There have always been various uncertainties and risk factors for predicting the future course of the international energy problems. Those attracting attention over recent years included the Lehman Shock and the ensuing global economic crisis, deepening deflation fears in industrial countries, growing uncertainties about the future of international negotiations on the global warming problem, and the absence of global governance behind the uncertainties. More recently, the importance of the so-called China risks has attracted global attention while having some links to the above factors.

“China risks” range wide and are multifarious. But this report regarding the international energy problem focuses on two points – (1) risk perception regarding China’s behaviors and (2) risk perception regarding China’s economy.

The first risk perception is closely linked to problems featured by China’s recent diplomacy or behaviors in the international community. There is an international concern that China with its growing presence and influences in the international community has toughened its assertive diplomacy/attitude and enhanced its enforcement of various political/economic powers (excessively in some cases) to achieve its views and objectives. The late Deng Xiaoping is known for his foreign policy of “Tao Guang Yang Hui, You Suo Zuo Wei (be good at maintaining a low profile and doing something worthwhile)”. As China increases its power and sees its growing nationalism, Beijing is viewed as switching to a more aggressive posture while retaining the low-profile policy.

U.S. reactions and op-ed articles are useful gateways to looking into the awareness of risks regarding China’s behaviors. Major U.S. newspapers (including The New York Times and The Washington Post) have recently indicated that the Obama Administration’s China policy could be toughened due to not only China’s recent behaviors and the subsequent growth in a sense of vigilance against China, but also the rise of revisionist views about China. In the November 2 midterm Congressional elections, Obama’s Democratic Party lost a majority in the House of Representatives while managing to retain a majority in the Senate. In connection with employment and economic problems as the biggest factor behind the severe election results for President Obama and his party, the Obama Administration is expected to pursue a tougher policy stance over the Chinese yuan problem and huge U.S. trade deficits with China. This possibility is worthy of attention.

1 In his speech in July 2009, President Hu Jintao reportedly said: “Jian Chi (retain) Tao Guang Yang Hui, Ji Ji (positive or aggressive) You Suo Zuo Wei.”
As is well known, such developments as China’s clashes with the United States and ASEAN nations over the South China Sea territorial issues, the Senkaku Islands incident and China’s rare earth export restrictions in 2010 attracted attention in the international political arena. These developments have been taken as international political and economic problems and have fallen short of influencing international energy markets and supply/demand conditions. If China implements its “assertive diplomatic posture” for energy markets more directly and strongly, however, it may naturally exert great influences on international energy markets. As China has increased its presence as the world’s largest energy consumer, its resources/energy diplomacy with resource-rich and energy-consuming countries, its overseas expansion to secure resources interests, and its energy resources procurement may inevitably become major factors influencing the supply/demand balance and stability of international energy markets. Therefore, worries and fears regarding China’s relevant behaviors might have potentially been growing.

The second risk perception regards the stability of China’s economy and society. Many experts have pointed to the instability of China’s economy and society, citing the widening income gap disparities between urban and rural areas, corruption and other fundamental problems in addition to recent macroeconomic problems including inflation and asset bubbles. Actually, however, the Chinese economy has achieved high growth under the 4 trillion yuan economic stimulus package and the government’s policy management even after the global economic crisis, while industrial nations have been plagued with deflation. In this sense, the above-cited economic and social risks have never come up to the surface.

Nevertheless, recent domestic developments, such as frequent strikes for higher wages in the first half of 2010 and anti-Japan strikes, which came amid the important political event of the fifth meeting of the Communist Party’s 17th Central Committee and occurred frequently later, may apparently indicate the presence and depth of problems and distortions in China’s economy and society. After achieving extraordinary economic growth under the so-called "the theory of allowing individuals to grow rich first," China is now emphasizing a recognition that a "harmonious society" should be realized to secure future sustainable, stable growth/development. In this sense, China's current social and economic situations may be worthy of attention.

China has recently announced its economic growth at 9.6% for the third quarter of 2010. The growth rate is high, though lower than 11.9% in the first quarter and 10.3% in the second. A year-to-year rise in the consumer price index accelerated from 0.6% in November 2009 to more than 3% in May and reached 3.6% in September. The problem of real estate and other asset bubbles has been lingering in China due to large-scale economic stimulus measures and monetary easing within China as well as the increase of money flows from abroad against the backdrop of competitive monetary easing measures by developed countries. The Chinese economy's trends including this problem are attracting great attention. At a time when China as the center of emerging countries is driving the world economy, the stability of China's economy and society is key to that of the world economy, international politics and global energy markets.

As China’s presence and influences have increased so much, realization of “China risks” may have great negative impacts not only on China but also on the entire world including Japan. It should be undesirable for everyone, and thus must be prevented or avoided. China itself should secure its sustainable and stable development, and take domestic as well as external efforts as a responsible power, and make due contributions to the international community through such efforts,
while the international community should further deepen dialogue, cooperation and coordination with China. Particularly for Japan that has very close relations with China, the China problems are of the most importance and a matter of urgency. Therefore, Japan may have to steadily promote coordination and cooperation with China over energy and environmental problems on merit, while adopting its basic policy that is unshaken and resolute.

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