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China as a global actor and its relation with Europe

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On 16-18 November 2015, the 23th Asia-Pacific Economic Cooperation (APEC) summit took place in Manila. The Leaders' Declaration condemned terroristic attacks, emphasised their commitment for the fight against corruption and a green, ecologically oriented development and the realisation of the Free Trade Area of the Asia-Pacific (FTAAP). It was China that clearly dominated the summit, but at the same time some problems emerged concerning China's relation with the US. Against Xiping's explicit will, Obama had put the controversial issue of Chinese construction on the reclaimed islands in the South China Sea on the table, thus underlining the importance of a free trade circulation and the US investment of $250 million in the next two years to help ensure maritime security for countries in Southeast Asia. Obama also went on with negotiations on the Transpacific Partnership during the APEC summit, even though the TPP excludes China.

In order to understand the role of China in current economic and political debates better, I interviewed Joseph Halevi, Senior Lecturer at the University of Sydney and keen analyst of the Chinese economy.

Professor Halevi, among the points cited in the leaders' declaration, there is a strong condemnation of terrorism without, however, proposing any concrete actions. The Chinese journal Global Times has recently published an editorial to explain the reasons behind the prudent position of the Chinese government. On the one hand, it is said that China is not 'fully prepared for military operations, not having engaged in battles for many years. Then, China considers itself as a 'victim of terrorism'[1] and an eventual fight against IS may increase the risk 'of prompting its domestic terrorists to join international groups'. On the other hand, China together with Russia, has voted against a UN resolution that is particularly severe with the Syrian government, but at the same time it has endorsed the legitimacy of combating the IS. How can we comment and interpret the current Chinese position on foreign policy with respect to the fight against IS?
JH: For what concerns Middle East and Arab regimes, we have to consider that China has almost the same position as Russia, both reflecting interests which can be traced back to the times of the USSR. Under Mao Tse Tung, China attempted to attract Arab regimes, competing with Russia, but then moved towards Maoist movements and finally tried to create divisions among Sovietophile groups. However, we must take into account that the Chinese government has also a strict relation with Israel, as highlighted by several US American media. There are many cases of Israel transferring technological and military knowledge to China. As a matter of fact, the relations are so strict that we also know there is a project, a Chinese-Israeli project, of a

railway line through the Mediterranean Sea reaching the Israeli city of Elhat overlooking the Red Sea.

In the book China's Strong Arm: Protecting Citizens and Assets Abroad, the authors recognise the urge for China of changing the 'non interference' foreign policy position into a more active role (as in the case of South Sudan during this spring), given the increasing economic weight it has in terms of investments, presence of firms and citizens around the world. Do you think we should expect a more active role of China in the following years?
JH: This is entirely plausible, in particular with respect to African governments. Indeed, in these countries China has to defend its own interests, which are essentially of two types. Firstly, the use of raw materials, due to the enormous necessity they have of aluminium and steel for the production of basic industries and secondly, in order to expand themselves in emerging and poor economies. Just to give an example, the diffusion of Chinese products is so huge that even in Bangui, the capital of the Central African Republic Pope Francisco has just visited, the plastic sandals sold are Chinese products. Clearly, the production of millions of plastic sandals requires the existence of a well developed chemical industry, and this confirms how global the Chinese network of production and distribution is and how significant its capability of reaching and conquering both rich and poor countries.

Another point stressed during the APEC summit is the importance of enforcing regional development and economic cooperation, for instance through the FTAAP. Last year, China declared its intention of rebuilding the Silk Road, improving trade and communication linkages across Eurasia with an investment of 40 billion dollars in infrastructures (financed unilaterally by the China Development Bank and the state-owned investment conglomerate CITIC). Given the long term commercial relations (40 years) between Europe and China, what would be the impact of the Silk Road project on the European economy?
JH: In order to understand the relation between China and Europe, we have to understand that the pivot essentially resides in the relation between China and Germany. In this sense, countries such as France and Spain are completely excluded, whereas northern countries such as Austria, Switzerland, Scandinavia and Finland and eastern countries such as the Czech Republic can climb on this 'bandwagon'. Silk Road involves China, Russia and Germany. The latter is extremely interested since the project implies the restructuring of the Russian industry and possibly of the Ukrainian one, meaning investments and exports of industrial German goods. In this respect we have to consider that Germany has completely cancelled its trade deficit. In fact, taking the sum of its exports towards not only China, but also Hong Kong, we can see that the German deficit has been cancelled, not reducing the amount of imports but increasing the amount of exports of capital goods. It is no coincidence that in almost all the biggest Chinese projects, German industries appear as partners. For instance, the project of the big railway line connecting Beijing with Lhasa in Tibet has been developed together with SIEMENS. China is strongly interconnected with Germany and the idea is to further develop this connection, through the creation of a big productive axis passing through Kazakhstan and Ukraine. This axis can become crucial, in order to bypass and reduce the dependence from naval transport. In fact, China is very interested in overcoming the problem of the Strait of Singapore and tolls. It is extremely favourable in creating an axis with the ex USSR, Germany and Pakistan. Clearly the outcome will be positive not only for Germany, but also for its close European partners:

Slovakia, Czech Republic, Poland, Austria, some northern regions of Italy and the Netherlands, that have reacted to its deindustrialisation with turning into a logistic platform.

We know that today imports from China essentially consist of industrial and consumer goods, such as machinery and equipment, footwear and clothing, furniture and toys. Do you think the internal productive structure of the Chinese economy is moving towards more technological advanced goods, such as the very recent introduction of a Chinese passenger jet, seems to predict?
JH: The process of innovation is already in action and both, economies of scale and technical capabilities, are present in the Chinese economy. For what concerns airplanes, an agreement was signed with Airbus, and probably China will become the biggest producer of planes, since they have the physical plants required in order to do this.

Will the move towards innovation and more advanced technologies produce an improvement of working conditions of Chinese workers, as some say?
JH: We should recall the concept of economies of scale and consider that the production for global markets is something different from the production for a niche market. The former requires engineers, which are paid very well in China and millions of workers, paid much less. Thus, there will be probably an increasing polarisation, but the problem is also that the population, and thus the workforce, is getting old. Some theorise that the Chinese economy will not develop much in terms of distribution and remain stuck in the middle income trap, but I do believe its biggest problem is of ecological nature. They have over-exploited their natural resources, such that they now want to transport water from Tibet glaciers.

We know that the growth rate of the Chinese economy is slowing, moving downwards from 10% to 7 or 6 %. The government speaks of a 'New Normal' whereas many economists consider it as the sign of secular stagnation. In previous interviews, you have spoken of the accumulation problem of Chinese economy and of its link with income unequal distribution and investment fuelled by the growth of lending and private debt. What will be the next step of the Chinese economy? Will they really start fostering internal demand and consumption, such as the change of the one child policy and increasing wages in some regions seem to predict?
JH: They strongly depend on the rest of the world, in particular with respect to raw materials; they need to reduce the use of their carbon which is highly polluting and they must import it from other countries, such as Australia, Canada, and the same holds for agricultural products. Thus, they need to maintain a surplus in terms of exports, and cannot really leave their surplus and move completely towards internal demand. Moreover, we should recall that within the national income, there is not only consumption, but also investment and 50% of national income actually goes to investment.

The United Nation Conference on Climate Change COP21 is now taking place in Paris, with the ambitious aim of reaching an inclusive agreement on carbon emissions cuts. After the diplomatic failure of the Copenhagen summit in 2009, the two most polluting countries, the US and China, have already declared their commitment for reaching an agreement. In your opinion, does China really have the intention to change its environmental policy? Are a green conversion and a massive reduction of carbon emissions compatible with the high,

even if slowed, growth rate of the Chinese economy?

JH: Absolutely not, every year China produces 20 millions of cars and production increases by 600 or 700 thousands with enormous amount of steel and aluminium. Nowadays climate change has become an issue of political mediation, whereas in order to really tackle the problem we should start to rethink and change our way of production and consumption. What we see instead is that even the issue of carbon emissions has been over-determined, through the creation of a market of emissions, based on the wrong assumption, which can be often found in economics, that market price can really represent a vehicle of information. Clearly, the change required would involve a concrete plan of global production change, starting with the strong involvement of the most polluting countries, but we seem very far from this.

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[1] They refer to Xinjiang Uyghur Autonomous Region