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China can no longer plead poverty

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Anybody who talks regularly to Chinese officials will be familiar with the mantra that "China is a developing country". But Shanghai, which I visited last week, mocks this modest description. With its eight-lane highways, its modern and efficient subway, its forest of neon-lit skyscrapers, giant new airport and chic hotels, China's commercial capital is defiantly developed.

Of course, the city has pockets of poverty. And Shanghai is not China, where 150m people (out of a total Chinese population of more than 1.3bn) still live on less than $2 a day. Even so, China's insistence that it is a poor, developing nation is beginning to wear a little thin. This, after all, is a country that is sitting on more than $2,500bn worth of foreign reserves.

In important ways, China is now a rich nation. But its insistence that it is still a "developing country" has become a shield to protect itself against vital political and economic changes that matter profoundly to the rest of the world.

China says that it is too underdeveloped to contemplate letting its currency float freely on the foreign exchange markets. Instead it is managing the level of its currency, through capital controls and constant intervention on the foreign-exchange markets. But by holding the value of the renminbi down artificially, China has built up a vast trade surplus and created a major source of tension with the US, causing talk of "global currency wars" and a breakdown of the international economic system.

If China was simply a medium-sized country, the world could shrug off its currency policies. But it is now the world's largest exporter, the world's largest manufacturer and its second-largest economy. And yet it is the only major trading nation to use capital controls to prevent its currency rising to market levels. It is that anomaly that is at the heart of current global economic tensions.

Even the Americans are not asking China to move to a fully-convertible currency overnight. The country's banking system is probably still too unsophisticated to cope with the flows of "hot money" that would generate. But the rest of the world does have a right to expect China to allow its currency to rise faster – and to set a time-frame to move to market-determined exchange rates.

Yet when I made that suggestion to a group of Chinese academics in Shanghai last week I got a distinctly frosty response. If China let the level of the renminbi be determined by the markets, I was told, the US would deliberately use its financial institutions to destabilise China. And another thing: if the Americans care so much about their competitiveness, why didn't they just pay themselves wages at Chinese levels?

That exchange showed that what should be a technical economic issue – currency management – has now become highly emotional and politicised. So much so, that it now seems easier to call for democracy in China than to call for a stronger currency.

This paradox is personified by Wen Jiabao, the prime minister. In recent months Mr Wen has created a stir by talking on several occasions of the need for China to move towards democracy. Whatever Mr Wen actually means, it is striking that a word that used to be all but banned by the official Chinese media is now being bandied about. Yet on the currency issue, Mr Wen is orthodoxy itself. He recently warned that forcing China to have a stronger currency risked causing social chaos that would then destabilise the whole world.

The terms of the currency and democracy arguments are oddly similar. In both cases the official line has been that China is not yet ready – it is still a developing nation, you see. But with politics, as with economics, that line of argument gets less persuasive as the country gets richer. China now has a higher per-capita gross domestic product than Indonesia, another very populous Asian nation that has already made the transition from dictatorship to democracy.

The real Chinese exception when it comes to democracy is not the country's relative poverty – but its turbulent and tragic history, its huge size and the government's fear that a more open political system would encourage separatism in the provinces of Tibet and Xinjiang.

Just as it is unrealistic to expect China to move instantly to a floating exchange rate, so it is unreasonable to demand that China should move to one-man, one-vote tomorrow. But both Chinese people and foreigners have an interest in seeing China make a start by considerably improving civil liberties, such as freedom of the press and independence of the courts.

The Chinese government insists that foreigners have no legitimate interest in the country's internal political development. But once again China's sheer size makes that argument hard to maintain. In the next 15 years the Chinese economy is likely to become bigger than that of the US. At that stage, for the first time for a century and more, the world's most powerful economy would not be a democracy. The rest of the world would be legitimately alarmed by that.

The Chinese government likes slogans. In the week in which it became clear that the country's next president in 2012 will be Xi Jinping, it seems appropriate to propose a couple of slogans for the new man. My suggestions would be "Strong country, strong currency". Or "Free country, floating exchange rate".

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