

Last updated: October 10, 2012 6:10 pm

IMF snub reveals China's political priorities

By Jamil Anderlini in Beijing



China's top financial officials have snubbed annual meetings of the International Monetary Fund and World Bank in Tokyo amid wrangling between China and Japan over a group of islands in the East China Sea.

Zhou Xiaochuan, China's central bank governor, and Xie Xuren, the country's finance minister, pulled out of the meetings at the last minute, ostensibly because of

“scheduling problems,” and will send deputies instead.

Wednesday's news came after China's four largest banks also pulled out of the meetings last week, with state media reporting that their decision was due to the dispute over the islands, which Japan calls Senkaku and China calls Diaoyu.

The decision to snub the global institutions based on their choice of meeting venue is a telling example of how Chinese domestic politics eclipse and in some ways clash with the expanding role China plays on the world stage.

“This is consistent with China using every economic and political tool at their disposal to protect their territorial rights,” said Eswar Prasad, a senior fellow at the Brookings Institution and the former head of the IMF's China division.

“From the point of view of the IMF and the multilateral process it is certainly a big blow to not have leaders from the world's second-largest economy present; but I would characterise the multilateral institutions as innocent bystanders in an ugly spat between China and Japan.”

But Japan's foreign minister, Koichiro Gamba, told a news conference on Wednesday that the non-attendance was “not only bad for Japan-China relations, but also for the global economy,” he added “I believe it also won't be a plus for China, considering how the international community will view such moves.”

Japan has administered the small group of islands for decades but China claims they were stolen by an expansionist Japan in the late 19th century and insists they should have been returned to China, as other territories were, at the end of second world war.

The long-simmering issue came to a head last month when Tokyo bought some of the islands from their private Japanese owner.

That prompted outraged denunciations from Beijing and sparked waves of sometimes violent protests across dozens of Chinese cities.

Japanese officials, western diplomats and some Chinese officials have expressed hope that the issue will die down as the protests peter out but the Chinese government in particular has kept up a steady stream of invective.

It has also been sending maritime surveillance vessels into the disputed waters on an almost daily basis, heightening fears in diplomatic circles that an accidental sinking or miscalculation could prompt a full-scale war between Asia's two largest economies.

Kerry Brown, director of the China studies centre at the University of Sydney, said: "There is some pretty enlightened thinking on foreign policy within officialdom in Beijing but among China's top leaders and decision makers you don't get a sense of an intelligent debate about how to handle this situation. At the top what you see are knee-jerk reactions and a tendency to go for the jugular."

With just weeks to go before a once-a-decade leadership transition, in which most of China's Communist party leaders will be replaced, the atmosphere is one of chest-thumping nationalism in Beijing.

Just as in the US election, where talking tough on China is seen by candidates as a vote-winner, China's top cadres cannot be seen to look weak on Japan.

For the urbane English-speaking Mr Zhou, who has faced heated criticism in the past for being too soft on foreign interests in China, a photo opportunity in Tokyo at this time is the last thing he needs.

While Beijing may appear petty for pulling its top people from the multilateral meetings, the short-term costs appear relatively limited.

Mr Prasad said: "From China's point of view, the benefits of taking a strong stand against Japan far outweigh the costs of not having their officials at these meetings. "The IMF and world community needs China a lot more than China needs the IMF and they know they're in a strong position."

China's state media have been filled with dire warnings that the bilateral dispute will start to impact the sputtering global economy and Japanese car companies in particular have reported sharp drops in sales over the past month.

But China's economy is already slowing significantly and most analysts believe that trade and investment ties will eventually return to normal as Beijing balks at the prospect of a steeper slowdown.

"The after-effects of last month's spat over the Senkaku/Diaoyu Islands are lingering for longer than expected," said Duncan Innes-Ker, senior economist, at the Economist Intelligence Unit. But "China's love of Japanese products is likely to triumph over nationalist sentiments in the long run, and trade should eventually recover to pre-crisis levels".

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