

## **China in an age of recession \***

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**P**lease allow me, Mr Chairman, to set the stage for a brief overview of China in an age of recession by quoting from an op. ed. piece in *The New York Times* last September by Anatole Kaletsky, the well known economic analyst, in which he concluded that “the new model of capitalism will probably be made in China, like so much else in the world these days.”<sup>1</sup>

That, however, is part of the story. The bigger picture has to do with the effect the age of recession has had or would likely have in future in determining the ambit of market forces as against controls exercised by the State.

The competitive nature of the Cold War continued to apply restraints to both market forces and State controls for over four decades till the emergence of the sole superpower at the beginning of the 1990s. Thus, during that period of bi-polarity, even the capitalist countries had put in place certain basic mechanisms of State intervention in the social sector. Not least in view of their geostrategic dictates, the Scandinavian countries had therefore been quick in utilising the golden mean of the welfare State.

The same was then adopted in varying degrees first by Britain, followed by other West European nations – with the United States providing a distant tail end. A graphic image and its message still fresh in one’s mind came during my first visit to America in early 1991. A huge billboard advertised a cigarette brand called ‘Buck’ in downtown Tampa, Florida. The bold slogan was short, eloquent, telltale. It simply read ‘The Almighty Buck’. The deliberate pun on the U.S. slang for the dollar was unmistakable.

So, the almighty Buck that had in earlier times been the be-all and end-all for America alone, was now to rule the world. How was that to be achieved? The biggest hurdle was posed by the Eastern cultures that

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valued things other than money alone – where there could be such a thing as a free lunch. The ensuing clash, as rightly foretold by Samuel Huntington first in a lecture at the American Enterprise Institute the

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following year, was thus between civilisations.<sup>2</sup> He emphasized the need for the United States to forge alliances with similar cultures and spread its values wherever possible. As for, what he called, alien civilisations, the West was advised to be accommodating if possible, but confrontational if necessary.

This exposition of the prospective clash of civilisations and the remaking of world order was to prove perhaps the most controversial idea floated in recent times, and critics saw in it the theoretical legitimization of American-led Western aggression against China and the world's Islamic cultures. For, the world had long come to recognise the veracity of the

adage immortalised by Kipling in his 1889 Ballad of East and West: "Oh, East is East and West is West, and never the twain shall meet."

But now we were told that the Western values were to clash with those of the aliens from China and the Muslim countries with the obvious intent of prevailing over the latter. Huntington, alas, was to prove an infallible oracle – and chilling candid at that.

It did not take long for the American political leadership as well to adopt the refrain of the supremacy of their country's values – the buck's being the almighty, that is. By far, the most convincing exposition of the dynamics of these U.S. values has only recently been furnished by none other than a Vietnam War veteran, Andrew J. Bacevich, who maintains that, ever since Harry S. Truman's presidency, Americans have trumpeted the credo that they alone must "lead, save, liberate and ultimately transform the world."<sup>3</sup>

In this book, eloquently entitled *Washington Rules – America's Path to Permanent War*, he has concluded that this crusading mission is carried

forward by, what he calls, “the sacred trinity” of “U.S. military power, the Pentagon’s global footprint and an American penchant for intervention.”

But, that is an expensive enterprise, especially in view of the high-tech, low-risk instruments of warfare that the U.S. has come to rely on. This learned gathering is well aware of the trillions of dollars spent by America on the two wars in Afghanistan and Iraq over the past decade alone. And, that is where China comes in.

China has not fought any war for over 30 years now. It also took a policy decision toward the end of the 1970s to open up to the world to advance the goal of peaceful development. By the time President Bush announced the start of the global crusade in the aftermath of 9/11, China was already a success story in economic terms. It had a two-digit growth rate.

So, as the high-cost U.S. global crusade started taking its toll on American economy, it found China more than willing to extend it credit. According to a recent estimate published by the Council on Foreign Relations, China has stepped up its purchases of U.S. Treasuries in recent years. It held less than \$100 billion in U.S. assets a decade ago, which figure is now around \$1.5 trillion.<sup>4</sup>

Along with that, by the time the financial crisis hit the United States in particular, China had accumulated more than \$1.5 trillion in foreign exchange reserves<sup>5</sup> which, at the end of 2003, had stood at \$403 billion. Its trade surplus had reached \$268 billion in 2007.<sup>6</sup>

When the financial crisis hit the world in 2008, Beijing responded “decisively”.<sup>7</sup> On November 9 the same year, it announced a fiscal stimulus of RMB 4 trillion which comes to \$586 billion. In a study published in the January 2010 issue of *The Washington Quarterly*, William H. Overholt, senior research fellow at the Kennedy School of Government, Harvard University, has compared the responses of both the United States and China to the financial crisis and their respective impact.

He has pointed out that compared to the United States, China had many more “shovel-ready” projects and its system presented fewer legal or regulatory obstacles to their rapid implementation. He has also enumerated a number of aligned and secondary factors that have contributed to China’s early recovery from the global economic crisis:

“Supported by central government subsidies for the purchase of consumer electronics and appliances, national retail spending in the first half of 2009 grew 15 per cent. August 2009 real estate investment was up 14.7 per cent over August 2008. Sectoral results provided supportive evidence of revival.

“In early 2009, China surpassed the United States for the first time in total car sales and was expected by brokerage analysts to sustain that lead for the full year by selling 10-11 million cars. Enhanced as elsewhere by stimulus programmes, Chinese car sales in June 2009 rose 48 per cent over 2008 – General Motors’ sales in China that month were up 38 per cent.”

“Asset prices also reflected recovery. By summer 2009, property prices in Shanghai and other major cities were back to their peak 2007 bubble levels. By mid-July 2009, the Shanghai stock exchange had gained 37 per cent over its level at the beginning of the year...

“By July 2009, the government was as sufficiently confident about recovery, and sufficiently concerned about asset bubbles, that it started applying the monetary brakes. The volume of new lending by Chinese banks slowed by 77 per cent in July 2009 compared with June and the pace of economic growth slowed slightly. China had stepped on the accelerator more decisively than the rest of the world and started applying the monetary brakes correspondingly earlier, thereby seeming to set a global standard for crisis management.”<sup>8</sup>

That, Mr Chairman, is but one side of the sitrep on China in an age of recession that, insofar as the world’s most populous nation and the second largest economy is concerned, was a thing of the past well over a year ago. Going by the current debate within the United States on the subject, the same cannot still be said with regard to America.

The other component of China’s remarkably swift recovery is provided by the country’s politico-economic dealings with the rest of the world. We in Pakistan have been particularly fortunate to have struck an abiding, flourishing and mutually beneficial friendship with this great neighbour of ours early in the country’s independent life.

While various aspects of Pakistan-China bilateral relationship, whose 60 years we are gathered here to celebrate, would be dealt with in tomorrow’s session, I would just like to point out, with reference to the

given context, that China has consistently adhered to the policy of non-intervention and non-interference in the internal affairs of other countries.

That has, in the main, provided the basis for the trust duly earned by China as it has increasingly reached out to the world for trade and investment. To cite the example of Pakistan, again, it was barely three weeks ago, that, during Prime Minister Wen Jiabao's visit to Islamabad, the two countries signed deals totalling \$35 billion in trade and investment.<sup>9</sup>

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Trade, investment – most significantly in infrastructure projects – and financial relations between China and all the countries in its vast neighbourhood stretching from Mongolia in the northwest, sweeping the entire western flank from Russia down to Central Asia, the southern facet of South Asia and then moving on to South East and East Asia, have been flourishing for decades now.

The South East Asian economies in particular bear a debt of gratitude for China's bailing them out of the financial crisis that had hit them in 1997-1998.<sup>10</sup> The story has been no different this time round.<sup>11</sup>

Even the basic facts and figures of the projection of China's soft power in not just its Asian neighbourhood but all over the world where it now is a proactive economic, trade, investment, financial and – last but not least – cultural<sup>12</sup> player are far too numerous to be included in this short presentation.

I would, therefore, with your permission, Mr Chairman, simply flag some of the highlights of this global narrative of epochal proportions.

Turning to Africa first, going by one account, given by Deborah Brautigam, Associate Professor of International Development at American University, and published by *Foreign Affairs* in January 2010, China had over the previous six years signed resource-backed development loan deals worth \$14 billion with seven countries in the continent.<sup>13</sup>

**As indicated at the outset, the truly monumental role China has played and would in all likelihood continue to play in the days ahead stems out of, first, its charting out the path to peaceful development on the basis of adherence to the policy of market socialism at the height of the Cold War in the late 1970s.**

Moving over to South America, in the case of the continent's largest economy, Brazil, alone, "from virtually nowhere",<sup>14</sup> Beijing has now become Rio de Janeiro's largest trading partner.<sup>15</sup>

China has also been playing a major role in helping the crisis-ridden European economies rebound through investing in massive infrastructure projects, buying up substantial portions of their debts and increasing overall economic collaboration – thus restoring the confidence of the developed world as well in their financial health.

It "signalled a vote of confidence in crisis-ridden Greece by signing investment deals worth billions of euros across a wide spectrum of economic activity" in Athens last June.<sup>16</sup>

Vice Prime Minister Li Kejiang has been in Europe since last week, taking in Spain, Germany and Britain. In Spain, the next country on the brink of disaster, he signed deals worth \$7.5 billion; in Germany,<sup>17</sup> the agreements he inked totalled \$11.3 billion; after which he reached Britain from where he signed business deals worth \$4.7 billion yesterday.<sup>18</sup>

As indicated at the outset, the truly monumental role China has played and would in all likelihood continue to play in the days ahead stems out of, first, its charting out the path to peaceful development on the basis of adherence to the policy of market socialism at the height of the Cold War in the late 1970s. Even later, it stuck to the same broad principles during the days of U.S. unipolarity as also in the current era of recession – allowing only tactical concessions to global capitalist exploitation when considered unavoidable.

In doing so, China has not only succeeded in taking hundreds of millions of its own population out of abject poverty – even as the numbers of those living below the poverty line continue to swell in the United States – but also underwritten the emergence of a more equitable global order.

Hats off to the Peoples Republic of China for salvaging our common values of the East.

## Notes & References

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- <sup>1</sup> Anastole Kaletsky, “Blaming China won’t help the economy”, *The New York Times*, September 27, 2010, [www.nytimes.com/2010/09/27/opinion/27kaletsky.html](http://www.nytimes.com/2010/09/27/opinion/27kaletsky.html)
- <sup>2</sup> He expounded the theory in the Summer 1993 issue of *Foreign Affairs* which was further developed into the 1996 title, *The Clash of Civilizations and the Remaking of World Order*, published by Simon & Schuster, New York, 1996.
- <sup>3</sup> Andrew J. Bacevich, *Washington Rules – America’s Path to Permanent War*, Metropolitan Books/Henry Holt & Company, 2010.
- <sup>4</sup> Roya Wolverson, “Confronting the China-U.S. Economic Imbalance,” *Backgrounders*, Council on Foreign Relations”, October 19, 2010, [www.cfr.org/publication/20758/confronting\\_the\\_chinaus\\_economic\\_imbalance.html](http://www.cfr.org/publication/20758/confronting_the_chinaus_economic_imbalance.html)
- <sup>5</sup> The figure is currently estimated to be between \$2.6 to \$2.7 billion.
- <sup>6</sup> Roya Wolverson, op. cit.
- <sup>7</sup> William H. Overholt, “China in the global financial crisis: rising influences, rising challenges”, *The Washington Quarterly*, January 2010, pp. 21-24.
- <sup>8</sup> Ibid.
- <sup>9</sup> Syed Fazl-e-Haider, “Pakistan signs up for China’s cash”, *Asia Times Online*, Hong Kong, December 21, 2010, [www.atimes.com/atimes/South\\_Asia/LL21Df01.html](http://www.atimes.com/atimes/South_Asia/LL21Df01.html)
- <sup>10</sup> For details, see, Ghani Jafar, “China: From ‘Peaceful Development’ to ‘Peaceful Rise’ – the Southeast Asian Flank”, *Regional Studies*, Institute of Regional Studies, Islamabad, 25(3) Summer 2007: 3-34.
- <sup>11</sup> In a recent article, Evan A Feigenbaum, head, Asia Pacific Group, at Eurasia Group, who is also adjunct senior fellow for Asia at the Council on Foreign Relations, has noted: “... Across Asia, Chinese demand is now a central driver of other countries’ economic growth, and, in many cases, China is the top trade partner; “Out with old in Asia?” *Business Standard*, January 3, 2011, [www.business-standard.com/india/news/evanfeigenbaum-outold-in-asia/420437/](http://www.business-standard.com/india/news/evanfeigenbaum-outold-in-asia/420437/)
- <sup>12</sup> China has over the past few years, opened up some 300 Confucius Centres across the world to conduct cultural diplomacy. Self-description: “Hanban/Confucius Institute Headquarters, as a public institution affiliated with the Chinese Ministry of Education, is committed to providing Chinese language and cultural teaching resources and services worldwide. It goes all out in meeting the demands of foreign Chinese learners and contributing to the development of multiculturalism and the building of a harmonious world. To make policies and development plans for promoting Chinese language internationally. To support Chinese language programs at educational institutions of various types and levels in other countries. To draft

- international Chinese teaching standards and develop and promote Chinese language teaching materials.” [http://english.hanban.org/node\\_7719.htm](http://english.hanban.org/node_7719.htm)
- <sup>13</sup> Deborah Brautigam, “Africa’s Eastern Promise”, *Snapshot*, Council on Foreign Relations”, January 5, 2010, [www.foreignaffairs.com/articles/65916/deborah-brautigam/africa%E2%80%99s-eastern-promise](http://www.foreignaffairs.com/articles/65916/deborah-brautigam/africa%E2%80%99s-eastern-promise)
- <sup>14</sup> Stuart Grudgings, “Surge in Chinese investment reshapes Brazil ties”, *Reuters*, August 10, 2010, [www.reuters.com/article/idUSTRE67947R20100810?pageNumber=1](http://www.reuters.com/article/idUSTRE67947R20100810?pageNumber=1)
- <sup>15</sup> China has also been developing economic and trade ties with some other major developed economies like Canada and Australia.
- <sup>16</sup> Breffni O'Rourke, “China seeking major investments in Greece, but why now?”, *Radio Free Europe/Radio Liberty*, June 16, 2010, [www.rferl.org/content/China\\_Seeking\\_Major\\_Investments\\_In\\_Greece\\_But\\_Why\\_Now/2073276.html](http://www.rferl.org/content/China_Seeking_Major_Investments_In_Greece_But_Why_Now/2073276.html)
- <sup>17</sup> Jia Cheng, “China, Spain ink \$7.5 billion in contracts”, *Global Times*, Beijing, January 6, 2011, <http://china.globaltimes.cn/diplomacy/2011-01/609374.html>
- <sup>18</sup> *Xinhua*, published in *Beijing Review*, January 10, 2011, [http://bjreview.com.cn/headline/txt/2011-01/11/content\\_324121.htm](http://bjreview.com.cn/headline/txt/2011-01/11/content_324121.htm)