

China, Asia & United States: In & After the Crisis

By Simon TAY

The economic crisis that broke from late 2008 spread from the United States to Asia, reinforcing how deeply the two are interconnected. Across Asia, economies that export to the United States have seen their growth taper sharply or even shrink.

In the two past essays in this journal, I have explored the needs and opportunities for regional responses in Asia and also its relations with the United States. Freer trade and closer economic integration within the region should develop in response to this crisis. However, this crisis should not divide Asia from the United States, the world's sole superpower. Even if this may not be anyone's intention, trends and signs of such a division are emerging. In this essay, I turn to questions facing China and its relations with the rest of Asia and the United States.

Geo-economics & Soft Power

In matters of hard military and security power, the United States is far ahead of all other countries and will remain so in the foreseeable future, despite increased spending by the Chinese. But international relations today turn not only on geopolitics and security, and fundamentally relate to finance and economics.

Currency, trade and investment, and foreign assistance are part of an emerging geoeconomics among Asians and across the Pacific. There is also what American scholar Joseph Nye has described as "soft power": the ability of a country to persuade others without coercion, and to attract admiration and emulation.

The crisis is witnessing, and indeed hastening, a shift in balance between the United States and China in economic and "soft" power. An article in *Foreign Affairs* magazine, "The Great Crash 2008: A Geopolitical Setback for the West," by Roger Altman worries that China will "solidify its strategic advantages" as the United States struggles to recover. Is this true?

China & the Crisis

Much depends on how China copes. If it is badly affected, there will be severe impact on its development – not just economically, but in social and political stability. However, if China is relatively unaffected, it can emerge not only united and stable but at a comparative advantage.

We witnessed this in the last Asian crisis of 1997-98. Before the crisis, development in Asia followed an elegant "flying geese pattern," led by Japan. In the crisis, China was relatively unaffected and continued to grow while other Asian economies contracted – some by 10% or more. The post-crisis order changed: a large dragon instead now flies in front.

It is hard to know exactly how China is coping in the present crisis. The crisis has gone through different phases and may yet again change. At an early stage, in November 2008, Beijing was alarmed

by the sharp fall in trade figures as demand in the United States disappeared. But now – from private-sector economists to international institutions – most predict that China's economy has weathered the worst of things and will grow. Estimates vary. Conservatively, some like Nouriel Roubini suggest it will grow between 4.5% and 6%. Others have revised estimates upwards to 7.8% for 2009 and even 9% for 2010. The official target set by Beijing is 8%.

This is a sharp contrast to others. The United States is predicted to contract by 2.7% in 2009. While Japan remains rich, it is contracting by 3.3%. Among other Asian economies, India and Indonesia predict growth, but their rates are lower than China's, and from a lower base too. Indonesia, for instance, may grow 4.5%.

There are skeptics. China's move to push out loans to companies, especially uncompetitive state-owned enterprises, may have negative long-term effects. But on the whole, many have lauded the stimulus package from Beijing – it was dubbed "the gold standard" by Nicholas Lardy of the Peterson Institute when he testified to the US Congress about China's efforts to deal with the crisis.

China seems likely to emerge from the crisis comparatively at an advantage. What does it mean for the region? Look at what China has done in the years before the crisis.

China's Rise from Alarm to Charm

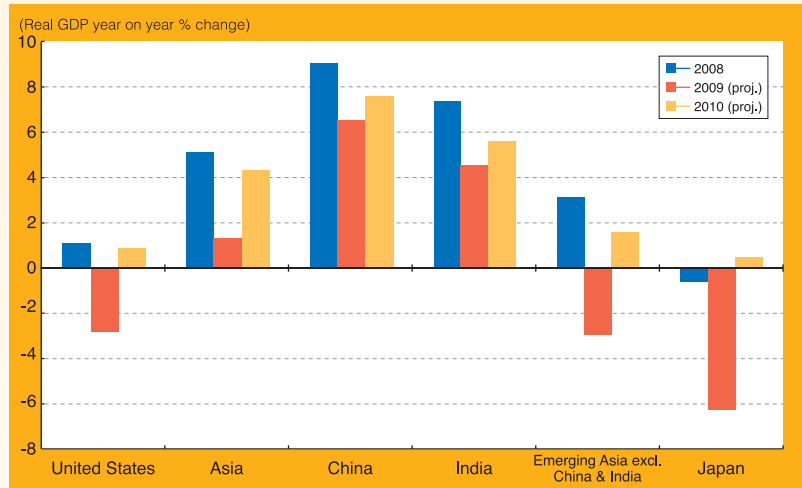
From the last crisis to the present, China made considerable efforts to improve relations with its neighbors and the world. The historic suspicion in Southeast Asia, tension about claims in the South China Sea and, with India, a war over territory have been softened. So has fear over economic competition.

A free-trade agreement between China and ASEAN is the most complete in Asia and the Chinese negotiated in a way that respected these smaller neighbors and gave them benefits in an early harvest. China understood not only the economic benefits to be shared, but also the political capital to be gained. When the ASEAN Summit was postponed because of domestic disturbances in the host country of Thailand, China was quick to announce its support for ASEAN.

As the crisis unfolded, China announced a new fund which – although modest in scale – will invest in the region. Bilaterally, China has been giving assistance to many Asian neighbors, notably Indochina and Myanmar. With India, China has mended fences and opened up trade.

Chinese soft power too is being projected. While not a democracy, the Chinese model for managing their economy and keeping their society stable is increasingly admired. The state-run Xinhua News Agency has an English service and the new *Global Times* to share their world views. The government initiated Confucius institutes abroad to promote Chinese language and culture. Beijing has committed more than \$6 billion to bolster its state news and media agencies abroad.

United States vs. Asia: Real GDP growth forecasts 2008-2010



Source: World Economic Outlook, 2009, IMF

Chinese charm and influence are spreading. Some talk of a coming “bamboo economy” in which Asian production will center around China.

US-China Relations

There are longstanding predictions that the United States and China must come into conflict. But so far the truth is that China has wanted the United States to remain in the region to help maintain a peaceful and stable environment so that it can concentrate on its own development. Economic interdependence also smoothens their relationship. Conflict is not inevitable. However, in the current crisis, there will be new points of contention.

One contention is currency. Even before the crisis, the United States pressed for the Chinese yuan to be revalued, much as it pushed up the yen through the 1985 Plaza Agreement. In the crisis, currency issues are more vital and complex, given that a vast chunk of Chinese reserves are held in US Treasury bills and therefore would be adversely affected by a drop in the value of the US dollar. China and other Asians have questioned the scale of the US stimulus packages when the country is already in deficit. The People’s Bank of China has questioned the dollar’s domination as the region’s de facto reserve currency.

On the US side, the Obama administration has not pushed this issue so far. But Treasury Secretary Tim Geithner called China a “currency speculator,” which echoed statements Obama himself made during his presidential election campaign. This issue will not go away, and ultimately it is one on which the interests of the United States and China do not coincide.

A second issue is protectionism. It is important for Americans to avoid protectionism, both for their own sake and for the Asians and Chinese with whom they trade. However, other US voices urge a “Buy American” approach to their spending. American antidumping measures continue to single out Chinese imports, as do complaints about health and safety.

On their part, Chinese voices are rising to suggest that China too use its large stimulus package to boost its own economy and companies. As China continues to rise, more and more Chinese, especially the young, may forget how American tutelage and acceptance into institutions like the United Nations and the World Trade Organization have paved the way for China.

What we may see is not a war between militaries but a war of economies and of influence, and the end of interdependence across the Pacific. This is not what would be best for the United States or China, or any other Asian country.

The main actors who can avoid a negative outcome are of course China and the United States. Their governments must act with wisdom that recognizes how each is part of a larger picture in the Asia-

Pacific region and the world. Each must recognize how the other is suffering in this crisis and try to respond in ways that do not hurt the other’s interests.

Some Americans recognize that they need to deepen cooperation with China. There is talk in the United States of a “G-2” where each recognizes the other to be the first and most important partner. The Obama administration has, thus far, been discreet and sought cooperation even if differences over Tibet and human rights remain unresolved. But China has not warmed to a G-2 partnership and some in Beijing fear that Obama’s stance may harden in time.

The United States must find a way to work with China, but it should not over-focus on that relationship. America should reach out to the rest of Asia in a more multilateral way, both in politics and in economic relations.

The Others in Asia

For the rest of us, there is only so much we can do. Japan could be well placed to make efforts given its considerable economic investments in China, its American alliance and its interdependence with both. Yet historical issues may limit an effective triangular relationship.

Others like ASEAN, Australia and South Korea lack economic weight. But they can help. Bilaterally, they should seek to avoid an “either/or” policy in exclusive alliances. Asians should instead reach out to both the United States and China equally.

Working together, Asians can drive multilateral settings to bring the United States and China together with others. The Asia-Pacific Economic Cooperation process, which has been losing momentum, can be reemphasized, with perhaps a future trade agreement to link all the willing economies in the region. New thinking can also bring the United States into a relationship with the East Asia Summit through ASEAN.

In Asia, there is a saying that when the buffaloes fight, the grass is trampled. The corollary of this is that, to create conditions of peace, the grass must nurture each buffalo.

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Simon Tay is Chairman, Singapore Institute of International Affairs, and Schwartz Fellow for 2009 at Asia Society in New York.