More assertive Chinese diplomacy at the G20 summit

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A significant feature of the recent G20 summit in London was the more forceful role played by China. Well aware of the country's growing economic weight and influence on the world arena, Beijing is insisting on a place among the major powers, with its interests taken into account amid the deepening global recession.

China's shift from low-key diplomacy was noted by the *Wall Street Journal*, the mouthpiece of American finance capital. "China's official media have given the G20 summit rave reviews, painting it as an occasion where Chinese President Hu Jintao boosted his nation's status and was listened to respectfully by rich countries," the newspaper explained.

The official *People's Daily* website featured extensive coverage of the G20 summit, portraying China as the leader of the BRIC (Brazil, Russia, India and China) bloc. As against the established powers, it explained, China was "seeking to rebuild a new order of the international economy" that would recognise the interests of these emerging economies.

China remains a contradictory phenomenon, however. As the world's third largest economy, it dwarfs some of the established G7 group of industrialised countries. Yet its per capita GDP still only ranks alongside Bolivia, Morocco, India and Syria. Beijing commands the world's largest foreign currency reserves, but these are derived from its position as a huge cheap labour platform, dependent on the existing powers for investment capital and markets.

These strengths and weaknesses were evident in the debates surrounding the summit. The fragility of the American financial system and the vulnerability of the US dollar are major preoccupations in Beijing, which has much of its reserves invested in US bonds and other dollar-denominated assets. A fall in the dollar would also affect China's exports, which have already been hard hit by the sharp downturn in global trade.

Just before the summit, Chinese central bank governor Zhou Xiaochuan wrote an essay calling for the replacement of the US dollar as the global reserve currency—amid fears that the US Federal Reserve Board's decision to print dollars to cover the massive US government debt would precipitate a drop in the greenback's value.

The essay further fuelled a debate in China over the impending "currency war"—the name of a bestseller in China last year that called for gold to replace the US dollar as the global reserve currency. Bitter that the US is using the dollar's position to offload its debts onto others, the book speaks of the coming conflict over global currencies. The book reflects the growing fears and frustrations of sections of Chinese business that they are losing out as the global recession deepens, and their demands that Beijing defend their interests.

Beijing has begun to act. On the eve of the summit, China signed agreements with Argentina for a $10 billion currency swap. As a result, Argentina can pay for its imports from China in yuan, rather than in dollars. Similar deals have been made with South Korea, Malaysia and Indonesia, leading some analysts to comment that Asia may eventually become a "yuan bloc".

China cannot, however, afford to precipitate a global financial collapse by dumping dollar assets. Describing the dollar's position as the "last firewall protecting the US," the *People's Daily* warned on April 3: "If the international financial capital found a safer haven, the outflow of international capital could paralyse the US markets, repeating the tragedy of the Great Depression in the last century."

In staking a claim for a greater say, President Hu told the

G20 summit that China was a “responsible power”—that is, it had a stake in protecting the global capitalist order. He did not raise the issue of the dollar’s role, thus avoiding any direct confrontation with the US, which is still China’s largest export market. Chinese leaders also understand that Washington’s support is needed for Beijing to have greater representation in the International Monetary Fund (IMF).

China promised just $40 billion to the IMF’s $500 billion fund for struggling economies—far less than the EU and Japan, each of which pledged $100 billion—insisting that it remained a developing country with widespread poverty at home. Nevertheless, Beijing secured general agreement at the G20 for greater IMF voting rights as part of a review to be completed by 2010. In return, China tactically supported the US call for greater stimulus measures, causing tensions with the European powers. Any increase in Chinese voting power in the IMF would almost certainly be at the expense of the European powers.

The Chinese state media presented Hu’s meeting with US President Barack Obama as the “G2”, as if the two economies could resolve the global economic crisis, leaving Europe out in cold. Hu reportedly made no mention of the dollar issue. Obama proposed to visit China in the second half of this year and establish a “US-China Strategic and Economic Dialogue,” expanding a dialogue initiated by the former Bush administration over currency issues.

Relations with the European powers were frostier. Hu had not initially planned to meet French President Nicolas Sarkozy, who has been bitterly attacked in China for his overtures to the exiled Tibetan Dalai Lama last year. Hu only met Sarkozy at the last minute, after France offered to reject any form of independence for Tibet.

Tensions quickly arose, however. During the G20 meeting, China resisted France’s call to blacklist various tax havens, including Hong Kong and Macau—both important financial centres for China. The row only ended after Obama intervened to broker a compromise. The G20 would “take note” of the list compiled by Organisation for Economic Co-operation and Development, rather than “endorse” it. Hong Kong and Macau were not included on the list.

Other G20 decisions, including increased trade credits and more money for development agencies, also suited China. In addition, Hu managed to block an attempt by Britain to require more spending on “green” projects by G20 members. As the world’s largest polluter, China would have been most affected.

Hu’s diplomatic gains have not been universally welcomed in Chinese ruling circles. Several economists have expressed fears that Chinese capitalism is confronting a huge crisis and should focus its attention at home first, rather than rushing to expand its international role. They argue that the Chinese leadership is spending too much money abroad and not dealing with the threat of widespread social unrest.

Tang Min, a cabinet economic adviser, told the *China Daily*: “[China] is not as strong as an economy as some people think. Of the 50 million people who have lost their jobs around the world, 20 million are in China—more than any other country—primarily in the export-oriented manufacturing sector.” He insisted that bailing out China should be the priority. Despite large-scale stimulus measures, the profits of industrial firms in China plunged by 37 percent year-on-year for the first two months of 2009, led by sharp falls in exports.

According to the latest data, 11 million migrant workers in the cities and another 12 million who have returned in the countryside are still jobless. Discontent among urban workers is also rising. On March 29, for instance, 3,000-4,000 workers from the Yimian Group in Baoding City in Hebei Province staged a factory occupation for a week in protest over the privatisation of the state firm.

The Chinese leadership is conscious, however, that there is a profound crisis of global capitalism. Like the other powers at the G20, Beijing is seeking to foist the economic burden onto its rivals—a process that is leading to rising tensions and conflict.