

Sources of Western Apprehension About China

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Why do Westerners fear or show disrespect for China when

- **it has produced the biggest movement of people out of poverty in world history,**
- **has done more to provide an economic base for Africa than decades of Western aid have been able to achieve,**
- **has grown over 40% since the global financial crisis while Western economies have struggled,**
- **has delivered trillions of dollars in cheap goods to Western consumers, and**
- **when China's history for five millennia is one of physical containment as a near land-locked civilisation, which professes itself as having a "peaceful rise" advocating non-interference in other states?**

There are many reasons, some valid, some not justified, and all good topics for debate. This document runs through 55 of those reasons in no particular order of importance apart from the first item. Research for this list started in September 2012 and although there will be factors relevant to the discussion which are not mentioned here, eventually a cut-off date had to be selected. The material comes from a wide variety of sources – mainly day to day media rather than academic publications.

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As noted, the 55 factors are presented in no particular order of importance, apart from the first. And it should be noted that one could undertake a similar exercise for every other country, including New Zealand.

Facelessness

We do not know how mainland Chinese live and what they think. In the West people do not know the Chinese well enough to be able to see them in the same family, living, social situations facing the same joys, delights, problems, and procedures that we experience. We do not know what the inside of a low, middle or upper income Chinese house or apartment looks like. We do not know at what time schools start and finish, how long people spend in university, what the national sports are which children might play after school, how hard it is to get a job etc.

This is a problem because plentiful scope exists for imagining the worst about the Chinese, their values, their lifestyles, and their actions.

The same applies to Chinese leaders. Traditionally Chinese politicians have been remote from their people, communicating in written form and engaging neither in communication through oratory nor familiarisation through participation in typical family activities (attending a baseball game, watching netball and rugby) – though domestically efforts were made to portray previous Premier Wu as grandfatherly. The new Premier has started a Twitter-like account.

We cannot form an opinion as to the honesty and integrity of Chinese leaders which is very problematic because we continually judge and have systems in place to facilitate the judging of those who lead us in the West. Our system of rule is based around continual monitoring of those to whom we give power.

The remoteness of authoritarian rule means Chinese leaders will struggle to assuage the questioning concerns of the Western public unless they break with Chinese leadership tradition.

China's Media Discourse

The points of focus in China's (English language) media are determined often with reference to the perceived concerns of the West rather than the concerns of China itself. Contrast this with Western media where there is practically no discussion of how China perceives the West. Such an approach of discussing Western perceptions logically invites a Chinese response to these perceived perceptions. But the response is often not in terms of a simple statement of China's position but criticism of the Western position as being incorrect, a mistake, and that thinking "should" change. Lead articles, editorials, opinion pieces and included letters address issues such as the following.

- How America is perceived as encircling China and they "should not" be doing it or will fail in their efforts.
- How Japan "should not" be strengthening its claims to and actions associated with the Daiyu Islands, or forging closer relations with other Asian nations (naval vessels gifted to the Philippines for example) and is "making mistakes" according to a set of civilisation criteria which China feels should be followed by outsiders. In this vein they wish application of a universalist creed of their own in opposition to the Western-dominated model currently in place, whereby actions are deemed "right" or "wrong" judged by whether they meet or do not meet the acceptance of China. This language of superiority and admonishment rubs Westerners the wrong way and contradicts China's stated non-interference international policy.
- How China has the "right" to rebuild its civilisation and economy (correct) and it "should not" be challenged in its efforts to do so by the West.

One can however level the same criticism at the Russian TV channel RT which rather than emphasising Russian news and social concerns often concentrates on perceived deficiencies of the Western economic and political model. (The Occupy movement receives much attention.) Their discourse is determined by their point of difference to the West and not by their unique characteristics just as China's chooses not to present itself as it is, but how it opposes the perceptions of the West. Its identity is nationalistically tied up as "non-West" through public discourse, rather than simply Chinese – take it or leave it. Lecturing the West on how it "should" think brings apprehension.

The most extreme popular Western version of slanted news could be Fox Television in the United States. But their approach is not one of saying China/Russia/Syria/Iran/North Korea "should" change their thinking. Instead it is to highlight their actions, the differences and the potential negative consequences of such differences – the aim being to generate nationalistic civilisation concern, viewership, and ratings revenue.

Alternative Development Model

China practices a form of corporate statism involving hefty official support for favoured industries and companies through provision of cheap land, cheap loans and capital, loose regulations and export assistance. During the time these policies have been pursued China's economy has grown strongly. This has produced a fear in the West that there may be a viable alternative to the Washington Consensus as a means of delivering strong sustained economic growth.

This has fostered concerns that countries less committed to democracy and the rule of the market may move toward the creation of a new bloc less well disposed toward the West as was the case with the Soviet Bloc. In addition there are concerns that pursuit of the Beijing Consensus may produce the same highly undesirable elements that are seen in China such as corruption, huge income disparity, environmental degradation, absence of freedom of expression and human rights, a politicised legal system, and sometimes destructive internal competition.

However this concern may be exaggerated as the term coined and often used in the West – Beijing Consensus – barely exists in China where there is widespread disagreement on the best economic development route. The Western idea of a cohesive Chinese polity, bureaucracy, and population all working

toward a predetermined set of goals in an agreed manner misrepresents the heated discussions in China and within the CCP regarding the proper route forward. In fact as Deng Xiaoping said “Crossing the river by feeling the stones” means testing to see what works and making adjustments as necessary rather than following a set path without deviation alah the Great Leap Forward and Cultural Revolution which proved disastrous set strategies.

History of Revolutionary Dynasty Changes

One well known characteristic of China’s five millennia of civilizational existence is that rulers are changed every few generations or centuries by overthrow by external or internal groups – Mongols, Manchurians etc. This tendency is often noted by Chinese themselves as one reason why people seek to make as much money as possible when a window of opportunity presents itself and why so many wealthy and middle class Chinese wish to get some of their assets offshore – as protection against the next major change. Revolutionary change with military involvement from whatever source brings the high probability of huge economic destruction and shocks to economies increasingly dependent upon China for their exports and imported goods as well as location for their investments and source of inward capital.

Note that this on-going wealth outflow is different from the one being observed early in 2013 as Communist Party officials dump big city properties on the market for cash payment at discounted prices in order to get off property registers and protect money ahead of a major anti-corruption drive being pursued by the incoming leaders.

Challenge To US Dominance

The world knows generally what the US wants, how it thinks, how it acts, and how to act in return to accommodate the world’s only superpower. Only China possesses the potential capability to radically challenge and change US dominance of the seas and country relationships of interest to the West. But because China has no experience as a global player, shies away from involvement in the affairs of other countries, has not outlined the underlying principals behind its terms of engagement beyond non-engagement, and possesses a way of life which few countries aspire to, there is concern that the process of the world settling into a more bi-polar or multi-polar framework may not be smooth. China’s rise risks disturbing the established, familiar, and to some currently comfortable way of doing things, and because of that there is natural apprehension.

Buying Support

Even if countries have no “China dream” and no interest in adopting Chinese political characteristics or even on-going trade and investment relationships, they may still act in accordance with China’s wishes if their support is effectively bought using China’s economic strength. In the early to mid-2000s a number of Latin American countries (in America’s sphere of influence) changed to a One China policy. The Dominican Republic adopted this position in 2004 after a \$112mn pledge from China.

China has no historical relationship with Pacific nations yet has been expanding its presence and influence through often generous aid programmes focussed on infrastructure development. There is concern that their actions are diminishing the influence of historically big players such as Australia and New Zealand, and that they call into question China’s statements regarding having interest only in re-integrating into China all its historical territories and influencing developments only in its traditional sphere of influence.

Corruption

China ranks as one of the most corrupt countries with a ranking of 75 least corrupt (with New Zealand ranking first) in the 2011 Transparency International survey of perceptions of corruption in public services. <http://cpi.transparency.org/cpi2011/results/> China Daily recently reported that in the first eight months of 2012 12.7% more officials were investigated for corruption in China than a year earlier. Westerners often express concern that doing business in China means taking the risk of getting involved in corrupt practices such as bribery. Perhaps we can cite as one source of Western apprehension about China the fact that

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China's own citizens appear also to be somewhat concerned about what they see happening around them even as they grow wealthy. A recently released report by research group Global Financial Integrity estimates that over the past decade almost US\$4 trillion has been smuggled out of China and that the outflow appears to be accelerating with an estimated \$472 billion flowing out last year compared with \$205 billion in 2000. The group write that much of the money probably comes from corruption, crime and tax evasion.

Global Financial Integrity estimates that in the ten years ending 2010 corruption and tax evasion have cost developing countries some \$6 trillion. <http://iff.gfintegrity.org/iff2012/2012report.html> During 2010 China is estimated to have accounted for roughly half of the \$859bn estimated to have flown into tax havens and Western banks. This is a 9% rise from 2009.

A report obtained by the Economic Observer newspaper cites a CDIC report suggesting US\$ 1 trillion was smuggled out of China in 2012. Others suggest a much lower figure. The report said that during last year's national holidays in October 1,100 government officials fled and 714 succeeded in getting away. (References from Australian Financial Review article 23/1/13 page 10.)

Dominance of Politics

Much as the CCP changed in the late-1970s from wanting politics to be a part of everyone's lives (the Cultural Revolution) to wanting people to focus instead on making money and staying out of politics, still in the West people view the political desires of the CCP as over-riding all other considerations. For instance in the legal system judges are instructed to uphold the role of the CCP before considering issues of law. All newspapers are controlled by the Government/CCP. In China 96.7% of non-public sector businesses with turnover exceeding \$3.2mn in 2011 had CCP branches within them.

Suppression of Religion

Western countries are secular, however there is near universal acceptance that people have the right to worship the deity of their choice in a free manner. In some countries such as the United States church attendance is very high and attendees will frequently be told that all people of the earth have the right and should be encouraged to embrace that particular religion – though not forcibly as radical Islamists advocate.

In China although people are allowed to practice religion they may only do so in approved locations and heads of all churches are appointed by the state. In China therefore the Pope is not recognised as the head of the Catholic Church. Buddhist monks must sign allegiance to the CCP and disavow the Dalai Lama. This gentleman has a strong brand in the West as peace-loving and pious. In China however he is viewed as a separatist fomenting rebellion in Tibet. Falun Gong – whether seen as a religion or a gathering of exercise and philosophy adherents - is banned in China and supporters have been sent to “re-education through labour” and sentenced to periods in prison.

Family Planning

China's one-child policy from 1978 has had the positive effect of reducing growth in the country's population and causing demand for resources and pressures on the environment to be less than would otherwise be the case. However while there are many exemptions to the policy – including for members of the 55 ethnic minorities accounting for almost 8% of the population, rural dwellers, those who lose a child, and couples who were both only-children, determination by officials to enforce the policy has produced some horrendous outcomes. These include forced abortions and sterilisations which have appalled Westerners and more recently Chinese as well. In addition, to many religious people the idea of the state determining family size is abhorrent.

Viral Outbreaks

China, with its 700 million peasants living cheek by jowl with animals including birds is generally considered to be the prime source of global influenza outbreaks. The SARS outbreak of 2002/03 caused billions of dollars of economic damage, affected people in 37 countries with near 1,000 deaths and has been traced to

three species of bats in China. <http://news.bbc.co.uk/2/hi/science/nature/4291386.stm> Various outbreaks of Bird Flu – H5N1 virus – are considered to have come also from China. <http://www.reuters.com/article/2008/03/18/idUSN18452895>

Use of Trade Barriers as Punishment for Unwanted Behaviour

The proportion of Western countries' exports going to China has increased sharply over the past few years. Normally such growth would be greeted positively. However because of a belief that the Chinese economy is influenced by the CCP for the benefit of the CCP and its interests/longevity, because there is huge uncertainty about how China will behave internationally, and because comments from senior Chinese people on the world stage continue a "victimhood" theme, there is concern that China may use export dependency to coerce Western countries. OPEC countries restricted exports from 1973 as punishment for the US siding with Israel after the Arab invasion of 1973. Russia has used restrictions on gas exports as a means of coercing European countries.

In fact China is perceived as being willing to ignore WTO commitments and impose restrictions on trade with countries which have done something they do not approve of. The main example of this is restrictions on rare earth exports to Japan in October 2010. But there are others as listed in a Wall Street Journal editorial of October 2 2012. They include new inspection requirements for Norwegian salmon causing a 60% fall in trade after the 2010 Peace Prize was awarded to Chinese dissident Liu Xiabo. A dispute over the Scarborough Shoal with the Philippines saw extra inspections of Philippines banana imports into China in 2012. German researchers have found a 12.5% average fall in developed country high value exports to China following a visit by the Dalai Lama. There was also an over 50% fall in sales of Japanese cars in China late in 2012 following a latest flare-up in the dispute over the Daioyu/Senkaku Islands. Westerners fear that as export dependence upon China grows their ability to freely express opinions not considered desirable by China's Government will be impinged upon. Yet these same countries vote willingly at the United Nations for sanctions against other countries they have disagreements with.

Nationalism

In the West there is a perception that China has used nationalistic sentiment to detract attention from domestic issues and that such nationalism can flare up very quickly. For instance there were signs at a rally in China after Japan landed people on the Daioyu/Senkaku Islands late in 2012 stating "Even if China is covered in graves, we must kill all Japanese." This raises perhaps the greatest concern of those in the West asking themselves what sort of global power China will be. If China's leaders are allowing/educating their citizens to feel that the West and Japan owes them something for the claimed 'one hundred years of humiliation', then this attitude of on-going victimhood by a large power could lead to extreme actions beyond simple nationalistic sentiment.

The problem with this Western theory is that it is Western-centric. The focus of the Chinese government and CCP is almost unreservedly on domestic and not international issues (note the discourse/perceptions point above however) and the willingness of Chinese citizens to accept for instance American-like war fatalities in foreign climes appears near nil. Plus China's military strategy for millennia has been built not around confrontation and tit-for-tat losses but applying psychological pressure from dissuasion to appeasement aimed specifically at avoiding war.

In addition, China is militarily decades behind the West in terms of ability to move resources and control waters, with technology levels in particular not up to Western levels. Finally, encouraging/allowing nationalistic sentiment is an extremely dangerous strategy because recent history has shown that if people feel they are allowed to express violent opinion unchecked with regard to foreign matters (e.g. the Olympic torch relay through France in April 2008) then the same freedom should be accorded to domestic matters (the Sichuan earthquake of May 2008).

Arms Race

China's economic rise, its increased spending on the military (up 170% in real terms since 2002), increased willingness to press issues of importance with competing nations, coupled with confusion about what sort of international player it will be and concern about its so far ham-fisted interactions with important neighbours (rare earth and trade weapon use) is contributing to an Asian arms race. Asian countries are increasing spending on the military either because of concern about China's tactics which are sometimes viewed as bullying, or concern that other competing Asian countries are growing their military.

Counterfeiting

The Chinese business sector is disrespected by some and the Government mistrusted because of the extreme counterfeiting of Western goods and absence of enforcement of intellectual protection laws. It is estimated that 3 – 5 million people are employed in the counterfeiting sector, that such activity might account for 8% of GDP (those numbers do not compute), and that 15% - 20% of prominent branded products are counterfeits.

The high Chinese propensity to copy things stems partly from Confucianism which focuses on learning about that which already exists or existed in an attempt to return to a golden period of social harmony and stability of some millennia ago. It stems also partly as a hangover from the Mao years when all knowledge was considered a public good existing for the benefit of all. It stems mainly however from the extreme competition in China's business sector whereby as soon as people see someone is producing something profitably they will seek to enter the market themselves thus causing margins and profitability to plummet – leading to a decline in production standards and maximising of output as corners are cut to save costs.

Copying also reflects explicitly the CCP determination to modernise China through acquisition of foreign technology with all SOEs required to share any gained knowledge with other SOEs if instructed. In many regards the main losers of this copying and counterfeiting propensity are the Chinese themselves as ability to build capital for development of new products is constrained by low profitability and the continual search for new existing products to swamp the market with ahead of everyone else.

Land Purchases

China contains over 20% of the world's population yet just 7% of its arable land. Moreover the useful proportion of this is falling due to desertification, pollution, falling water tables, conversion to industrial and urban infrastructure including roads, salination, and water shortages. When Chinese businesses make asset purchases overseas people in the West feel that whether explicitly a State-Owned Enterprise or not the business is an instrument of the state.

As such, land purchases in New Zealand are seen in some quarters as being a state acquisition and because of the increasingly dire need to source food the land can become strategically important to China as oil in the Middle East is strategically important to the United States. That is perceived to reduce the chances that the land will one day revert to New Zealand ownership, and also increases the probability that China will take extra interest in its relationship with New Zealand, perhaps exerting pressure to ensure an absence of legislative pressures which might disadvantage the productivity or profitability of affected land.

In the same vein New Zealanders are concerned that the Trans Pacific Partnership deal involving NZ and the United States could lead to a loss of sovereignty over such things as cigarette packaging, forced splitting up of Fonterra, and inability of Pharmac to purchase generic drugs.

Nuclear Proliferation

China has failed to contain the nuclear ambitions of its vassal state and one of the world's poorest countries, North Korea. China has also not supported Western sanctions against Iran aimed at stopping its development of nuclear technology amidst fears nuclear weapons may be used in support of the Iranian President's desire to "eliminate the Zionist regime". This issue shows a key difference between the Chinese

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civilisation's approach to international affairs and Western approach. China's approach, which has been practiced for millennia, is one of non-interference in another state's internal affairs. Historically China would invite other countries to recognise Chinese wealth and authority and if they did not and did not want to have relations with China they would be left alone.

China's history since the late-1700s has been of other countries not accepting China's desire to be left alone leading eventually to invasion, rebellions (Taiping etc.), collapse of the Qing Dynasty, and now six decades of first integration under one authority (the CCP since 1949) then trying various methods of modernisation (collectivisation, Great Leap Forward, Cultural Revolution (as a means, not an end), and since 1978 Reform and Opening). The West in contrast seeks "forced" adjustments in other countries to remove potential sources of disturbance with this behaviour based upon centuries of destructive wars between opposing powers and experience of the United States when it initially tried to stay out of the European-initiated World Wars 1 and 2.

World Disorder

There are growing fears that, in the words of Martin Indyk and Robert Kagan "The liberal world order established after World War 2 is fraying at the edges." Beyond just North Korea there are serious issues requiring a serious global response including the push by Iran to gain nuclear weapons which risks producing a Middle Eastern nuclear arms race which would tear apart the global non-proliferation framework.

The Arab Spring has not necessarily expanded Western-style democracy (Egypt) and the collapse of authoritarian regimes who suppressed intense local conflicts is producing a spreading of Islamic territory control and influence in North Africa with increasingly violent results. The Middle East peace process involving Israel is in tatters. Key international institutions including the United Nations, Group of 20, and European Union are either weakening or becoming dysfunctional.

At a time when strengthened coordination between liberal countries is needed to prevent escalating tensions, conflict and authoritarianism, the rise of China with its non-interventionist philosophy coupled with uncertainty about what they would nonetheless like the world to look like means China may refuse to be a part of the solution to worsening problems. They may even impede resolutions in the name of non-intervention. That is, as strong leadership, such as America after WWII, is increasingly needed, the rising power may opt out and effectively frustrate (Security Council veto use) attempts of those left (US, EU, India, Japan, Australasia) to be effective.

Resources Competition

China's growth is placing upward pressure on the prices of many primary resources (iron ore, coal, dairy products, oil) and as strong growth is expected for a great many more years further price increases are highly likely – even though recent experience shows price changes can be volatile and supply can be difficult to forecast. Rising resource costs will negatively affect growth in competing countries and competition to secure resources over the long term is delivering a challenge to Western governments and businesses which was much smaller in the past.

This challenge is manifesting itself in new geopolitical strategies including the well-recognised right of a nation to protect shipping lanes key to its trade with other countries – the Strait of Malacca in the case of China. This Strait carries a third of world trade and half the world's oil supplies.

Communism

Some Westerners disrespect China because it is a communist country, most previous communist regimes have collapsed, there is a Western expectation and desire that China will one day – perhaps a long time from now – embrace democracy, and until that happens China cannot be accorded the respect of being "modern".

Manufacturing Jobs

China's growth since 1978 has come on the back of supplying cheap land and labour which has led to the loss of millions of jobs in the Western manufacturing sector. Much as Western consumers have enjoyed the benefits of this cheap labour through cheap consumer products and the movement of polluting industries to China, there is resentment at the loss of jobs, fears that remaining manufacturers will also leave, and a worried view that the West is losing its competitive edge.

However, had decades of Western aid to Africa led to development of African economies (and it has miserably failed to do so) it is highly likely that such development would have led to the movement of Western manufacturers to Africa anyway – a process which may happen in coming years as Chinese investment in Africa leads to economic growth including in manufacturing relocating from China itself.

Greenhouse Gas Emissions

China has become the world's largest source of greenhouse gas emissions. As the human role in climate change becomes increasingly accepted by politicians and society and concerns grow about the environmental and economic impact efforts are being made to reduce carbon emissions. China is seen as not pulling its weight in curbing such emissions and worries are growing about expected sea level rises and extreme weather events.

However, China's emissions per capita are low, Western countries grew on the back of aggressively boosting their emissions and China is merely replicating that established development pattern, and were it not for Western consumers buying Chinese goods such emissions would not be so strong.

Listed Company Fraud

A number of large Western auditing firms have been caught out by Chinese companies listed on Western stock exchanges using fraudulent techniques to hide the true state of their affairs. This naturally raises concerns that although Chinese companies seek to raise their perceived legitimacy in the eyes of Western and Chinese investors by listing in the West, some may feel they can bring corrupt corporate practices with them. Such practices are highly frowned upon in the West (Enron etc.) and often lengthy prison sentences are handed down to those convicted of them.

A recent example of corporate accounting fraud has hit Caterpillar Inc. which in January wrote down the value of a Chinese subsidiary by 82% or US\$580 mn having paid US\$700 mn for it in mid-2012. The fraud revolved around falsification of sales data over a number of years.

Dubious Economic Data

China's culture is one historically of lower level bureaucrats seeking favour with their higher-ups and attempting to give them face by either presenting false (good) information or withholding (bad) information altogether. Such practices contributed to China failing to understand the significance of British demands and naval presence and prowess in the first Opium War, and failing to realise the extent of food under-production during the Great Leap Forward.

There is a common view that China's economic data releases are not to be trusted, especially as some numbers are released absurdly early after the end of a reported time period – such as quarterly Gross Domestic Product data. A February 5 2013 Global Times article noted how adding up GDP numbers reported by China's 31 mainland regions and provinces produced a 2012 GDP total of \$9.25 tn compared with the National Bureau of Statistics nationwide calculation of \$8.3 tn. The unemployment rate rarely moves from 4%. Recently unusually positive export data was considered by some to not match up with import data from trading partners.

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In addition, the growing evidence just above of fraud in company revenue data means that economic releases which utilise such data including GDP and manufacturing indexes will have been biased upward in recent years.

Note also that new Premier Li Keqiang noted in 2007 that he monitored data only on electricity consumption, rail cargo and bank loans as the GDP figures were “man made”.

Censorship

Westerners believe strongly in freedom of speech. In China censorship is rife with all newspapers state owned, foreign press often unavailable, and the internet heavily monitored and censored. All internet users since January 2013 must supply their real names and service providers risk big fines and being closed down if they do not delete immediately postings which are deemed “illegal”. The Xinhua news agency reported that over 2012 41 million illegal” internet postings were removed. The imprisonment, beating up, and removal from sight of dissidents in China is a frequently covered topic in Chinese media. Facebook is inaccessible in China. Some 300,000 people are reported as being paid by the CCP to influence public opinion in social media by steering discussion away from politically sensitive topics and advancing the position of the CCP.

Cats and Dogs

In the West people keep cats and dogs as pets upon which they lavish attention, consider to be best companions, and spend often large amounts of money and time. In China cats and dogs are bred for eating . This abhors Westerners. But then many abhor also the production of foie gras, eating oysters, frogs and snails, and leaving sheep outdoors during winter in New Zealand.

Export Subsidies

In the West many people believe that China undercuts the competitiveness of Western products and takes Western jobs with subsidies ranging from cheap land and loans to direct subsidies and tax breaks. There have been numerous anti-dumping cases taken successfully against China since it joined the World Trade Organisation in 2000. Other countries have also had cases successfully taken against them.

Under-valued Exchange Rate

China has built up over \$3.3 trillion in foreign reserves in the past decade and there is a prevalent Western belief that this supposed war chest of purchasing power has been created by keeping the yuan lower than would be the case in a free market situation. However the US Treasury has never taken the step of officially labelling China a “currency manipulator, and a number of Western countries including the United States as well as the United Kingdom, Europe, and Japan have been printing money over the past three years and by doing so have caused their currencies to depreciate.

Massive Foreign Exchange Reserves

As mentioned China has over \$3.3 trillion in foreign currency reserves. There are strong fears in the West that China will use these funds to purchase Western companies. However this concern, in spite of its prevalence, is quite misplaced.

- China has built reserves as a bulwark against a repeat of the 1997/98 Asian Crisis when massive short term capital outflows from Asian countries generated major liquidity and currency problems. More importantly, although China has an official ‘going out’ policy of investing in foreign companies, the net available funds are just over \$2 trillion, and \$1 trillion is in US government securities which China would have difficulty selling without generating market panic and quick capital losses. <http://blogs.voanews.com/breaking-news/2012/09/18/survey-americans-concerned-about-chinas-economic-strength/> World sharemarket capitalisation is about \$45tn (and rising recently) with high income countries adding up to more than \$35tn. <http://data.worldbank.org/indicator/CM.MKT.LCAP.CD>
- China’s blogosphere has proven ready to jump and heavily criticise the state when it makes perceived mistakes. Early investments by China’s sovereign investment funds proved disastrous including

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Blackrock and Morgan Stanley in early 2008. China's SOEs move cautiously lest they unleash new waves of criticism, loss of face and discontent should investments turn sour.

- There is existing discontent at the losses suffered on investments in USDs occasioned by the fall in the US dollar since the Yuan's link of 8.5 against the USD was broken in 2005.
- Share of global GDP does not equate to economic power let alone military power. Japan defeated China in 1895 in spite of having half China's GDP. China accounted for between 25% and 33% of global GDP in the late-1700s yet fell easily to Western invaders from 1840.
- A June 2011 report by John Ross at www.china.org.cn showed that in 2010 Chinese companies accounted for only 4.9% of the revenue of the Forbes Global 2000 companies. These 2000 publicly quoted companies together had near \$30tn in revenue or around half global GDP equivalent. The United States accounted for 29.9% of revenue, Japan 14.2%, France 6.7%, the United Kingdom 6.2% and Germany 5.9%. http://www.china.org.cn/opinion/2011-06/26/content_22855094.htm

However there is legitimate concern about the dominance of state-owned enterprises in foreign acquisitions and the way such enterprises are subservient to wishes of the CCP over and above considerations of corporate strategy etc.

Historical Image of China in the West

The "brand" as it were of China in the West contributing to a lack of respect has been one of

- military weakness seen in a near complete absence of any military victory with the West or Japan until the Korean War (though there was the Dagu repulse),
- emasculated hair and dress style during the Qing Dynasty (long pig-tail at the back of an otherwise shaved head and long kaftan-like robe),
- participation in generally low paying menial labour (running laundries, market gardening)
- Fu Manchu depiction in popular literature as an evil villain set on world domination from 1913 ,
- popular discussion of the "yellow peril" from the late-1800s,
- very unfamiliar accent,
- opium dens and addiction.

What Does China Want?

There is at the heart of Western apprehension of China massive uncertainty about what exactly China wants from the rest of the world, how it will try to influence and change international relationships and institutions, and how it plans interacting with other countries as it grows more powerful. The comments by China's leaders that it seeks a multi-polar world with altered rules of engagement and global use of collective power leaves substantial room for uncertainty with regard to what they want to change, by how much and by what method and speed, and how weak that will render currently strong Western powers. This massive uncertainty leaves huge scope for depiction of pessimistic scenarios by Western analysts, politicians, and media including revenge for the oft-noted "Hundred years of humiliation", pushing the US out of Asia, and forcing Western powers to leave rogue states like Iran and North Korea alone to develop their weapons and reach.

Maritime Claims

China claims ownership not just of islands and shoals also claimed by other Asian countries, but partly though not solely on the basis of those claims also claims effective ownership and passage rights over a huge sea area extending well away from China to the south-east. These claims have alarmed other Asian countries who fear maritime dominance by China and use of such dominance as another weapon such as trade policy which has already been put to use in support of various objectives.

Lack of Human Rights

Along with free speech Westerners highly value the rights of the individual to a fair trial, humane punishment, and freedom to choose across a wide spectrum of things from schooling to employment. But with a 98% conviction rate and placing of protection of CCP image and strength above defendant rights,

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China's court system is viewed as an instrument of state and the penal system including the right of police to send anyone for up to four years of "re-education through labour" is viewed as abhorrent.

May/June 1989 Nationwide Demonstrations

These events, censored and decreasingly known in China, have been and remain highly condemned in the West. Westerners find it difficult to accept the "peaceful rise" claims of China given such events, and fear how such determination to suppress criticism might manifest itself internationally as China's engagement with and presence in the world increases.

CCP Imbedding

There are 83 million members of the CCP and the waiting list has over 100 million people on it. China has noted the way other Asian countries moved toward democracy when ruling parties and autocrats failed to embrace emerging elites within their fold – especially in the business sector. Therefore for over ten years the CCP has been explicitly shifting its member base away from its historical routes in the rural peasantry toward urbanites, intellectuals, and businesspeople. Business success attracts CCP interest, flows from CCP membership, and brings CCP membership as a requirement for continuity.

Therefore in the West the very strong perception is not just that it is largely SOEs undertaking foreign direct investment, but that even supposedly private companies are still heavily influenced by the CCP, rely upon the CCP ultimately for continued existence including access to credit, and that senior company leaders are almost certainly CCP members – whether voluntarily, forcibly, or because it makes good business sense.

This explicit linkage in the minds of Westerners between practically all Chinese companies and the CCP means that as they see China expand internationally they also see a huge Communist Party also expanding internationally. Chinese expansion is viewed as CCP expansion and that means motivations behind Chinese offshore are seen as different from other people. That brings fear.

Taiwan

The West as represented by the United States has had stand-offs with China in order to protect the base established by the Nationalist Party on Taiwan. Corrupt as the Kuomintang may have been according to many they were nonetheless the horse backed by the West in China's civil war from 1945-49 and before and as such the expressed desire by China that Taiwan be reintegrated officially into China naturally brings concern in the West for their protectorate. This despite the fact that as the years go by the situation on the ground appears to be becoming less and less one of profound differences between China and Taiwan outside of political systems.

Deliberately Unsafe Food

There is a considerable gap between food standards in developed Western countries and standards in African countries for instance. There is a gap with China as well. However whereas the gap with the likes of Africa is perceived to simply reflect the lower level of economic development in Africa, in China it is often the case that food is made deliberately unsafe by unscrupulous businesspeople in order to make money. Practices have included boosting milk protein levels with melamine, using oil scraped out of gutters for frying, excessive use of antibiotics and growth-promoting hormones in chickens, etc.

Security Council Voting

China favours non-intervention in other states. That means it tends to argue and vote against sanctions and intervention with regard to countries viewed as pariahs or undertaking harmful activities by the West. These include Syria (supported by Russia), Iran, Iraq, Afghanistan, some African countries, and clearly North Korea. This may not make China an enemy of the West, but it does mean it is seen sometimes as not a friend.

No Truth and Reconciliation

The past two decades have seen some notable examples in the West of official apologies for wrongful actions in the past, and agreement to leave historic conflicts in the past. Examples include the apology in Australia to the “Stolen Generation” of Aboriginal children taken from their families and placed with white people, the NZ Prime Ministers’ apology to Chinese for the poll tax introduced in 1881, official Crown apologies in New Zealand for wrongs inflicted on Maori, parades for Vietnam veterans during the 1990s, and the well known South African Truth and Reconciliation Commission. The CCP will broach no discussion of and has never apologised for the deaths caused by the 1950s Land Reform and Anti-Rightist Campaign, Great Leap Forward, Cultural Revolution, and June 1989 events. As any American politician, church leader, actor and singer knows, the power of apology and then perhaps clinical rehabilitation can be exceptionally strong.

Forgiveness is a key element of the Christian religion and lack of apology by the CCP is viewed poorly in the West – especially in the context of CCP-initiated deaths exceeding by tens of millions those inflicted by the West and even Japan during the “hundred years of humiliation”.

Computer Viruses and hacking

Although there is no shortage of Western-developed computer viruses, malware, phishing etc., China is often blamed for large-scale computer infections and these are viewed as testing the development of a capability to disrupt Western systems in the event of a military conflict. That concern may be heightened by the fact that Western/Israeli experts appear to have developed and successfully deployed viruses which have disrupted Iran’s nuclear development programme.

Satellite Destruction

China has demonstrated its ability to destroy a satellite in orbit. That has raised concerns that in the event of a military conflict China could gain a logistical and information edge over Western powers. In similar vein there are deep concerns that China may have developed a cruise missile capable of evading defences and sinking an aircraft carrier.

Child Labour

As a less developed economy China has less stringent labour protection laws than wealthy Western countries. Naturally children, like those in Latin America and Africa, undertake less schooling generally and enter the workforce from an earlier age than children in the West. However the image of very small children working long and lowly paid hours in brick kiln works and on production lines for some major Western brands sourcing from factories in China has been poorly received in the West – especially as Western companies have strongly expressed their concerns and made publicly notified efforts to abolish such behaviour in their factories.

Slave Labour

It is believed that many cheap Chinese goods exported to the West are produced in slave labour camps populated by people sent for “re-education through labour”.

Child Excellence

Paradoxically, some Westerners are also concerned by the academic and musical (though not sporting) out-performance of Chinese children studying in Western schools. Their high achievements (some attributable to the musical nature of the Chinese language) raise concerns not just about Chinese dominance of the Western meritocratic systems, but also concerns that the seemingly “hot-housed” children will emerge from education with very unrounded personalities. These concerns seem absurd however in the context of parent concerns about the lack of three Rs teaching in Western schools, worries about an over-emphasis on social and “feel good” programmes, and excessive delivery to Western children of often unwarranted positive

feedback which can leave them very poorly equipped for handling honest (negative) performance feedback when they commence employment.

A Different Civilisation

One of the world's other major civilisations, Islam, has a radical element which attacks the West and seeks the elimination of Israel. The lesson for the West is that alternative civilisations can seek to impose themselves and their beliefs if not through state war through terrorist attacks.

Treatment of Animals

Along with disgust at the consumption of cats and dogs Westerners are concerned at many other practices with regard to animals. These include the extraction of bear bile and cutting of fins off sharks, cutting paws off bears and tigers etc.

Growth Speed

China's economy has grown over 40% since 2008 while some Western economies are still smaller than they were back then or commonly only 5% or so larger. The sheer speed with which China is becoming a large part of the global economy has shrunk into a short period of time concerns, questions and analysis which would otherwise have been stretched out over a longer time period. Moreover, that period of time would have been one in which the West felt more comfortable with its economic model were it not for the global financial crisis. Western insecurity is the highest it has been since perhaps the 1930s Great Depression so China's rise is felt more keenly.

Western Lack of Cultural Understanding

Westerners have little knowledge of the role of Confucianism in Asian society. For instance while Western culture embraces and advocates individualism, self expression tends to be frowned upon in China. China's culture is built around achieving an harmonious society and this is considered best achieved if the individual meets societal expectations rather than forging their own individualistic path. Reality however increasingly appears different in China with rampant wealth pursuit. However, spending of the wealth accords with the desire to achieve social status.

In the West people seek respect through their expressions of individualism. In China people seek respect by accruing things which others consider indicative of higher social standing as defined by the group. That can mean purchases of Western brand luxury goods which others will see, but minimised spending on things people tend not to see. Such gauche consumption (in the West) has long been parodied in Western media and entertainment.

Boys Preferred to Girls

Sexism is displayed by many Chinese parents in preferring boy to girl babies. The latter have often been abandoned or terminated in the womb. Such sex selection and preference is not considered moral in the West.

House Buying

Housing affordability in Auckland, New Zealand's largest city, is poor and many people have recently noted the increasing prevalence at auctions of Chinese buyers. There are growing fears that the deep pockets of those Chinese able to get their money out of China will contribute to (though they will not be the prime cause of) developing social problems sourced from housing costs.

Auction Non-Payment

International and Chinese auction houses have recently introduced a 20% deposit requirement for unknown buyers at auctions following a number of cases where Chinese bidders have “sabotaged” auctions or won auctions then refused to pay or sought to negotiate agreed prices downward.

Deliberate Corporate Bias

Western companies know that Chinese competition is coming so it is in their interests to foment discontent with Chinese production safety, quality, and image as a means of protecting their markets and margins.

Rampant Pollution

In the West China is seen as willing to extensively pollute its environment in the name of economic advancement and catching up with the developed world. Environmental movements are strong in the West with stringent constraints placed on businesses, strong monitoring of pollution and corrective actions, and sanctions for those found responsible for pollution. However these developments of recent decades reflect the movement of Western economies beyond the rampant industrialisation and urbanisation phases China is now experiencing. Western countries also devastated their environments during these growth phases.

Land Seizures

The need for land to allow rapid expansion of China’s industrial, commercial, residential, and infrastructure facilities has seen local authorities forcibly take land with often low compensation if any from farmers.

Baby Trafficking

According to Chinese police criminal gangs kidnap and buy over 10,000 children each year in China – though the US State Department estimates the total to be twice that. News media recently reported that boy babies sell for around 30,000 Yuan (about US\$6,000) and girl babies 10,000 Yuan.

As noted at the start of this document, all of the above points and many more are valid topics for strong debate. They have been presented in no particular order of importance except for the first factor and the list cannot be considered to be exhaustive. It should be noted that one can also make such a list for every other country in the world including New Zealand.

This paper is written by Tony Alexander, Chief Economist at the Bank of New Zealand and is one of a range of releases including the following.

- Weekly Overview sent directly each Thursday night to 27,000 people <http://tonyalexander.co.nz/topics/regular-publications/bnz-weekly-overview/>
- monthly Growing With China publication, <http://tonyalexander.co.nz/topics/china/>
- monthly BNZ Confidence Survey, <http://tonyalexander.co.nz/topics/surveys/bnz-confidence-survey/>
- monthly BNZ-REINZ Residential Market Survey. <http://tonyalexander.co.nz/topics/surveys/bnz-reinz-survey/>
- monthly column for the NZ Property Investor magazine, <http://www.propertyinvestor.co.nz/> and
- monthly column for the NZ China Trade Association. <http://www.nzcta.co.nz/>

Most of these publications plus research into impediments to NZ’s economic growth are available on this website. www.tonyalexander.co.nz

Tony Alexander has been Chief Economist at the BNZ since 1994 and apart from publications and advising management spends considerable time on the road around New Zealand making presentations and speaking with the media. He travels to the UK and Europe twice a year to assess economic conditions and present at numerous functions, has five children, tramps, and his partner Dr Sarah Farquhar runs the early childhood education network www.childforum.com

Sources of Western Apprehension About China



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