
Chapter 14

China's Perspective on Co-operative Policy Solutions

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On the eve of the economic summit of the G20 industrialized and developing nations on financial markets and the world economy in Washington, what is China's position — with nearly US\$1.9 trillion in foreign exchange reserves? China will take an active part in the summit, with a constructive attitude, and will work together with all the parties to achieve of a pragmatic outcome as the international community addresses the financial crisis in a timely, comprehensive and effective manner.

China's export industries are suffering from the collapse of consumption in the United States and Europe, with increasing factory closures and worker layoffs, especially in the southern manufacturing heartland. China's three guiding principles in tackling the global financial crisis are thus, first, to keep its own house in order; second, to contribute to global action according to its capability; and, third, to rebuild a fair, just, inclusive and orderly international financial system.

In the past three months, China has adopted a series of stimulus policies, including cutting interest rates three times within two months, lowering bank reserve requirement ratios twice, implementing tax changes and increasing credit quotas. On November 9, the State Council unveiled a stimulus package estimated at 4 trillion RMB (about US\$586 billion) — the equivalent of roughly 16% of the gross domestic product (GDP) in 2007 — with the aim of boosting domestic demand over the next two years to finance programs in 10 major areas, such as low-income housing, rural infrastructure, water, electricity, transportation, the environment, technological innovation and rebuilding from several disasters, most notably the May 12 earthquake. Being the biggest developing country, the first task for China in the global financial crisis is to restore and stabilize the domestic market, which will be important and useful for the region and the world. As Australian prime minister Kevin Rudd said, China's ability to strengthen its own economy “very good news for this economy, very good news for the regional economy and very good news for the global economy” (Coorey 2008).

From China's perspective, it is unlikely to use the financial crisis to boost its international influence and cement its position in the G8 big boys' club, but will instead seek to forge a closer relationship with emerging economies. Other countries may judge China's might mainly by its GDP and foreign exchange reserves. But China knows that its true strength cannot be fully reflected by those two figures alone, China has many problems of its own. Its policy is therefore designed to resolve its own problems, as a way to resolve the world's problems. To some extent, China's foreign policy is always inward looking, and this will not change in the near future.

If the G20 leaders summit becomes a permanent feature of the G20 mechanism, China would probably prefer to use the this platform to voice its concerns. The G20 will provide a more balanced combination of developed and emerging economies.

Reference

Coorey, Phillip (2008). "Rudd Says Deficit Better Than Recession." *Sydney Morning Herald*, November 11.