

How the roar of China's tiger will be heard across the world

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1 The global economy: boom or bust?

THE global economy is at a critical stage in its recovery from the biggest economic slowdown since the Depression. This is the point where the short-run, policy-fuelled upturn collides with long-term fiscal and monetary realities. The outcome will determine whether the world bounces back or remains vulnerable to further shocks.

China is key to recovery, having deftly managed the necessary macroeconomic adjustment, and the emerging engine of long-run global economic prosperity. Yet Beijing faces the immediate problem of dealing with severe domestic and international imbalances that could derail the economy.

Investment has ballooned to more than 50 per cent of gross domestic product and massive lending has seen credit grow by 30 per cent in the past year. The peg to the US dollar has had the effect of injecting into an already booming Chinese economy the stimulatory recession-fighting monetary policy of the US Federal Reserve Board.

In order to avoid the inflation tiger and emerging asset bubbles, it is clear Chinese bank lending will have to be restrained and the exchange rate appreciated significantly relative to the greenback, and sooner rather than later. The outlook for the world economy depends on how successfully China adjusts this year.

-- **Warwick McKibbin**

2 The international debate: back to the past

IN the 1970s the world was split between the developed North and the developing South when South American countries and radical political economists led a failed push for a "new international economic order".

In the 90s, the Asia-Pacific's East-West cultural divide featured in the "Asian values" debate championed by Singapore, Malaysia and far-right conservatives in

Japan. In this year of the tiger and beyond we may see China lead a revival of both of these divides, with no shortage of willing followers. At the Copenhagen climate conference last December, China led developing economies arguing to maintain the Kyoto Protocol's division between rich and poor countries for obligations on controlling greenhouse emissions and retain the protocol's focus on developed-country commitments.

Brazil, India and South Africa are also wedded to the Kyoto Protocol's North-South division.

During the 2008 Olympics torch relay and through Google's travails in China, we have seen China's government and conservative "netizens" reject the tenets of freedom of speech and personal privacy on culturalist and nationalistic grounds and attack supposed US hegemony.

Australia is on the other side of both divides from our largest trading partner and today's China is a more powerful leader than its predecessors in the 70s and 90s.

-- **Malcolm Cook**

3 International institutions: how good a stakeholder?

CHINA'S performance at the UN climate change talks in Copenhagen was, for many observers, disconcerting. Chinese representatives refused to give ground on key points, standing in the way of a meaningful agreement. They were also happy to throw their weight around in public, which attracted an unusual level of criticism.

China's assertiveness within UN forums and other international institutions has grown rapidly in the past decade, partly owing to the Bush administration's testy relationship with the UN. But Beijing also changed its attitude. Beijing now seeks to shape the agenda in the UN Security Council chamber and the global media debate.

It has voted for the establishment of peacekeeping missions and, increasingly, helped to staff them. The quality of the people China sends as representatives to international organisations has improved noticeably.

However, if China's representatives are more skilful in the way they transact their business, it's not clear they have internalised all the responsibilities of a global power.

Sometimes China pursues its narrowly drawn interests with an uncompromising resolve that would be described as amoral belligerence were it attempted by the US. In the year of the tiger, China should start to conceive of its interests more broadly than it has in the past and help to nurture the institutions it aspires to lead.

-- **Michael Fullilove**

4 The geopolitics of climate change: "After you, I insist"

CHINA is the world's largest greenhouse gas emitter. Together, China and the US are responsible for close to half of global emissions. Thus the actions of China and the policy dialogue between China and the US will be critical to how the geopolitics of climate change play out during 2010 and beyond.

Any viable global framework will likely be based on co-ordinating the policy actions of key countries, so what matters most will be what China and the US do domestically.

Copenhagen showed once and for all that the Kyoto model, based on committing to targets and timetables, was never going to work for countries with high rates of economic growth. Kyoto is history after 13 wasted years and a new global framework is needed.

Together, China and the US can forge that approach. What is critical is to co-ordinate practical policy commitments by the largest emitters based on the notion of "comparable effort".

Comparable effort is not captured by similar emission targets; it is far better measured by comparing the effective carbon prices in each economy.

China is moving forward with genuine measures to reduce greenhouse gas emissions. To make these policies part of a global co-operative framework they need to be converted into a measure of effective carbon price equivalence. In the World Trade Organisation framework, where China is also a key participant, countries currently negotiate around tariff levels rather than trade volumes. In the same way an effective co-operative agreement around carbon prices is critical and the most likely way forward for China and the rest of the world.

-- **Warwick McKibbin**

5 Global energy markets: an insatiable beast

THE year of the tiger will dispel any doubt that China's impact on global resource markets is long-term and structural rather than a blip. Almost on its own China's demand for resources

and energy has reversed a 30-year decline in the resource intensity of the global economy and the tendency for supply to outstrip demand.

This time last year, economists were declaring over China's "super-cycle", a short-term shift in demand and prices driven by the industrialisation and urbanisation of a major economy. But the global financial crisis barely touched China's infrastructure-intensive growth. Now 46 per cent of China's 1.3 billion people live in cities; in five years more than half will. Population density has quadrupled over the past decade. China consumes half of all cement produced in the world and one-third of all steel and coal.

China is driving a structural shift in the global terms of trade: commodities have become more expensive and manufactures cheaper. Unfortunately for Beijing, China is becoming ever more reliant on commodities imports, which it pays for by exporting manufactures.

Australia stands to benefit greatly, but only if it gets its foreign investment and domestic policy settings right.

-- **Michael Wesley**

6 West Asia: a new axis?

IT is difficult to overstate how much China's relationship with what could be called west Asia is changing the face of global trade and politics.

China is the single biggest exporter of goods to the Middle East, while the Middle East is China's most important external source of oil. China's energy and mercantile interests in central and southwest Asia are also burgeoning, underpinned by a growing web of roads, railways, pipelines, embassies, security agreements, arms transfers, regional organisations and bilateral forums.

The year of the tiger will accentuate the significance of China's west Asian networks as tensions grow over Iran's nuclear program. US Secretary of State Hillary Clinton recently warned Beijing that it faces international isolation unless it places more pressure on Tehran. Yet this underestimates Beijing's interests in Iran and its preparedness to protect the significant political, economic and strategic investments it has made in this pivotal country, investments that have recently seen China replace the European Union as Iran's largest trading partner.

Even if Beijing does not veto any new sanctions against the mullahs in the UN, it will continue to allow its state-owned companies to do business with them in Tehran, conscious of how much it can exploit the West's isolation of Iran to its own benefit.

-- **Anthony Bubalo**

7 Warships and pirates: perilous horizons

THIS year, China will use Somali piracy as a reason to project naval force. It is natural Beijing should share the burden of guarding against pirates who endanger global trade routes. It was also inconceivable that China would forever outsource the security of its oil imports to the US Navy.

China's anti-piracy mission began with three ships a year ago. That contribution will likely grow. But it will prove a mixed blessing.

Piracy gives China the excuse to keep forces indefinitely in the Gulf of Aden. The next step, urge some Chinese analysts, should be an overseas base.

Washington welcomes China to the fight against piracy yet would be troubled by serious Chinese power in the Indian Ocean. Some other countries, including Australia, will work with the Chinese but worry too. India will feel threatened if its once-imagined encirclement by a

Chinese "string of pearls" becomes real.

All this will reinforce the need for naval powers to define rules to prevent their ships bumping into each other and fuelling tensions, already a real risk in the South China Sea.

But the first thing Beijing does when it is unhappy about Taiwan or Tibet is break off defence talks with Washington. This is a mistake: it could exacerbate mistrust as China's maritime might reaches new horizons.

-- **Rory Medcalf**

8 The South Pacific: a short- term romance?

THERE has been a lot of excitement surrounding China's interest in Australia's Pacific neighbourhood. Beijing has promised hundreds of millions in aid and boosted its diplomatic presence, and senior officials from Premier Wen Jiabao down have made targeted visits.

China's courting has sparked fears it might try to set up missile bases on Pacific atolls and has been held up as evidence of its hegemonic ambitions. So what is Beijing really up to?

An odd list of countries have previously flirted with the Pacific: the Russians, Turks, Israelis and Iranians, for a start. Unfortunately, these dalliances have tended to be fleeting, making the Pacific something of a venue for one-night stands. Inevitably, previous suitors have come to discover their interests in the region are, frankly, marginal.

China is likely to discover the same. With a diplomatic truce with Taiwan holding and only a handful of Pacific countries possessing substantial resources (with Papua New Guinea the notable exception) there is not a terrible amount of national interest for China to pursue in the region.

China won't be packing up shop any time soon and there might still be plenty of puff, but don't expect much substance.

-- **Fergus Hanson**

9 Public opinion: biting back

CHINA may challenge Australian dominance of trade and investment in the Pacific over the next decade. But its relentless mission to capture resources and open new markets depends on a business model that marginalises local workers by importing Chinese labourers or employing locals under very poor conditions, with the consent of host governments.

This model has triggered violent protests at the sites of Chinese-owned mining sites in Africa and looting and burning of Chinese businesses in Solomon Islands and Tonga. Widespread anti-Chinese violence and looting in PNG in May 2009 was sparked by resentment about the preferential treatment given to Chinese workers and poor safety conditions at the China-Metallurgical Group's Ramu nickel mine, China's largest investment in the Pacific.

The backlash against Chinese aid and investment in the Pacific will almost certainly rear its head again this year. While China continues to negotiate sweetheart deals with Pacific island governments which have poor control over law and order, its citizens will go on being threatened.

-- **Jenny Hayward-Jones**

10 Freedom on the worldwide web: the great China firewall

ADVOCATES of what has been dubbed "iPod liberalism" -- the notion that the information revolution can bring down repressive regimes -- have had an unhappy time of it lately.

Not only did Iran's regime stare down the mobile phone-wielding crowds calling for reform, but Google got so fed up with cyber-intrusions in China that it gave Beijing an extraordinary public spray.

China might be emerging as a model for authoritarian governments on how to manage the internet. Beijing has realised that flat-out censorship is impossible; netizens are too nimble, and online business is too important.

But China's authorities do make it just hard enough to get around the great firewall for most people not to bother. Then there's commercial pressure on service providers who allow too much "dangerous" content. And last, there's online spin to muddy the waters of any emerging anti-government meme.

Internet idealists shouldn't lose all hope. Keep in mind that the first text message was sent in 1992, and today the total number of text messages per day exceeds the planet's population. It's also estimated that the amount of new technical information is doubling every two years. We are living in what have been called "exponential times", and no government can really keep up.

-- **Sam Roggeveen**

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