As China Rises, Conflict With West Rises Too

BY KATRIN BENNHOLD

DAVOS, Switzerland — As recently as 2008, when China was still an emerging economy eager to put its best foot forward for Western consumers, it lifted censorship, at least temporarily, on several Web sites before the Beijing Olympics. At the same time, it responded to pleas from U.S. and European politicians to cooperate on several other fronts.

These days, China is no longer emerging. It has emerged — sooner and more assertively than had been expected before the wrenching global financial crisis, which badly damaged all the established industrial powers, from the United States to Europe and Japan.

Its currency, the renminbi, is frozen at an undervalued level, and Internet controls are stricter than ever — even as Google, one of America’s most prominent companies, threatens to leave.

The severe recession has fast-forwarded history, catapulting an unprepared world into a period of uneasy cohabitation between the United States, the No. 1 economy, and its eventual successor.

“China is the West’s greatest hope and greatest fear,” said Kristin Forbes, a former member of the White House Council of Economic Advisers and one of hundreds of top officials and executives flocking to this winter resort for the annual World Economic Forum, which is taking place Wednesday through Sunday.

“No one was quite ready for how fast China has emerged,” said Ms. Forbes, a professor at the Massachusetts Institute of Technology. “Now everyone is trying to understand what sort of China they will be dealing with.”

For the first time, economists point to Chinese spending — not the U.S. consumer — as the key to a global recovery. China’s gross domestic product could overtake that of the United States within a decade, one report predicted this month, while others speculated about when the renminbi might start to challenge the dollar as the world’s reserve currency.

And as developing countries everywhere look for a recipe for faster growth and greater stability than that offered by the now-tattered “Washington consensus” of open markets, floating currencies and free elections, there is growing talk about a “Beijing consensus.”

China’s rise will be on prominent display in Davos this week, with the biggest Chinese delegation in the World Economic Forum’s history. The local Chinese restaurant has been fully booked since early January. The 54 Chinese officials and executives — including the presidents of the country’s sovereign wealth fund and export-import bank — were expected not only to rub shoulders here but also, as one put it bluntly, to “go shopping.”

When the United States was snapping at the heels of the British empire, the global hegemon of the early 20th century, the situation caused plenty of friction, even though both countries spoke the same language, shared similar cultures and were liberal democracies.

China, in contrast, is a Confucian-Communist-capitalist hybrid under the umbrella of a one-party state that has so far resisted giving greater political freedom to a growing middle class. Now its ascendancy is about to set off what many officials and experts see as a backlash on both sides of the Pacific.

“It’s not surprising that China’s remarkable economic rise would be unsettling to some,” said Pascal Lamy, the director general of the World Trade Organization.

So far, the backlash against China has been largely rhetorical. Stephen Roach, the Asia chairman of Morgan Stanley, counts 45 anti-China legislative measures introduced in the U.S. Congress between 2005 and 2007. None passed.

That could change, as tricky midterm elections loom in the United States and politicians there and in Europe become more outspoken in blaming China’s currency peg to the dollar, which gives its industries a competitive edge, for rising joblessness at home.

Some targeted tariffs have been imposed in recent months. Washington has penalized imports of Chinese tires and coated paper products. Both the United States and the European Union are restricting Chinese steel.

But none of those measures go as far as climate change proposals in France and the United States, which call for border taxes on products from countries — China in particular — that do not accept higher costs for carbon emissions in producing energy and making goods. If “the U.S. opts for friction,” Mr. Roach said, “the Chinese can be expected to respond in kind.”
China has its own version of political jockeying. Several foreign companies already complain that doing business in China has become more difficult. Lured until a few years ago by tax rates less than half of those applying to Chinese companies, executives now cite an increase in red tape and a growing number of “buy China” mandates from government procurement offices.

The standoff with Google has illustrated the difficulties foreign business faces in China. It has also starkly raised the question of who will have the upper hand in future negotiations.

“The operating environment is tougher than ever for Western companies,” said James McGregor, head of the government relations committee of the American Chamber of Commerce in China. “But unlike Google, most Western companies also need China more than ever.”

China is the biggest recipient of foreign direct investment in the world: 450 of the Fortune 500 companies have business presences there, and many of those still reeling at home are doing brisk business in China. “G.M. is hurting anywhere else, but here things are quite profitable,” Mr. McGregor said.

Business interests in China could make it harder for Western politicians to lash out. “It’s a situation the U.S. was in for a long time,” said Ms. Forbes, the M.I.T. professor. “Many people didn’t like U.S. policy, but you had to be in the U.S. market.”

If business executives are looking to China for its low manufacturing costs and sizable market, political leaders are studying a state perceived to have found a recipe for lifting millions out of poverty with fast growth, even if that means a stiff measure of domestic repression. “You hear more and more people talking about a Beijing consensus,” Ms. Forbes said.

But what exactly is the Beijing consensus? Some see it as a form of economic management with greater government involvement that is on the rise across the world. Others interpret it to mean more strictly controlled capital markets, which have made a reappearance even in previously open countries like Brazil. Policy makers in Malaysia and Dubai focus on replicating China’s special economic zones, which afford generous terms to foreign investors in manageable geographic areas.

Some suggest that China’s lack of democracy is an advantage in making unpopular but necessary changes. “It is more challenging for democratic systems because every day they come under public pressure and every short period they have to go back to the polls,” said Victor Chu, chairman of First Eastern Investment Group in Hong Kong, the largest direct investment firm in China. “China is lucky to have the ability to make long-term strategic decisions and then execute them clinically.”

With China’s rising clout, the West has less leverage over Beijing. When China was seeking to join the World Trade Organization a decade ago, it accepted compromises to U.S. and European demands. At climate talks last month in Copenhagen, however, China blocked a comprehensive deal and refused to go beyond its earlier promises. Portrayed as a deal breaker in the Western media, at home it was celebrated as the country that stopped the West from imposing its terms on developing countries, Mr. Chu said.

Western diplomats complain about the way Beijing is dragging its feet more than Moscow on sanctions on Iran’s nuclear program and is propping up unsavory regimes across the world in its hunt for the natural resources to power its growth.

Some say Chinese officials are using their country’s $2.4 trillion in foreign currency reserves as a bargaining chip, knowing that any hint of reducing those reserves would rattle currency markets.

“As China is emerging on the global stage with unprecedented power and influence,” said David Shambaugh, a professor of political science and international affairs at George Washington University who is in China as a Fulbright scholar, “it is not proving to be the global partner the United States and E.U. seek.”

In the world of power politics, that is not particularly surprising. Like many Western countries, China will act only when it is in its interest.

Mr. Chu of First Eastern Investment said he expected China to resume a gradual appreciation of the renminbi later this year, not because Washington was lobbying for it but because signs of inflationary pressure and bubbles in the Chinese credit and housing markets were mounting. This month, the Chinese authorities raised interest rates and moved to curtail bank loans.

Kenneth Rogoff, an economics professor at Harvard University who just spent two weeks in China, warns that the country will face its share of economic troubles in the years ahead. But that will not change the underlying trend, he said.

While China remains much poorer than the advanced industrial powers of the West on a per-capita basis, its rapid growth should enable it to pass Japan this year as the world’s second-largest economy.

A new report by PriceWaterhouseCoopers predicts that China could overtake the United States as the largest economy as early as 2020. In 2003, Goldman Sachs made waves by suggesting that the Chinese G.D.P. might match that of the United States by 2041. Five years later, the forecast was revised to 2027.

According to Mr. Rogoff, over the next four decades or so, the Chinese renminbi will gradually come to rival the dollar as the world’s leading reserve currency, making China’s response to its increasingly central role in the global economy critical.

The risk, Mr. Shambaugh of George Washington University said, is that “the world will be asking more and more of China but getting less and less in return.”