

The G-2: No Good for China and for World Governance

by Jonas Parello-Plesner

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Since the onset of the financial crisis there have been suggestions to form a G-2 consisting of the United States and China. This proposal is based on the facts that China is the largest creditor of the U.S., the U.S. is China's biggest export destination, and the strong interdependence of their two economies provides a foundation for joint action that can shape the global economy. This thinking is tempting when the G8 is seen to reflect an outdated balance of power and the G20 is considered too diluted to respond to global challenges.

Yet a G-2 would give a false assumption about stronger global governance and China would probably not deliver in such a format. Let me explain why.

China's main focus is still its own economic development.

Reread Premier Wen Jiabao's statement at Davos on Jan. 29: he said, "steady and fast growth of China's economy is in itself an important contribution to global financial stability." Or look at the closing statement of the National People's Congress: "We have prepared enough backup firepower to deal with potential greater difficulties, and new stimulus packages, if necessary, will be launched." The main priority is, very naturally, on getting the Chinese economy going. That continues to be the source of the Communist Party's legitimacy. If that link is broken, it could spell trouble. At the same time, 2009 is a sensitive year, full of anniversaries that involve such issues as Tibet and the 1989 Tiananmen demonstrations. Social disturbances because of the financial crisis could be on the rise. China will in many ways be inward-looking.

The responsibility gap. Some Chinese are flattered by the suggestion of a G-2. It shows China is a global power. It isn't yet, and the Chinese realize that. None of the Chinese experts in government, think tanks, and scholars that I have talked to are enthusiastic about the concept. They all underlined the potential responsibility gap on China's part as part of a G-2. Some even saw it as a potential trap for China that could expose it on the world stage. China is active in international reform now because its focus on internal growth converges with a more active foreign policy in financial and monetary matters. China is on the center court of international decision-making to protect a system of economic globalization that has provided China with many benefits.

That is reflected in diplomatic efforts undertaken with regard to financial reform and the IMF as well as floating suggestions regarding a new reserve currency. China is worried about the future value of its assets in dollars. Japan, South Korea, and Taiwan have similar concerns about foreign currency assets.

China's new activism should be encouraged as part of its transformation into a responsible stakeholder. Nevertheless, China might not maintain its current profile – much depends on the duration and severity of the financial crisis – and could return to its more traditional "stay low" diplomacy if external conditions for continued internal growth are again secured.

Don't put all your American eggs in one basket. Former NSC director Dennis Wilder has argued that the U.S. "will, however, pay a heavy price with our long-term friends and allies in Asia by referring to increased economic cooperation with China as a new G-2." A G-2 would antagonize allies and friends – both of China and the U.S. – without providing extra value. If it's only size that counts, then why not form a G-2 consisting of the EU (the world's largest economy) and Japan (number three) instead of between number two (U.S.) and four (China)?

Furthermore, economic cooperation between the U.S. and China is much needed but world governance is still about more than economics. Will China really help in securing Pakistan or in Afghanistan? European soldiers are serving alongside Americans in Helmand, not Chinese. Will China really secure a nuclear-free Korean Peninsula or does it still prefer stability and crisis avoidance to crisis resolution? Here U.S. cooperation with allies in South Korea and Japan is essential. And if there was a comprehensive settlement with North Korea, Europeans would be asked to contribute as they did with KEDO in the 1990s. China's foreign policy is still deeply rooted in non-interference and at its best conflict-avoidance, although Beijing is moving toward a more responsible stakeholder-approach in multilateral settings.

China might also introduce its parochial concerns into global governance if given a G-2 role. Look at China's recent snuff at India's loan from the Asia Development Bank, presumably because of the unresolved border dispute. Should IMF loans in the future be conditioned on a given country's view of Taiwan or the situation in Tibet?

The U.S.-China relationship is one of the most important bilateral relationships. There is need for tight coordination between the U.S. and China and perhaps some version of a Plaza Accord would benefit both countries. Yet, to turn that into a G-2 will create an illusion of global governance that will not deliver on its promise.