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Why China should marshal its reserves to do good

Any day now, China's foreign exchange reserves will reach the \$1,000bn mark. That is one-fifth of the world's reserves, an amount greater than Japan's enormous holdings and more than the reserves of Germany, France, Italy and Canada combined. China's cushion of cash and investments would finance more than a year's worth of the country's imports, exceeding the margin of safety that any great trading nation needs, while still providing insurance for other emergencies. Beijing's reserves have been growing in recent years by about \$200bn a year; at that rate China will be nearing the \$2,000bn milestone by the end of this decade.

This cornucopia is not an unalloyed blessing. It will complicate the country's ability to contain inflation. If the greenback continues to depreciate, the value of China's vast dollar holdings would decline. As reserves build, charges of predatory mercantilism from Europe and the US could reach a feverish pitch, leading to serious trade wars.

So what can Beijing do? Deng Xiaoping often described the Middle Kingdom's economy as "socialism with Chinese characteristics". How about China mounting something with the generous spirit and bold conception of the Marshall Plan, albeit with Chinese features?

Suppose Beijing set aside \$100bn of its current reserves – 10 per cent of the total. And let us say it would add another 10 per cent of the increase in reserves for each of the next five years. Under the conservative assumption that reserves grow by \$100bn annually, the five additions would make up another \$500bn. All the funds would be placed in an endowment so that the \$150bn principal investment would not be spent, just the income it generated. If you assumed a minimum annual return of 5 per cent, the endowment would throw off at least \$7.5bn a year for the foreseeable future, more than

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half the World Bank's current annual lending.

Ideally, China would use its endowed fund to support the Millennium Development Goals that are dedicated to reducing extreme poverty, improving health and education and ensuring environmental sustainability by 2015 – targets that have broad international support. It could also support the Global Fund to fight Aids, tuberculosis and malaria, diseases that kill about 6m people each year.

It could also immediately cease being a recipient of foreign assistance and become a donor. China received a total of \$3bn from the World Bank and the Asian Development Bank last year. Forgoing this would release billions for poorer countries.

China could make a big gift to the World Trade Organisation to train trade officials from the developing world who lack the technical and legal skills effectively to negotiate complex commercial arrangements with industrial countries, as they are so often and unfairly asked to do.

Beijing could provide seed money for emerging Asian philanthropies, so that Asia itself can make its own mark in charitable endeavours. It could also bolster the Rockefeller Foundation's new programme to bring the "green revolution" in agriculture to Africa.

China could focus on two of the great global challenges of our times – energy and the environment – by working with such companies as General Electric and BP to develop cutting edge technologies that will be of use to countries at all stages of development.

A Chinese Marshall Plan is not a substitute for letting its currency appreciate or stimulating domestic demand or reforming its banking system. But it could be an important complement.

Yes, there would be heightened suspicion in Washington and elsewhere that Beijing was using its new wealth to gain political influence at the west's expense. But this kind of clout could take some of the sting out of China's support for rogue states such as Sudan and Iran and its efforts to buy friends all over Africa with loans that add to debts that can never be repaid, such as those Beijing recently made to Ghana.

China may feel that this plan is too American in character. But it can put its own stamp on it. As Mr Deng said, it does not matter what colour the cat is, so long as it catches the mouse.

I am sceptical that China will do any of this, as it currently appears more intent on taking everything it can from the world than giving something back to it. But while Beijing deserves a helping hand in integrating itself into the global economy and global society, it is time it gave one, too.

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