

FREEMAN REPORT

February 2009

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Quote Of The Month

"The causes for this financial crisis are obvious. The main causes are that some economies have imbalances in their economic structure. For a long period of time they have had dual deficits, trade deficit and fiscal deficit, and they have been overspending by borrowing." ~ **Wen Jiabao**, Chinese Premier, speaking in the United Kingdom on February 2. Premier Wen's comments signaled his criticism that the U.S. economic policies should shoulder a large share of the responsibility. Premier Wen sounded a note of optimism and pointed to signs of economic recovery in China as indicating there is *"light at the end of the tunnel"* regarding the ongoing global financial crisis.

Source: *China Daily*, February 2, 2009

The Freeman Report provides an open forum for individual opinions and commentaries on China. All opinions expressed in the feature essay of the report are those of the author.

FEATURE ESSAY

Can the "Chinese Model" Weather the Global Economic Storm?

BY WANG YONG

The celebration of the 30th anniversary of China's reform and opening-up presents a timely moment to examine the "Chinese Model." What is it? How successful has it been? And, what are its prospects for the future?

Whatever its successes hitherto, many argue that with the arrival of the financial crisis, this model, which has been characterized as an export-driven economy that has made China "the Factory to the World," is now plagued by the closing of thousands of factories and the threat of widespread labor unrest. However, I come to the opposite conclusion. This innovative model is likely to help China weather both the gathering economic crisis and the resulting social and political unrest that could grow out of it. Moreover, should China safely navigate this current storm, it will more than likely be able to strengthen and secure its status as a rising economic and political power in the international arena in the future.

So, how should we understand the "Chinese Model?" Although it is as controversial for some as the "Washington Consensus" is for others, we can sum up its most important tenets as involving a careful sequencing of reforms with priority given to economic over political reform; while retaining the existing constitutional system and keeping the Chinese Communist Party (CCP)'s ruling status unchanged, this mode has involved substantial liberalization in ideology, the economy, and society; while promoting marketization and privatization, the major banks and largest state-owned enterprises (SOEs) remain publicly owned, so that they can function as "anchors of economic stability." And, while a great deal of autonomy has been extended to local governments in economic and social development, the central government (cont pg 2)

In The News

BEIJING On February 20, Secretary Hillary Clinton arrived in Beijing, the last leg of her four-nation visit to Asia, following Japan, Indonesia and the Republic of Korea. The trip is her first overseas trip as the United States' chief diplomat, and is a break with the tradition among secretaries of state of visiting Europe first. The trip is an important opportunity to ensure Beijing that U.S.-China relations under the new Obama administration get off to a positive start and to set the tone for its relationship with China for the next four years. Many believe that Secretary Clinton will focus her talk with the Chinese leadership on issues including climate change, the global financial crisis and security threats.

BAMAKO Chinese President Hu Jintao embarked on a week-long tour of Africa after visiting Saudi Arabia on February 11. The trip is his second one to Africa since the China-Africa Summit in 2006, during which Beijing agreed to eliminate many tariffs and increase aid significantly to African nations. President Hu's trip took him to Mali, Senegal, Tanzania, and Mauritius. During his first stop in Mali, President Hu vowed to increase aid to African countries, cancel part of their debts, and expand trade with and investment in these countries. China's presence in Africa has received growing attention in recent years as it has offered countless sums of no-strings-attached aid to many resource-rich, underdeveloped African nations.

has maintained policy coherence by preserving its authority to designate local party and government officials. In short, the Chinese model reflects a combination of growing pragmatism, liberalism, and market competition with a strong ongoing quotient of state intervention.

What has been astonishing about this "model" is that it has enabled China to maintain rapid growth in the relatively stable political environment over the last thirty years. Although China is not the only country to enjoy such long-term growth (post-WWII Japan and South Korea being other cases), it is something of a miracle that a once-poor country with one fifth of the world's population could achieve such sustained development and even cope with disruptions, such as the earthquake in Sichuan Province in May 2008.

But, the praxis of the Chinese "model" has also produced problems, some of which have become very serious. For example, environmental deterioration has become a major issue. The "Gini index" (the gap between rich and poor) is widening, and official corruption has yet to be effectively curbed. Despite much leadership discussion and a new commitment to the ideas of "scientific development" (sustainable development) and "a harmonious society" (social justice and harmony), these trends have not been arrested. Nor has domestic consumption been sufficiently expanded, leaving economic growth overly dependent on exports and foreign investment.

Moreover, the global economic crisis is proving far more serious than initially recognized. The difficulties come directly from China's dependency on international market, especially the U.S. market. A rapid decline in exports has resulted in the closure of thousands of factories in the Pearl River and Yangtze River Deltas and the return home of tens of millions of unemployed migrant workers to hinterland provinces. Recently laid-off workers are now joined by more than six million newly graduated college students, all looking for work. If the economy cannot maintain its high growth rates, growing unemployment and the accumulation of countless unresolved political and social issues could create the possibility of a major outbreak of social unrest.

So, can China avoid a large-scale recession and even social unrest? I believe that the Chinese model can and has played an important role in allowing China to avoid just such a scenario.

First, in the face of crisis, the Chinese government made a decision to intervene with a rescue package swiftly and with a unified voice. While the U.S. waited for its new president to come to power, the Chinese government promptly acted to revive its economy. Despite some public criticism that its four trillion yuan rescue plan was created too hastily, the plan served its purpose judging from the last two months events.

Second, China's financial resources are sufficient to ensure adequate investment while preserving high levels of growth. This is because the Chinese government has maintained in fiscal surplus and kept foreign exchange reserves growing while the private sector has maintained a high savings rate.

Third, the new stimulus investment package is targeted primarily at infrastructure, equipment renovation, and industrial upgrading, which were under-invested in the past, especially in the central and western regions of the country.

Fourth, increased investment in social welfare programs includes not only more universal health and social insurance but also an expanded subsidization of housing. The housing subsidy could help solve the problem of insufficient demand for real estate while also preventing a housing bubble bombshell, which could lead to the collapse of China's economy.

Fifth, the rescue policy has increased investment in rural areas, which will help narrow the gap between urban rich and rural poor. For example, to promote the sale of household electrical appliances in rural areas, the government started providing a 13 percent price subsidies, not only benefiting rural consumption but also boosting the growth of major industrial enterprises.

Sixth, the government has subtly used the media to maintain the confidence of consumers by managing public criticism and thereby promoting public confidence in the government and the economy.

So far, most forecasts suggest that China can maintain an eight percent growth rate in 2009, although considerable efforts will be needed to achieve this goal. But, the history of economic crisis shows that non-economic factors play an equally important role in any economic solution. At present, the Chinese still believe their country's economic growth will remain high, and because of this, top leaders continue to enjoy extremely high approval ratings. An awareness among the leaders of the importance of these non-economic, or psychological, factors has helped China maintain an environment conducive to confidence in their economy.

For many Chinese, the 30th anniversary of "reform and opening up," provides - even during this time of crisis - a reminder of the painful lessons of the Cultural Revolution and makes the majority of people opposed to taking any "road back" to the pre-reform years. Well-aware of the achievements of last three decades, most people now firmly believe that a more open, free China that is even more integrated with the world is their country's only way forward. If the "Chinese Model" does succeed in helping China (*cont pg 3*)

survive and overcome the unprecedented crisis in which the world now finds itself, after the storm China will more than likely move toward a far brighter future.

Wang Yong is Professor at the School of International Studies and Director of the Center for International Political Economy at Beijing University.

A shortened version of this article appeared in *Project Syndicate* as a column. The author would like to thank Dr. Orville Schell for his editing advice. To send your comments on the feature essay, please email FreemanChair@csis.org.

Publications

“Wang Jiarui’s New Year’s Visit to Pyongyang and China’s New Approach to North Korea,” *China Brief*, volume 9 issue 4, Jamestown Foundation, February 20, 2009

By **Bonnie S. Glaser**, Senior Associate, Freeman Chair in China Studies, CSIS, and **Scott Snyder**, Director of the Center for U.S.-Korea Policy, Asia Foundation

The article discusses the significance of the Pyongyang visit of Wang Jiarui, Chief of the International Liaison Department of the Chinese Communist Party (CCP). The authors argue that Wang’s visit marked the continuation of an effort by Beijing to stabilize and sustain direct ties with Kim Jong-Il following a hiatus in high-level contacts in the year following North Korea’s nuclear test in 2006. The article also notes some of the new thinking about China’s approach to using its leverage over North Korea. [[Click here for PDF version of the article.](#)]

“Commentary: Chasing the Currency Dragon,” CSIS, January 28, 2009

By **Charles W. Freeman III**, Chairholder, Freeman Chair in China Studies, CSIS

One of the first acts by the new Treasury Secretary Timothy Geithner was to name and shame China as a currency manipulator, a term that Bush administration officials long avoided. While many economists admit China’s currency is undervalued, the situation is far more complicated. The author argues that attacking China’s currency regime without addressing U.S. domestic fiscal prudence is unlikely to be effective in the long run. [[Click here for PDF version of the article.](#)]

“U.S.-China Relations: Ties Solid for Transition, but Challenges Lurk,” *Comparative Connections*, Pacific Forum CSIS, January 2009

By **Bonnie S. Glaser**, Senior Associate, Freeman Chair in China Studies, CSIS

The article discusses major developments in U.S.-China relations over the fourth quarter of 2008. The United States and China held the 5th Strategic Economic Dialogue and the 6th Senior Dialogue this quarter, where the global financial crisis was a focal point of discussion. The crisis also occupied talks between Presidents Bush and Hu Jintao on the sidelines of APEC in Lima, Peru. Also, China’s internal debate about the international structure of power and the status of the United States was revived as the two nations celebrated the 30th anniversary of the establishment of diplomatic ties. [[Click here for PDF version of the article.](#)]

Conference & Event

January 16 *China’s Policy toward Southeast Asia and Its Relations with ASEAN*

Dr. Ma Ying, director of Department of Asia-Pacific Studies at the Shanghai Institute for International Studies, presented her views on the contents and characteristics of China’s policy toward Southeast Asia, the impact of China’s relations with ASEAN on East Asia, and China’s interests in Southeast Asia. **Dr. Bronson Percival**, Senior Advisor at the Center for Strategic Studies of CNA and Adjunct Professor at the School of Advanced International Studies, served as a discussant. **Charles W. Freeman III** moderated the discussion.

WHAT’S NEW

We are pleased to welcome **Dr. Zhou Zhongfei**, who has recently joined CSIS as visiting fellow with the Freeman Chair in China Studies. Dr. Zhou is currently director of the World Economy Studies at the Shanghai Institute for International Studies. Her research focuses on economic issues in cross-Strait relations. Dr. Zhou will spend the next three months with the Freeman Chair.

PUBLICATIONS FROM THE FREEMAN CHAIR 2008/2009*

* Please visit our website to access archived publications dating back to 2002.

2009

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Wang Jiarui's New Year's Visit to Pyongyang and China's New Approach to North Korea," *China Brief*, volume 9 issue 4, Jamestown Foundation, February 20, 2009

By **Bonnie S. Glaser**, Senior Associate, Freeman Chair in China Studies, CSIS, and **Scott Snyder**, Director of the Center for U.S.-Korea Policy, Asia Foundation

January

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By **Charles W. Freeman III**, Chairholder, Freeman Chair in China Studies, CSIS

"U.S.-China Relations: Ties Solid for Transition, but Challenges Lurk," *Comparative Connections*, Pacific Forum CSIS, January 2009

By **Bonnie S. Glaser**, Senior Associate, Freeman Chair in China Studies, CSIS

"What Hu Jintao Should Expect: Predictions about Obama Administration Policy toward Taiwan," *PacNet Newsletter #1*, CSIS Pacific Forum, January 5, 2009

By **Bonnie S. Glaser**, Senior Associate, Freeman Chair in China Studies, CSIS

2008

October

"*Crafting U.S. Economic Strategy toward Asia: Lessons Learned from 30 Years of Experience*," CSIS Asia Economic Task Force Report, October 2008

By **Charles W. Freeman III**, Chairholder, CSIS Freeman Chair in China Studies, and **Matthew Goodman**, Managing Director, Stonebridge International

September

China's Rise: Challenges and Opportunities, Peterson Institute for International Economics and CSIS (Washington, DC: September 2008)

By **C. Fred Bergsten**, Director, Peterson Institute for International Economics, **Charles W. Freeman III**, Chairholder, Freeman Chair in China Studies, CSIS, **Nicholas R. Lardy**, Senior Fellow, Peterson Institute for International Economics, and **Derek J. Mitchell**, Senior Fellow for Asia, International Security Program, CSIS.

"*Promoting Confidence Building across the Taiwan Strait*," CSIS, September 2008

By **Bonnie S. Glaser**, Senior Associate, Freeman Chair in China Studies, CSIS, and **Brad Glosserman**, Executive Director, Pacific Forum CSIS

June

"*Assessing Chinese Government Response to the Challenge of Environment and Health*," CSIS, June 2008

By **Charles W. Freeman III**, Chairholder, Freeman Chair in China Studies, CSIS, and **Xiaoqing Lu**, Research Associate, Freeman Chair in China Studies, CSIS

La Democrazia Gestita [Managed Democracy], *Aspenia*, No. 41, 2008, Aspen Institute Italia

By **Melissa Murphy** (contributing author), Research Associate, Freeman Chair in China Studies, CSIS

May

"*China-Europe Relations: Implications and Policy Responses for the United States*," CSIS, May 2008

By **Bates Gill**, Director, Stockholm International Peace Research Institute (SIPRI), and **Melissa Murphy**, Research Associate, Freeman Chair in China Studies, CSIS

February

"Assessing China's Response to the Challenge of Environmental Health," *China Environment Series 9*, China Environment Forum, Woodrow Wilson International Center for Scholars, 2007

By **Xiaoqing Lu**, Research Associate, Freeman Chair in China Studies, CSIS, and **Bates Gill**, Director, Stockholm International Peace Research Institute

FREEMAN FACTS:

Traffic in Beijing

1. For the first 45 days of 2009, 65,970 new cars were registered in Beijing, which means an average of 1,466 new cars is added to the streets of China's capital every day.
2. During the same period of 2008, 1,302 new cars were registered daily in Beijing.
3. Beijing now has 3.56 million registered cars and 5.2 million registered drivers.
4. China's car sales, however, fell by 7.76% in January as the economic downturn continued.
5. China recorded 5.1 road accident deaths for every 10,000 motor vehicles in 2007, the highest rate in the world.

Sources: Agence France Press, Reuters, South China Morning Post, Xinhua

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The *Freeman Chair in China Studies* was established at the Center for Strategic and International Studies in 1994 to advance the study of China and to promote understanding between the United States and the countries of the Asia Pacific region. The Freeman Family—Luther Freeman as a clergyman, Mansfield Freeman as a scholar-business leader, and Houghton Freeman as a corporate executive in a global enterprise—have established a tradition of contributing to international understanding through practical experience in East Asia and China.

The United States has a long-standing relationship with China and the countries of East Asia, which play increasingly important roles in future international economics, politics, culture, and security. In the diplomatic, public policy, business, and government fields, the peoples of both China and the United States will benefit from greater mutual appreciation and understanding through broadly based international exchange.

The Freeman Chair's active policy-oriented agenda is dedicated to delivering informed public policy debates, expert briefings, and strategic policy recommendations on Greater China and East Asia to the diplomatic, policymaking, business, and government arenas.

Current Research Projects

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- The emergence of Chinese civil society and nongovernmental organizations
- China's HIV/AIDS crisis and its implications for U.S.-China relations
- Examining the economic, trade, and financial tensions in U.S.-China relations
- China's relations with key regions—including Central Asia, Europe, and Africa—and their implications for the United States
- China's military modernization and its impact on regional security
- U.S-China-Taiwan relations

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