warfare ships able to carry troops and armoured vehicles. Its navy has 29 destroyers, 45 frigates, 26 tank landing ships, 28 medium landing ships, 54 diesel attack submarines, five nuclear attack submarines and 45 missile-armed coastal patrol craft. Of these 232 vessels, 168 are in China's east and south sea fleets.

Although increasing steadily, China's international naval power is still limited by a lack of experience of working with other forces or in sustaining its own military operations far from China. Its anti-piracy operation will help expand this experience.

China's neighbours in northeast and Southeast Asia are already alert to its growing military strength and have been adjusting policy accordingly. Most want a stable balance of power to be maintained, in which the US continues to be a major component.

Engaging China in co-operative security to protect freedom of navigation and trade through international sea lanes is a promising way forward as it is based on the mutual interest of many trading nations. With co-operation at sea may come greater trust between countries that have seen each other more as rivals.

As China's economy has expanded, so has its dependence on secure access to markets and natural resources, especially energy supplies. China now imports more than half its oil and, of this, up to 80 per cent comes from the Middle East and Africa.

If China's turbocharged growth continues, the International Energy Agency expects the country's dependence on imported oil to rise to 64 per cent of consumption by 2015 and 79 per cent by 2030. If relations between the mainland and Taiwan continue to improve, preventing Taiwanese independence may become less of a preoccupation for the Chinese military, including the navy.

Maritime trade protection (which can go hand in hand with military influence and power projection) could then emerge as a leading driver of Chinese military strategy and naval development.

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## Other Voices

### Much leaner days in store for US

Joergen Oerstroem Moeller

The world faces a depreciation of the US dollar, a phenomenon that will result in the transfer of purchasing power from the US to other parts of the world, specifically to Asia and, to a lesser extent, Europe. An unprecedented economic decline for the US, never evinced in its history, is on the cards.

This is certain to happen. The uncertainty is when and whether it will be an orderly and controlled adjustment under the aegis of the authorities or imposed by a market that finds policymakers not up to the task of restructuring and rebalancing the world economy.

The basic problem on the agenda is not a reform of the global monetary system or more regulation in the financial sector. Although something has to be done in these areas, the real problem is much more daunting.

The US economy needs to be rebalanced. For years, demand has outstripped production, leading to a deficit on the balance of payments, resulting in debt weighing the economy down. As the US accounts for almost one-quarter of global gross domestic product, a realignment of demand and supply supplemented by a reduction of debt cannot be executed by the US alone.

The effect will ripple through the globe and affect everybody else, so it needs to be orchestrated by all the major economic powers. The entire global economy will enter a cataclysmic decline in the absence of a concerted effort at opening the door for countries to adopt divergent, and in some cases contradictory, policies.

What is called for is a burden-sharing arrangement not only inside the US among the various classes, but also globally between countries. This is something the world has not seen

since the early 1930s, when endeavours to tackle a similar problem failed abysmally.

It is almost pathetic to hear US president-elect Barack Obama talk about creating new jobs to stimulate the American economy by injecting up to US\$1 trillion. The money is simply not there. In good times, the US spent lavishly instead of preparing to weather a storm many observers were predicting, albeit not on the scale recently witnessed.

If the US goes on to print money, and that seems to be the plan, debt will escalate. Some people say that increasing debt will not be a problem,

but how can they say that, knowing it has to be serviced, putting an extra load on an already overburdened federal system?

It can only be done if spending results in increased production and income, thus enlarging the size of the economy, and even this presumption cannot be taken for granted.

Ironically, there are considerable risks that further spending will keep the economy in a stalemate. Fiscal policy may prove ineffective, dovetailing John Maynard Keynes' observation in the 1930s that monetary policy in a heavy recession is ineffective.

Keynes saw that, irrespective of low interest rates, corporations did not invest because demand was not there (the liquidity trap). Now we

may see that, irrespective of fiscal stimulus packages, people will not spend because they do not trust anyone.

Monetary policy has been used intensively over the past 12 months, and rightly so. It has probably saved us from the worst, but it has not managed to turn the economy around. There is very little that monetary policy can do to stimulate demand. Interest rates are low, but nobody wants to invest. The liquidity is there, but nobody wants to lend, preferring to hoard money instead.

So the only realistic policy instrument available is to depreciate the US dollar. The caveat is that, although the US dollar may fall, Asian economies, through improvements in productivity, will wipe out much of the shift in competitiveness it should have brought about.

If so, the global economy is back to square one, or even worse. If efforts to improve productivity entail keeping domestic demand in check, the foot may be on the brake instead of the accelerator. The end result would be a ceiling for global demand and growth, keeping the world on a low growth pattern for years.

A falling US dollar will depress real US incomes making America poorer, transferring purchasing power to other parts of the globe. A more competitive US will stimulate American exports and reduce imports, gradually putting the US economy back on a growth pattern, although not like the one we have seen in the past few decades. Keeping in mind the need for a higher savings rate in the US, it is unlikely that domestic demand will improve.

Whichever way we turn the spotlight, the answer to where demand and growth will come from is the rest of the world, and that will be primarily in Asia. It is a misconception that

increased demand in the US will bail out the world. On the contrary, demand in the US needs to be kept in check to allow a rebalancing to take effect. The global economy will only start to grow if domestic demand and private consumption begins to climb in countries such as China and Japan.

The only way out of this policy dilemma is a co-ordinated policy response where the US brings its house in order gradually without disturbing the global economy, including its own. In tandem, China (and Japan acquiesce a real shift in competitiveness to their detriment, while at the same time beefing up domestic demand. Quite simply, the rest of the world must spend more while the US should spend less and save more, and production in the US must go up, without boosting domestic consumption.

Such burden sharing would, in the medium and probably long term, result in a visibly lower US share of global GDP and a larger Chinese one. The US will start to save; China will consume more. The accumulated US dollars held by China (and Japan) will be spent—at least some of them—and both the US and Chinese economies will become more balanced.

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### Man who altered history

Rodolfo Severino

The approaching close of 2008 should remind us of the day, 30 years ago, that marked the onset of a chain of events that was to alter the course of Asian – and human – history.

In December 1978, the Communist Party endorsed the opening up of agriculture to private, small-scale farming, a radical departure from Mao Zedong's (毛泽东) policy of communised agriculture. Ironically, the capital surpluses accumulated by agricultural privatisation helped finance the build-up of urban areas, which eventually widened the gap between the rich and poor.

In any case, the fundamental turnaround in economic policy led to the surge of the Chinese economy and its linkage to the international economy. More importantly, the new policies resulted in a massive reduction of poverty. Not least, the policies were adopted amid the expansion of personal freedoms and the elevation of living standards to a degree that the Chinese people had not enjoyed for centuries, if at all.

Much of this can be attributed to the strength of will, vision and pragmatism of one man – Deng Xiaoping (邓小平). His strength of will could be measured not only by his resilience in surviving two purges and exile but also by his ability to have his vision of the country prevail.

This month not only marks the 30th anniversary of China's opening up. It is also an occasion for remembering and paying tribute to Deng. I first met him in June 1975. An officer in the Philippines' Department of Foreign Affairs, I was in the delegation of president Ferdinand Marcos on his state visit

to China. Zhou Enlai (周恩来), premier of the State Council, was terminally ill in 305 Hospital of the People's Liberation Army, where he introduced Deng to Marcos and the rest of us.

Vilified by powerful radicals as one of the two "party persons in authority taking the capitalist road", Deng, general secretary of the Party since 1957, had been purged in 1969, at the height of the Cultural Revolution, and sent to do manual labour in Jiangxi (江西) province. After Zhou was diagnosed with cancer in 1973, Deng was rehabilitated and, in April, appointed vice-premier, in which capacity he effectively ran the government.

I served as the note taker during the Marcos-Deng talks, and I remember clearly Deng's articulation of China's policy on the South China Sea: "shelve" the conflicting sovereignty claims and, in the meantime, undertake co-operative activities in the area.

Zhou died in January 1976. When I returned to Beijing on April 7, 1976, to take up my post in the Philippine embassy, I was met by a long procession of people screaming to the banging of drums: "Beat down Deng Xiaoping!" Deng was purged again on the same day.

Crowds of a different persuasion had protested vociferously against the removal of the paper flowers and posters that had been placed in tribute to Zhou at the Monument to the People's Heroes in Tiananmen Square. Regarding Deng as a rival in the fierce struggle for power then wracking the country, the Gang of Four had tied Deng to the protests and had him purged.

On September 8, 1976, Mao died. The next month, the Gang of Four was arrested. Hua Guofeng (华国锋),

who had replaced Zhou as premier, succeeded Mao as party chairman and Deng returned to the good graces of the party and the government.

In March 1978, Li Xiannian (李先念), vice-premier and later president, paid an official visit to the Philippines. As chargé d'affaires at the embassy, I was invited to join Li on his plane. There to see us off was Deng. The last time I saw him was during his meeting at Zhongnanhai with Philippine president Corason Aquino, in 1988.

Since his second return to power, Deng held no government position except as chairman of the Central Military Commission, although he wielded supreme authority. In 1989, he stepped down from that post, setting an example of a top leader voluntarily relinquishing office.

As "paramount leader", Deng saw his reforms bear abundant fruit – export-led manufacturing, the openness to foreign investments and foreign trade, financing by taxation or through the banking system, decentralisation of economic decision-making. He oversaw the success of the special economic zones, and also presided over the normalisation of diplomatic relations between Beijing and Washington. He guided China's emergence as a global power.

Today, the Chinese economy is buffeted by the global financial crisis. There is now a question of whether the reforms that Deng set in motion will enable China not only to survive the current turmoil but serve as a locomotive to help haul the global economy out of it.

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