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China versus the US: it is serious

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Will tensions between the US and China increase, and should Australia continue to side with the US? I argue yes to both.

Some commentary downplays the impact of a more powerful China. The ANU's Hugh White argues that China's rise does not threaten Australia, but it will change our world which means that we "have to consider how we can help bring about a good outcome, and help prevent a bad one". White argues that Australia, hopefully supported by other Asian nations, should try to convince the US to relinquish primacy in Asia and share power with China and the other major powers in a Concert of Asia including Japan and India.

Brian Toohy also downplays the Chinese threat by noting it has no overseas military bases; that the CIA and Australian intelligence assess Beijing's overall military stance as being defensive; and that the US defence secretary Robert Gates has indicated a lack of concern by cancelling production of the F-22 fighter, "the plane best suited to air-to-air combat against the Chinese air force".

But recent events justify ongoing Western interest in China's communist leadership:

There was Beijing's successful pressure on Japan's authorities to release Zan Qixiong, the Chinese fishing boat captain detained after ramming a Japanese Navy ship when caught fishing illegally in Japanese waters. Prior to his release, Beijing cancelled high-level meetings with Japanese officials, stopped groups of Chinese tourists from visiting Japan, four Japanese in China were suddenly arrested on charges of photographing Chinese military establishments, and abuse was directed at Japan from Chinese government and media sources.

There was Beijing's refusal to support UN condemnation of North Korea's sinking of South Korean naval ship the *Cheonan*, which killed 46 sailors.

There is Beijing claims of sovereignty over virtually all of the South China Sea with China's Foreign Minister Yang Jiechi telling the ASEANs at a meeting earlier in 2010 they should do what they are told because China was a big nation.

And, there was China's unsuccessful warning of "negative consequences for the relationship between Norway and China" if this year's Nobel peace prize went to a jailed Chinese dissident (Liu Xiaobo).

Fortunately, Australia's Foreign Minister, Kevin Rudd, on his recent visit to the US reaffirmed the Australia-US alliance and again urged the US to become more engaged in Asia. Rudd also rejected White's thesis that Australian diplomacy should try and convince the US to give up its strategic primacy in Asia in order to formalise a power-sharing arrangement with China. Prime Minister Julia Gillard and Opposition leader Tony Abbott also expressed a similar sentiment.

The need for a more aggressive policy response is increasingly evident. At the military level, while the US spends about 46.5 per cent of total global military spending of \$US1.531 trillion in 2009, China has increased military spending most since 2000 by 217 per cent compared to the US with 89 per cent: China's 2009 level is the second highest in the world at 6.6 per cent.

As noted by the chairman of the US Joint Chiefs of Staff, Admiral Mike Mullen, China is pumping many billions of dollars into new warships and submarines to challenge US Navy rule in East Asian waters. China is also developing an anti-ship missile with a range of nearly 1,450km which could threaten America's ability to project power and help allies in the Pacific.

Fears that US and Western influence is waning may hopefully prove premature.

Sure, the US Congressional Budget Office projects that debt could rise above 90 per cent of GDP by 2020 on present trends, but who is to say that the US will not make important policy reforms.

While major policy reforms are being avoided as Western societies cling to a misguided hope that more and more economic stimulus will save the day, a continued adherence to freer trade - in line with recent trends - will merely ensure the demise of the US along with many other Western nations.

It is one thing to argue that economic reform is needed in Western nations, often with some negative domestic consequences. It is another thing to ask Westerners to accept a tougher standard of living while Communist China or other authoritarian nations rise at their expense.

While much of the developed world confronts debt, China continues its spending spree with its vast reserve of US dollars. Although argued that China is merely seeking to guarantee energy supplies given that its consumption far outstrips its domestic supplies, China's state-owned Sinopec recently clinched a deal (\$US7 billion) with Spain's Repsol to buy 40 per cent of its Brazilian business, thus giving it access to Repsol Brasil's estimated reserves of 1.2 billion barrels of oil and gas.

There is also ongoing concern about China's involvement in politically unstable countries, despite China winning such contracts by building vital new infrastructure (including hospitals, ports, and road and rail links). While difficult to prove, China is accused of "paying multimillion-dollar backhanders in return for African leaders repudiating Taiwan at the UN".

Sure, Western nations benefit from cheap Chinese imports which helps limit inflation and interest rates, but public opinion will carry the most weight in regards to urging a policy mix that better balances domestic production and consumption. This is despite more than half of China's exports in 2007 being produced by multinational companies, either alone or in joint ventures with Chinese partners, including about 85 per cent of high-tech exports.

Already, the US House of Representatives has passed legislation (vote 348-79) intended to counter China's currency controls. While the bill (subject to Senate approval) does not impose automatic penalties, it expands the definition of improper subsidies to include currency manipulation to gain a trade advantage.

Some 181 House members also wrote to Obama urging him to take steps to blunt China's "predatory" actions to gain "unfair advantage" in environmentally friendly "green" technology, and to increase government resources to deal with Beijing's "increasingly sophisticated unfair trade practices".

Such action and sentiment is likely to fuel further protectionist tendencies with the US and China already imposing antidumping duties in recent months on chicken, steel, nylon and tyres.

While a trade war between China and the US would have an immense impact on global trade and economic activity, this would mean that other measures will need to be adopted to boost domestic activity and address budget deficits as the world makes its transition from such a high dependence on China's exports. Because the West's reliance upon debt cannot go on forever, this may include both major taxation and social welfare reform.

Should such events unfold, this would mark the third wave of reform for Western nations since World War II. The first period (prior to the 1980s) marked the promotion of freer trade, albeit that many nations relied on import-substitution to develop domestic manufacturing (including Australia). The second period resulted in Western nations allowing manufacturing to decline in terms of employment with the importance of services increasing, aided by an unsustainable level of debt (including some dubious practices which culminated in the global financial crisis). The third period, if it emerges, may see a greater combination of the first two trends to achieve a more appropriate policy mix as populations of many democracies demand measures to better balance production and consumption.

Powerful and influential Western nations (led by the US) have important normative reasons not to accept their demise. As the former Chinese national Helen Wang argues, the US "remains the country standing for the universal ideals that people around the world aspire to - liberty and democracy". Unlike Americans who have a clear message for the world, the Chinese do not have a vision for themselves, let alone to influence the world. I have talked to Chinese officials, scholars, business people and students. None of them see China as a superpower. In contrast, many of them look up to the United States as a model and admire the "American way of life".

In regard to fears that China will seek greater influence in Asia, Wang downplays such a possibility on the basis that many Asian nations will side with the US. Wang refers to the Singaporean scholar Simon Tay who states "no one in Asia wants to live in a Chinese-dominated world. There is no Chinese dream to which people aspire".

With Wang suggesting that "China's presence as a major economic power will be good for the world as well as for the US,

because no one wants to live in an American-dominated world either”, it is crucial that the West upholds its leadership role in a fair way.

Given that freer trade remains a desirable concept to encourage peace and prosperity, critics of the recent US legislation should not despair. As they recognise, even if China is forced to let market forces decide the yuan’s value, other Asian economies will become attractive to manufacturing as they will still be cheaper than in the US.

As for China, if Western nations increase protection against that nation, this may force the Chinese government to spend more money at the domestic level to boost economic activity. As a 2010 *China Daily* article notes, the Chinese government has vowed to increase its spending on education to 4 per cent of GDP in 2012, up from 2 per cent in 2006: although the target was previously set long ago in 1993, it states that “education has been one of the issues receiving the most criticism from the public”.

Whether events unfold as I suggest, or the Western world continues on its way in line with recent policy trends, military spending may become more important as greater tension emerges. Given the US budgetary and debt problems, this may require allies to spend more. The Institute for Strategic Studies indicates that the US currently spends nearly 5 per cent of its GDP on defence, Australia 2.2 per cent, NATO (excluding the US) 1.7, Canada 1.3, and Japan 0.9 per cent respectively.

Already the Obama Administration has made moves to shore up its alliances in East Asia, including with traditional allies such as South Korea and Japan, as well as Malaysia and even Indonesia’s controversial special forces.

In the end, foreign policy is much more complex than any suggestion that Australia’s debate must overcome a belief that our security required the domination of the Western Pacific by an Anglo-Saxon maritime power.

After all, there are strong normative reasons why Australia will long support American leadership, despite forming regional alliances with Southeast Asian neighbours, and working with China as best as possible.

Sure, the task ahead for Western nations will be not be painless as some harsh policy reform may be needed, but a more aggressive approach to China’s communist leadership is a trend likely to gain momentum in coming years. Anything less may prove to be a disaster for the world.

Chris Lewis has an interest in all economic, social and environmental issues, but believes that the struggle for the ‘right’ policy mix remains an illusive goal in such a complex and competitive world.