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The Role and Perception of China after the Crisis

Introduction

The western world and developed countries are far from out of the global economic crisis. In Europe, the financial situation of Greece and other countries from Italy to Portugal, Ireland and maybe others in the near future is questioned and social consequences pose threats to further recovery. The US is not out of water neither and is also engaged in a difficult war against terrorism in Afghanistan. In contrast with this situation, the world is confronted with an apparent rebalancing of power in Asia around the emergence of the People's Republic of China. The image of a surging Chinese superpower has been predominant in the Medias and perception of political and economic elites.

This challenge raises the question of a “re-polarization” of the world system around a “G2”: the PRC and the US. Because of its destabilizing potential both at the regional and global

level, this challenge cannot be ignored in Europe, in spite of the geographical distance and apparent lack of direct strategic interest.

However, this image of a rebipolarized world system led by the new US-China G2 remains an illusion. An illusion founded on the idea that, as the PRC is largely involved in most of the global issues the world is facing today, it should naturally be part of the solution to these problems. This presuppose however is limited by two realities: the reality and nature of China's economic power and the reality of the leadership capability – and willingness – to act and engage the outside world.

An increasingly assertive Chinese power

China after the economic crisis: unscathed?

When compared with the situation in other parts of the world, particularly the developed

economies and the more so the European Union, China's economic successes are indeed impressive: the GDP growth has been more than 9 % in 2009, more than 10 during the first part of 2010. China today is the second, economic power in the world just beyond the United States and before Japan.

One of the first consequences in terms of rebalancing of power is that China's economic dynamism has been beneficial first and mostly to China's neighbors in Asia and constitutes a major part of the PRC power of seduction. This is true of Japan, where a large part of the growth in 2009 and 2010 can be explained by exports to China. This is true for South Korea and this is also of course true in Taiwan: the recent Economic Cooperation Framework Agreement (ECFA) is a major result of this trend, with political consequences. According to some analysis, the ECFA could result in 6 % more growth for Taiwan before 2020. And in 2020, more than 60 % of all Taiwan exports should go to the mainland.

Economic integration between China and South East Asia is also growing in spite of some deceptions regarding the positive consequences of the free trade agreement effective since 2010. Witness recently a new phenomenon of delocalization of Chinese enterprises to South-East Asian countries where the cost of labor, comparing with China's coastal area is cheaper.

This process of economic integration around China should continue and constitutes a major element of China's seductive power - or "soft power" - as a natural leader in its own region. A region that is also the power house of the global economic growth.

At the same time, China has been trying to pursue the rebalancing of its own growth pattern with limited results however. In 2009, the percentage of exports in global growth has been reduced. However last figures tend to show that the power engine of China's growth is still largely fueled by exports with new records of exchange reserve broken in June 2010.

In 2009-2010, China's growth has also been the result, up to 80 % of the GDP growth figure, of large investments in the infrastructure and housing sector and led to a new surge in imports in the energy and commodities sectors. In that field also, the image of China has one of the most important player in the world has been confirmed. This consequently reinforced China's

position in exporting countries in Africa, Latin America, central Asia and even Australia in spite of the Rio Tinto difficulties.

In the post crisis world, China has also been perceived as an at least potential positive actor in the global financial sector. In 2009 it offered to increase its contribution to the international monetary fund (IMF) up to 50 billion dollars. Half of Japan' own contribution of 100 billion dollars.

An unprecedented strategic offensive

At the same time, China has launched an unprecedented strategic and diplomatic offensive. China's model, both economic and political, has been reinforced by the world crisis, contrasting with the difficulties encountered by more mature economies, particularly in Europe. This situation has been interpreted by Chinese leadership as new opportunities to improve the PRC's interests on the international scene.

Therefore, China's position on a series of issues has been perceived as extremely assertive if not arrogant. This is the case on monetary issues concerning the value of the Yuan, in spite of recent declarations with limited effects. This has also been the case at Copenhagen on environmental issues. Or even at the "Anti drug in Afghanistan Summit" launched by Moscow in May 2010, where China was invited but did not deign to participate alongside its SCO partners.

With the EU, China's attitude has not been more cooperative and the Nanjing summit at the end of 2009 delivered poor results and led to a growing feeling of frustration in Europe.

Relations with the US have also been marked by an increased affirmation of China's power vis-a-vis Washington. Obama's visit to Beijing has been a disappointment. Reception of the Dalai Lama and arms sales to Taiwan, in spite of their business as usual characteristics, have been unusually strongly criticized by the PRC.

At the business level, European and American companies do complain about the difficulties they encounter to do business on an equal footing in China.

Much more preoccupying however is the increased aggressivity expressed by the PRC in pushing back the United States or any other regional actor from what is described as its territorial water even if these waters are only EEZ or

contested maritime territories. In June, China initially successfully succeeded in forcing the US to postpone a common naval exercise involving the US and South Korea to answer the sinking of the South Korean ship Cheonan and reassert the US presence in the region. In July, China successfully expressed again its willingness to “forbid” any exercise in the “Yellow sea” and particularly the presence of the George Washington, an US aircraft carrier. What is particularly preoccupying is that, in a splendid application of Sun Zi’s principles, and without any real show of force, China could succeed in imposing its own position to others, further diminishing the positive balancing role played by the US presence in the Asia Pacific.

What role for the military?

In terms of military capabilities, Chinese is pursuing its well rationalized effort of modernization even though the defense budget increase has been reduced in 2010, comparing with an annual increase of more than 15 % in the preceding years. However, the 60th anniversary of the PRC and of its navy have been occasions for a show of force demonstrating once more that to the PRC leadership, a strong military power constitutes an integral part of China’s global power. China demonstrated its willingness to further improve its capabilities by mentioning the possibility to build its own aircraft carrier, more a show of prestige maybe than a real improvement in the PRC’s military capability in terms of anti access. The recent ASAT successful testing which are linked to the effort to develop the PRC asymmetric capacity of destroying the adversary surveillance, communication and targeting system are also particularly significant in terms of strategic objectives and force modernization.

One must also mention the development of submarines capabilities with more than 65 submarines, some of them with a significant improvement of their capacity, and the new Sanya base on Hainan. And of course, development of missiles and nuclear capabilities, and a significant of the vulnerability of its arsenal do remain a priority for the PRC.

This reliance on the show of force, if not the actual use of force, still constitutes an important element of China’s strategy regarding Taiwan and more generally its Asian neighbors and ultimately the US. In spite of growing economic integration and recent improvement at the political level, the number of Chinese missiles facing

Taiwan still increases and reached 1500 at the end of 2010. According to a recent report published by the Taiwanese ministry of defense, this number could reach 2000 in 2011 with no signs of Beijing’s willingness to reduce or even de-target these missiles.

Thus for China, the threat to use force to solve the Taiwan issue and other international difficulties, and the lack of transparency in terms of objectives and capabilities constitute a major tool of its foreign strategy.

Asia “under influence”?

The growing influence of the PRC at all levels has been particularly impressive in Asia. And particularly in North East Asia where the risk to see a Chinese style Monroe doctrine of influence implemented seems to be growing.

In the Korean peninsula, China plays an increasingly leading role. Beijing is the first trade partner of the North and increasingly a major investor. In this way, China supports North Korea much more than with simply development aid. North Korean leader Kim Jong-Il visited China a few weeks before the sinking of a South Korean ship by a North Korean torpedo. Peking refuses to condemn this action and put all its weight at the UNSC to edulcorate any condemnation of Pyongyang action. However, in this attitude the PRC has been encouraged by the embarrassment of other major players in the region, starting with the United States and Japan, eager not trigger a new crisis in North East Asia.

At the same time, in spite of the position of the new Japanese administration regarding relations with China, Beijing answered to Tokyo’s overtures, by launching naval gesticulations in the east China sea and near Okinawa. As if China interpreted this evolution of the Japanese administration and the difficulties between Tokyo and Washington as sign of weakness that could be exploited, thus causing disappointment and a renewed willingness to consolidate defense links with the United States in Tokyo.

However, in spite of all these signs of a rebalancing of power in favor of the PRC at the local and global level, the reality: economic, political and strategic, seems to be much more complex.

A more complex reality

"Trouble inside": Economic and social uncertainties in China

Inside China itself, the leadership is facing impressive difficulties and has to juggle with challenges and quick fix solutions with no real time to implement a more balanced growth policy.

One of the most pressing economic challenge comes from the construction and real estate sector with the risk of a speculative bubble in a society where productive investments where to put your money are rather scarce and unsafe. Supported by a huge credit launch, infrastructure building represented almost 80 % of the GDP growth last year whereas household consumptions remained abnormally low even for an emerging country.

This massive credit launch has helped the authorities to avoid the most pressing economic and social consequences of the crisis. However, Chinese economists and part of the leadership are uneasy about the near term future of this growth model based on massive public spending. There are of course the risks of inflation, of speculation, a growing pressure on the value of the Yuan and uncertainties about the bad debts level of the Chinese banks and local financial institutions. According to a study published in July 2010 by the Bank of China, 25 % of loans to local authorities could be considered as bad or even toxic debts, thus greatly increasing China's financial authorities' burden.

In terms of social and political balances, growing inequalities are less and less well accepted with the arrival in the urban regions of younger generations of migrants, who never knew the worst of the hardships of the Maoist times and are not ready to accept low salaries and almost no hope of a better future. This is what was expressed in the recent strikes in the most developed parts of the country recently.

However, in spite of a certain level of lucidity, the capacity of the central authorities to rebalance the growth model and reduce the dependency on credit seems to be rather limited, as growth figures remain paramount to give jobs, appease social dissatisfaction and project to the outside world the image of an indomitable power.

The central leadership is also facing the resistance if not outright opposition of local authorities, living on credit as a source of almost unlim-

ited corruption with increasingly close links with mafia groups as was demonstrated in Chongqing.

So in spite of its new assertiveness, the regime is also very insecure. This feeling has of course been increased by the troubles in Tibet around the Olympic Games and more recently in Xinjiang. These difficulties are perceived as direct challenges to the status of the CCP as sole guarantor of Chinese "honor" and "national unity". In that context, constant references to China's "core national interests" in direct rejection of past internationalism of the regime are a way to reassert the image of a powerful leadership both inside and outside China.

The difficulties of building a "united Front strategy" or the limits of the BRICS concept

On the international scene, China's power is more a power of nuisance or a power to block multilateral decision than a constructive and positive power. This nationalist attitude led to suspicions and negative reactions, including among China's partners among emerging powers. In spite of the apparent united front of the BRICs, opposed to the developed world led by the United States, India and Brazil, and to a lesser degree Russia expressed there opposition to China's Sino-centered economic strategies and particularly its monetary policy. At Copenhagen, China has also been criticized by the G77 group of the poorer countries for its position on the reduction of carbon emissions.

The limits of China as a "global governor"

On all global issues and in spite of its growing weight on a whole series of issues, China demonstrated either unwillingness or incapacity to act in a multilateral framework.

This has been true on economic and financial issues, with the debates on the value of the Yuan and the rebalancing of China's growth when, beyond words, real results are difficult to obtain.

This is true on environmental issues and also on proliferation issues where the PRC constantly protected its closest allies in North Korea and Iran, using its status of permanent member of the SC either to block or to edulcorate sanctions. This is not – or not only - related to economic or energy interests but also to the strategic necessity for the PRC to keep a group of States as dependant countries partners willing to support China's position on a series of issues.

However, this reluctance of China to play a significant role on global issues is also a testimony of the regime weaknesses. Mainland China's analysts publicly denounce the willingness to "engage" China on the international scene as a strategy devised by the West to weaken China and control its actions. A new strategy of "peaceful evolution" that Chinese leadership has been fighting against since the launching of the reform policy and particularly since 1989.

Because of these reticences, China's image on the world scene, particularly in Europe but also in other countries like in Africa has been altered in spite of its impressive economic successes. For instance, the Shanghai expo inauguration did not attract as many world class leaders as the Olympic game inauguration. With Washington, after a show of goodwill from the new administration, a new realism has taken place and even though it is usually recognized that strategic stability between US and the PRC is key to stability in the Asia-Pacific, Washington seems determined to concretely demonstrate its willingness to "be back" in Asia. Most significantly, at the security Asean Summit in Hanoi in July 2010, Hillary Clinton reaffirmed the US "interest" in the peaceful solving of maritime territorial issues in the South China Sea, with the full support of all countries in the region except China.

In North-East Asia, in spite of its difficulties with Washington, Tokyo today is once again eager to balance an uncertain emerging Chinese power with its alliance with the US. In the Korean peninsula, in spite of a strong opposition from Beijing, impressive common naval maneuvers were organized in July 2010 by Washington and Seoul.

On the other side of the Himalaya, India is not ready, yet to open its door fully to China's economic influence and remains suspicious of the PRC's ultimate agenda, particularly with the recent deal on civilian nuclear industry signed between Beijing and Islamabad.

So, at the regional level at least, China's leadership remains contested more or less openly and the US, in spite of the crisis and all what was said DO remain the main stabilizer in the region. Apparently, Beijing did realize the counter effect of its new arrogance and in March 2010 Wen Jiabao, reminded its colleagues that China should "remain modest".

Conclusion

Far from seeing a rebalancing of power in favor of the PRC one sees on the contrary a real difficulty or even impossibility on the part of this Chinese regime to engage on the international scene, beyond what is needed to serve a very narrow interpretation of its own "national" interests (or CCP leadership interests). In spite of its successes and the opportunities offered, China's new assertiveness raises many questions among its neighbors and partners. Beyond the Asia-Pacific, the most important issue remains the capacity of the PRC to play a constructive and positive role in world affairs at a time of crisis.

This raises many questions. However, the way the PRC answers to these questions will further contribute to shape the perception of China in the world and play an important role in the future evolution of relations between the EU and the PRC.

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