

## The dragon stirs

By Geoff Dyer in Beijing

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### Proud pageant: rehearsals in Beijing for next week's 60th anniversary of the People's Republic

Turn on the television news next Thursday and on display will be the sort of images from China that used to capture the imagination in the days of the Soviet Union. Dozens of tanks will roll down Beijing's main avenue and past Tiananmen Square, followed by immaculate ranks of goose-stepping soldiers. New military hardware will be proudly paraded, from mobile missile launchers that can reach Washington to J-10 fighter jets produced at a Chinese plant.

The occasion will be the 60th anniversary of the founding of the People's Republic of China, an event allowing the country's leaders to show off their rapidly advancing military prowess at a time when its economy is leading others out of recession. If the Beijing Olympics last year were a chance to demonstrate how successful China has become, the October 1 parade will provide enduring images of its growing power.

Yet the bigger question raised by these celebrations is: what does Beijing really think of the US? Or, more specifically, does it now believe America – embroiled in two wars and with its economy wilting after last year's financial crisis – is facing inevitable decline? If the answer is yes, it will have big implications for some of the most important global issues in President Barack Obama's in-tray, from the future role of the dollar to Iran.

The perception that the US is weakened "could imbue Chinese policymakers with the confidence to be more assertive on the international stage", says Bonnie Glaser at the Center for Strategic and International Studies in Washington.

Chinese leaders rarely make unguarded comments about the US, although Wen Jiabao, prime minister, has articulated fears about a future collapse in the value of the dollar. "Of course we are concerned about the safety of our assets. To be honest, I am a little bit worried. I request the US to maintain its good credit, to honour its promises and to guarantee the safety of China's assets," he said at his annual press conference in March.

**Below: Practical problems of a banker's proposal to demote the dollar**

Yet behind the scenes of the country's rise in recent years has been a fierce debate about the future direction of foreign policy among the think-tanks and elite universities that advise politicians – pitting academics who argue that Beijing should take a more confrontational attitude to the US against those who believe development is best supported by playing within the existing world order.

Until recently, that discussion was on hold because of a consensus that the US was by far the dominant power and would remain so for at least another two decades. The status quo is described as *yi chao duo qiang* – one superpower and several great powers. Even many who proposed taking a more assertive stance against America often argued that such a posture was not for now. Better to bide our time and develop our economy, they said, and follow Deng Xiaoping's advice to "hide the brightness, nourish obscurity".

Yet there are signs the belief in US invincibility is waning. Even before the financial crisis, some scholars were questioning US dominance on the grounds that the Afghanistan and Iraq wars had damaged it both financially and morally. In 2006, Wang Yiwei at Fudan University in Shanghai sparked a huge response with an article that had the provocative title: "How we can prevent the US from declining too quickly".

In recent months, as the US economy has floundered and China's has proved remarkably resilient, there has been a flood of declinist commentary about the US. Fu Mengzi, a professor at the China Institutes of Contemporary International Relations, a Beijing think-tank affiliated with the security services, reckons that the high point for US power projection was 2000. "US power has been declining since then, especially with Iraq and Afghanistan," he says. "It is just that the financial crisis has made it seem more and more obvious."

This discussion is not limited to professional ponderers of policy. One of the most popular books in China at the moment is *Currency Wars 2* by Song Hongbing, which predicts that an obscure international elite of bankers and politicians will impose a global currency by 2024 and usher in an era of world government. The US Federal Reserve supports the plan, he writes, because it recognises that the dollar will be savaged by a bout of hyperinflation.

Mr Song, who went to university in the US, has a history of popularising conspiracy theories about global finance. His book is a sequel to a 2007 best-seller which put the blame for the battle of Waterloo, the rise of Hitler and the Asian financial crisis on the Rothschild banking dynasty. But with their combination of pessimism, fascination and envy of the US, his books tap into popular views.

By no means all share the view that the US is in the midst of a rapid demise. Zhu Feng at Peking University argues that "even if the US takes a hit with the financial crisis, the gap between America and the world is so large and other markets are so firmly enmeshed with the US, that no fundamental shift will occur to America's relative position in the world". There is also a self-serving element to some of the talk. Projecting the decline of the US is a way for academics to grab headlines, fill lecture theatres and perhaps win the ear of senior leaders.

Yet the fact that so many researchers are analysing the US and its problems suggests a Chinese belief that the underlying dynamics of global geopolitics are already shifting. Moreover, the heightened debate about the future of the US has coincided with numerous indications that China is throwing its weight around much more on international issues in which the US has a large stake.

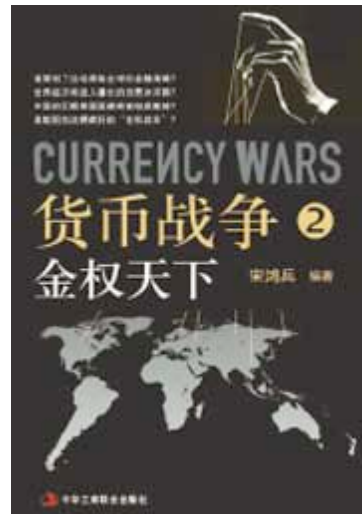
For a start, China appeared to be taking the fight to the US this year when **Zhou Xiaochuan**, central bank governor, called for the eventual replacement of the dollar as the global reserve currency.

China has also become much more aggressive in doing energy deals, including in parts of the world that

## Sixty years of the People's Republic of China



The key political and economic moments in the history of Communist China since its founding on October 1, 1949



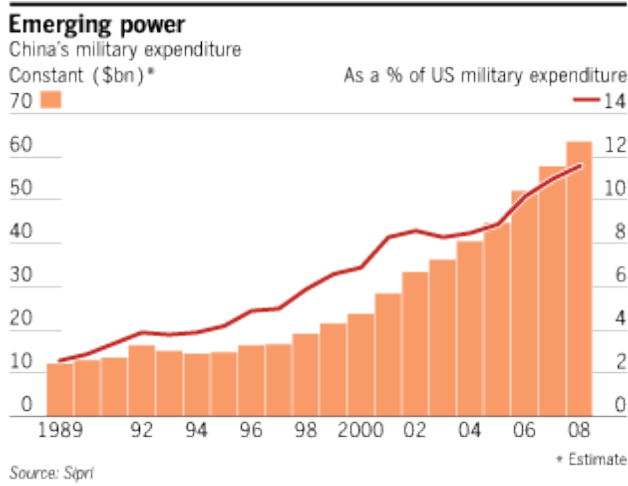
In 'Currency Wars 2', which sees the US in decline, the Federal Reserve is predicted to back a global currency by 2024

are politically sensitive in the US. Chinese companies used to be cautious about Latin America, in part because it was considered to be the US backyard, but **PetroChina** is making a large investment in Venezuela and **Sinopec** is trying to become involved in Brazil's new oil discovery.

Chinese oil companies are also investing heavily in Iraq and Iran. Indeed **Iran**, the country which arguably presents the toughest diplomatic challenge facing the Obama White House, is now China's third-largest supplier of oil and China has started selling refined gasoline to Iran, in a move that could complicate US efforts to limit the supply of fuel to the country.

Diplomats in Beijing say China is meanwhile taking a more assertive approach than before in the South China Sea, where long-running territorial disputes exist involving several countries. **ExxonMobil** of the US came under pressure from Beijing to pull out of an exploration deal with Vietnam, while the US navy reports six incidents in recent months in the South China and Yellow seas in which Chinese ships have harassed US surveillance vessels.

China also sent ships to the **Gulf of Aden** this year to take part in operations against pirates and some scholars say the government will need to become much more involved in protecting Chinese citizens abroad, due in part to rising public pressure. That could lead to it becoming more involved in places such as Pakistan and Sudan, where its citizens have been caught up in kidnappings.



Yet even if China is convinced US power is waning, it will still be keen to avoid open confrontation. In military terms, the US dwarfs China and will do so for many years, even with Beijing's heavy investment in its armed forces. An overconfident China would also revive fears of a threat in the rest of Asia and elsewhere in the world that Chinese diplomats have worked hard to quash. And although China often complains about US policy towards Taiwan, it would not favour a rapid US security withdrawal from east Asia, in part because this could spark an arms race between China and Japan. "China might be more assertive towards the US but it will not be aggressive," says Ms Glaser at CSIS.

Indeed, for many of the analysts talking up America's woes, the result they see is not confrontation but an opportunity to exert more leverage. China wants to rein in the US and mould its engagement with the rest of the world – and if that sounds familiar, it is because it is exactly how western countries claim to be dealing with China.

When he was US deputy secretary of state in 2005, Robert Zoellick urged China to be a "responsible stakeholder", by which he meant China should be tied into the existing web of international rules and institutions. Whether through the World Trade Organisation or non-proliferation initiatives, some of this has been achieved. China is one of the biggest contributors to United Nations peacekeeping missions and is taking a more proactive role in climate change talks by saying it will set a target for reducing the amount of carbon emissions for every unit of output.

But a more confident China will also want to use its influence to define the terms by which the US behaves. That partly means making it much harder for the US to embark on what China sees as unilateral adventures such as the Iraq war. But it also means trying to establish a multilateral order on Chinese terms, where countries co-operate on global problems but where China is able to ring-fence its political arrangements and neuter discussion of its human rights record. Defending Beijing's view of sovereignty

remains one of the main goals of its foreign policy.

“Some foreigners have nothing better to do after filling their stomachs. They keep picking on things Chinese,” said Xi Jinping, vice-president, during a visit to Mexico this year.

Prof Fu at CICIR tells a story about a US state department official who told a Beijing seminar that democracy promotion was one of the main priorities of US policy. “I asked her, what good is that for dealing with bird flu?” he says. The sort of multilateralism that Beijing seeks is based on a form of moral equivalency, where no country’s political system is superior to others. “We have to overcome our differences over morals and values in order to solve the problems we have in common,” he says.

Wang Yong, director of the Center for International Political Economy at Peking University, says the crisis will make it much harder for the US to “impose” human rights issues. “For the US, this is not a good time to be interfering in other countries’ issues,” he says. Americans “ought to be minding their own business, repairing their economy, their own human rights record and their overseas image, which needs a lot of mending”.

For all the gleaming military hardware that China will put on display next week and all the signs that it is becoming more engaged overseas, there is still a strong defensive element to its foreign policy, the product of deep suspicions about US intentions. A weaker US gives China chances to expand its influence. But it also gives its leaders a stronger platform to resist Americanisation.

### **Practical problems of a banker’s proposal to demote the dollar**

Perhaps the boldest statement of intent from Beijing this year has come not from the military or even from an academic with a nationalist bent, but from the country’s mild-mannered and scholarly central bank boss.

Zhou Xiaochuan caused a storm in March when he in effect called time on the US dollar as the main global reserve currency. In an article on the bank’s website, Mr Zhou argued that the international monetary system was too vulnerable to crises and said the dollar should eventually be replaced by special drawing rights, a basket of currencies managed by the International Monetary Fund.

The politics of Mr Zhou’s article were deft. The proposal was something of a challenge to the US – a shift away from the dollar as the reserve currency would inhibit Washington’s ability to borrow heavily in its own currency. Yet, as Arthur Kroeber at the Dragonomics consultancy in Beijing points out, the proposal involved giving more power to an international body and therefore avoided being seen as a power grab by a rising China.

The suggestion also helped to shift the conversation about the global financial crisis, which ahead of the Group of 20 leading nations’ London summit in April had begun to focus on China’s huge trade surplus and undervalued currency. Mr Zhou managed to transfer some of the attention back on to the US.

But the practical implications are less obvious. As Mr Zhou admits, reserve currencies are decided not by bureaucrats but by powerful economic forces. Some economists in China also question whether the proposal is in the country’s interests – a system based on SDRs might be more stable but could also imply lower growth for the global economy.

“Even in China, the idea is heatedly debated among economists,” says Zhang Yuyan of the Chinese Academy of Social Sciences in Beijing.





**Storm: Zhou Xiaochuan**

“It is very difficult for any other national currencies or international currencies like SDRs to replace the dollar, at least in the next 10 or 20 years. There is no way.”

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