

## Agreeing with George Soros on China with A Different Tale

### Mainstream and Organic

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George Soros, an internationally well-respected financier, recently published an essay, entitled, A Partnership with China to Avoid World War, in the July 9th, 2015 issue of the New York Review of Books. Soros presented a profound analysis of the world political and financial status and their historical threads to support his conclusion that titled his essay. I highly recommend reading of Soros' article and I fully agree with his conclusion, but I would like to offer a different tale, perhaps as an East View to be compared with Soros' West View, in support of the same conclusion. I believe it is very beneficial to discuss the US-China partnership issue from both East and West perspective. After all it takes two sides to form strategic partnership. An understanding of both the East View and West View on "the partnership" will increase the probability of forming a strong productive partnership between the U.S. and China. Such a partnership not only can avoid world war but also can create economic benefits for both nations and the rest of the world.

To ease the comparison between this article and Soros' essay, the discussion below will follow the flow and points made in Soros' writing. First, The East View Tale agrees with the following points made by Soros: 1. the declining effectiveness of IMF (its legitimacy and governance being questioned by China and other nations), 2. the inability of G20 to enable international cooperation (self interests overwhelming common interest), and 3. the complex political conflicts in the world interfering with the financial sphere causing the IMF and World Bank to lose monopoly (evidenced by the New Development Bank (BRICS) and Asia Infrastructure Investment Bank (AIIB) initiated under China's leadership). Then the East View Tale will follow the time line and begin from the end of WW II.

Post WW II, the world was divided into two camps under two distinct ideologies, capitalism versus communism. The Cold War replaced the brutal hot war and the world was dominated by two superpowers, the U.S. and the Soviet Union; each had fiercely developed nuclear weapons. Because of the danger of 'mutually assured destruction' (**MAD**) in any nuclear warfare, nuclear weapons provided detente and forced the two superpowers to exercise constraint in dealing with conflicts. China, with failure after failure in experimenting with communism, suffered greatly in her economy and remained as one of the poorest countries in the world. China then parted way from the Soviet and a decade later she was let into the West economy as the U.S. initiated an alliance with China against the Soviet. China played her part in helping ending the devastating Vietnam War and was determined to focus on her economy by taking a fast track in embracing capitalism under her one party political system. Post Vietnam War, the U.S. recovered from war fatigue; under the leadership of Ronald Reagan and Margaret Thatcher, the economy of the West became dominant. The U.S. became the

leader of the world in free trade and globalization of the financial markets. The U.S. insisted on using the dollar as the world's reserve currency. This practice benefitted the U.S. but also induced her and American people to develop the habit of living on easy credits and loans.

In the 1990's, the Soviet collapsed due to its economic failure and the U.S. became the de facto leader of the world. She had the control of the World Bank and IMF and vetoed an attempt to modify the charters of IMF to impose capital account convertibility, i.e. the free change of currencies. As the superpower and the world leader, the U.S. had tendency of acting unilaterally in dealing with world affairs, alienating UN members. Instead of reducing the NATO organization when Warsaw PAC was dissolved, the U.S. promoted expansion of NATO. The U.S. maintained military supremacy and developed talents in financial world with ingenuity in creating financial instruments for trading and investments based on 'swapping' assets, credits and debts. The easy credit and debt financing life style began to take root in the U.S. economy and her government system which eventually propagated in the Western world.

Then came 9-11; the destruction of the World Trade Center challenged the U.S. supremacy. The US decision of attacking Iraq led to her ever increasing escalation and deeper involvement in the Middle East conflicts, which drained the U.S. treasury and diminished her political credit in the world. The credit market bubble and the housing bubble in 2008 brought the biggest financial crisis to the U.S., the worst crisis since the 1930 depression. Soros said mildly, but the crash of 2008 was also responsible for the Euro crisis. Soros said correctly, even though the Euro dollar is a common currency but it does not have a common treasury backed by all members unconditionally. The 2008 financial crisis caused both the U.S. and EU looking inward to deal with their economic problems thus minding less on international cooperation and the needs of Asia, Africa and Latin America. As a result, the world leadership of the U.S. was discredited.

Since the collapse of the Soviet Union, Russia was trying to reform her economic model by leveraging her energy resources in the global economy. However, the US strategy of expanding NATO targeting Russia made Russia feeling insecure and gave Putin an excuse to take action on Crimea to prevent Ukraine to further enhance her partnership with NATO. If the U.S. were to reduce the NATO organization and unselfishly to encourage the EU to embrace more the Eastern Europe, the Europe-Russia relation might be different today. As said by Soros, China had escaped from the impact of 2008 financial crisis primarily because her banking system was largely isolated from the rest of the world. China's export economy essentially depended on selling her goods for US credit or debt. The 2008 financial crisis and the US quantitative easing remedy certainly had taught the Chinese a lesson, that is, their hard earned dollars are vulnerable to US monetary policy. This explains why China was anxious to create means to protect their foreign reserve in dollars. Unable to get the RMB to be accepted into the IMF special drawing rights (SDR) basket, NDB and AIIB were created to provide alternative means (from solely dependent on the World Bank and IMF) to make financial transactions to support Asian and other countries infrastructure development needs which would be engines for sustaining China's economic growth.

Soros is right to say that the U.S.-China relationship should not be a zero-sum game. In the East View, the real conflict between the U.S. and China is not so much on ideological differences or much on differences in political systems; rather it is the money-economy-growth issue which is related to a country and her citizens' life style. The 'Chinese Dream' is to lift the entire population up towards middle class in a reasonable time frame through hard work, self discipline and economical and political reform. China has learned that she is capable of achieving economical growth under a stable political condition. The 'American Dream' offers individuals opportunities to achieve upward social mobility and material prosperity with 'American free enterprise system'. The American system now has gotten used to an easy credit (debt) life style which cannot be sustained and which will be devastated if the control of the US Dollar as the world currency is lost. China needs a stable environment to fulfill her 'Chinese Dream' and the U.S. needs time to revitalize her American system to sustain the 'American Dream'. Fighting against each other may destroy the other side's dream but offers no assurance of success in fulfilling or sustaining one's own dream. Only through cooperation in partnership, the U.S. and China can create win-win opportunities for each other in solving one's own economical problems and fertilizing growth. Confrontation especially military aggression can only lead to war and possibly MAD, a disastrous path for the world. Both the U.S. and China need to rejuvenate their nation in a different way, a mutually constructive, cooperative partnership way. The East View agrees fully with Soros' West View on this conclusion!