Introduction: The Fulcrum of Power Relations

The post Cold War era has proven to be one of immense change, characterized by new forms of imperialism, global economic governance, globalization, capitalism and a fulcrum of power relations. Since the peace of Westphalia, hierarchical sub-systems and un-like sovereign states have characterized the international system. International society consists of “gradations of power: world powers, great powers, middle powers, minor powers, and so the subdivisions go on…” (Dunne, 2, 2007) In the last decade of the 20th century, new and significant developments have affected the structure of the international system, drastically altering the relationships between national, international and global actors.

While the end of the Cold War forced a loosening of bipolarity and imposed a universal concept of western liberal democracy (Foreign Affairs Agenda, 27, 2006), the 2007-2010 global financial crisis has diluted the uni-polar world in which the United States of America acts as the primary hegemonic figure, presenting the world with an opportunity to reconsider the current order. Specifically, the present dominant hegemonic order (where the hegemonic class takes leadership to ensure the organization of conflicts and instability constitutes the political unity of the dominant classes of the state) is being challenged and perhaps, as suggested by several scholars, even threatened by China and its new emerging global position (Hoffman, 189, 1975). The global financial crisis is one of the most sever that modern history has seen; it has impacted the export oriented economies of Asia and in particular it has presented China with several unintended consequences. The crisis has drastically transformed economic realities and brought to light questions concerning the future of the international monetary system and the multilateral system, explicitly questioning China’s role and position within the evolving global structure. Furthermore, the crisis advances the question of China’s ability to peacefully rise and maintain economic growth and political stability, while attaining the status of an imperial power, perhaps even replacing or altering US hegemony. Consequently, this essay will examine how the crisis and its aftermath have accelerated China’s political, economic and social rise. It will argue that the global financial crisis has presented China with an opportunity to exercise global leadership within the existing multilateral institutions, while strengthening its bilateral position, both economically and politically, with the United States. By strengthening the Sino-American relationship China will potentially be able to secure an influential position within the G20 and other multilateral institutions. Finally, this essay suggests that China’s power in the international financial system is growing, however it shouldn’t be overestimated; rather China needs to look at our current moment in history as an opportunity to rebuild a national consensus on the future path of Chinese domestic and international foreign policies, while the US must see its China policy as a means to an end, not an end in itself (Economy, 152, 2010).

History: From national protectionism to an ‘open door policy’

A rising power may be defined as “the emergence of a new, major power that potentially can play a prominent role in the international system. This status is achieved through increased military, economic, political, or other factors relating to the domestic environment in comparison to other states” (Leonard, 2002). The effect of a rising state is often unpredictable and brings to light great uncertainties in the global environment. In order to understand China’s evolving international role, it is important to first delineate a rudimentary historical outline of
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China beginning after the 1970's. By attempting to grasp the complex local history of China we may begin to better understand how China's path to modernization has led it to where it is today to then consider the type of challenges China may face and perhaps even pose to the international community, if any. Rising China is reminiscent of pre-World War I imperial Germany, in the sense that it too had been humiliated by great powers in its quest to find its place in the world. China was ‘determined to achieve its rightful place by nationalistic assertiveness’ (Wolffowitz 1997, p.7) through a harmonious and peaceful rise. After Mao Zedong passed away in 1976, China’s political system was greatly transformed. In December of 1978 Deng Xiaoping rejected Mao’s ultra-leftist policies and the Communist Party of China made a “commitment to modernisation, broad based economic development, and the rule of law” (Hutton, 97, 2007). From then on China’s path was characterised as ‘gradualist reform’, the process by which the Chinese government cautiously opened up while ensuring the problems emerging through reform, specifically local issues, such as urban reform were at least addressed. Reform in China began in the countryside with farmers and peasants, and later on furthered by opening Special Economic Zones, which privileged favourable tax rates to attract foreign direct investment. Furthermore, as Shanghai opened up in the 1990's, the first phase of growth through manufacturing and industry was initiated. The question during this time was whether the Chinese Communist Party would be able to adapt to the new social and economic conditions created by those recent reforms. The CCP faced the challenge of liberalizing its economy without destabilizing the political system and changing its organization, while attracting new members (Dickson, 517-540).

As time passes China’s rise becomes more and more about power (capabilities and the projection of those capabilities) while increasing pressure has forced China to seriously reconsider what it is they want in the long term. In the past, understanding China as a major global actor was studied through theoretical lenses such as traditional-historical, Maoist-communist and realist-rational analysis. These approaches were later followed by institutional and perceptual schools (Bin Yu, 236, 1994). For instance, John Ikenberry has suggested that China’s rising influence may be used for its own benefit in a zero-sum game, creating a great security threat, or on the other hand that a massive hegemonic transition is not inevitable. Instead the current Western order is so deeply and historically rooted that it has become easier to join the Western system rather than overturn it (Ikenberry, 2008). “Theory is always for someone and for some purpose. All theories have a perspective (Cox, 128, 1981), and usually predisposed to certain conclusions. “China’s foreign policy making remains largely at the domain of top elites and policy bureaucrats; specialists/scholars…” (Bin Yu, 252, 1994) Therefore, it is crucial to be able to fully grasp all of the current theories explaining the rise of China to better understand the reality on the ground and to potentially be able to discover alternative explanations to past, present and future events. This paper focuses on understanding China as a “player at the table” (Hutton, 95, 2007) especially in terms of its relationship with the US, its overall position as an influential rising power, both economically and politically within multilateral institutions and its overall position as rising global actor in the fulcrum of power relations.

Politics: The political implications of multilateral involvement

Today it is argued that the nation state is too small to effectively deal with global issues while it remains too large and far removed to deal with every local issue, in fact certain international political economy scholars have suggested that the “the state exists in the ‘missing middle’ of the emerging global/local geometry of human society”(Wei, 2008). That is why recently international political theory has undergone quite a bit of pressure to re-evaluate its approach, which usually assumes that the international system is dominated by the relations between states, and to acknowledge that multilateral institutions and non-government actors have an ever increasing role in naturalizing new and existing levels of power, essentially reshuffling hierarchy to create a new organization of international power (Hoffman, 185, 1975). Currently, multilateral institutions have a significant amount of power and influence over global policy. China is able to see this and understands that the state and its involvement in the global multilateral structure remains a necessary force to manage foreign policy and voice the concerns of local populations. China’s rapid economic rise presages a fundamental change in the global political system while directing increasing attention to its foreign policy. The scale and character of China’s development ensures powerful feedback from the rest of the world. The global structure needs to adjust to China’s presence in all
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aspects of political life. While China’s political role is evolving in the global sphere, it must consider all of the intended and unintended consequences resulting from its new multilateral arrangements. For instance, because globalization offers significantly different benefits for each nation undergoing a political and foreign policy transformation, the Chinese cannot emulate the West since their path to modernization is extremely unique and at the same time highly complex.

“Globalization transforms the process, the actors and capabilities, and the agenda of world politics necessitating more effective international institutions of management. To do this effectively they need full participation and commitment from a wide range of members” (Woods, 36, 2009).

Originally China was hesitant to enter multilateral arrangements, placing emphasis on unilateral or bilateral relationships; however the present day paints a vividly different picture of The Peoples Republic of China (Wu, 2008). Today, China’s rise as a global economic power and its integration into the multilateral system represents an opportunity rather than a challenge for the entire global political structure. “China is facing a turning point in its relationship with the international system from passively accepting regulations of existing international financial institutions, the country will be joining the restructuring process for the first time” (Chin and Thakur, 2010) although the US remains the most influential actor within the international political, economic and social order the wheels have been set in motion for a drastic global restructuring (Chin and Thakur, 2010). The question still remains whether China’s multilateral participation will produce “one hegemony, many powers,” or rather “many-powers, one hegemony” (Neretnieks, 62, 2010). One thing seems certain, integration into the multilateral system is no longer reversible; rather China’s multilateral participation provides China with the opportunity to promote its peaceful and harmonious rise. Hu Jintao, China’s current president, has said that China’s goal is to “make our country more influential politically, more competitive economically, and help ensure that our country has a more friendly image with greater moral appeal” (Chin and Thakur, 2010) promising the world that China is politically committed to “combining the interests of the Chinese people with the common interests of the peoples of other countries, and always stand for fairness and justice” (Neretnieks, 23, 2010).

China has learned that there are several opportunities within multilateral institutions for emerging economies to alter the existing international power structure and modify operating rules to transfer and redistribute global power and essentially reap the benefits of globalization. Throughout this process of greater integration China has remained cognizant that events such as the collapse of the Bretton Woods monetary system in the 1970’s, the 1973 oil crisis caused by embargoes by the OPEC nations, and the abandonment of the gold standard in 1971 due to the inflationary pressure and the costs of the Vietnam War imposed by President Nixon, brought about complex political evolutions in both China, the United States and the rest of the world (Heller, 204, 2006). They also demonstrated that economic arrangements create political obligations, which are always subject to political manipulation, for this reason Beijing has cautiously “exhibited a preference for strengthening the traditional Westphalian conception of sovereign national economic development within the existing Bretton Woods system” (Chin and Thakur 127, 2010). Strategically it is beneficial for China to participate in multilateral arrangements because it gives China the opportunity to reflect on its own national interests while identifying with other rising powers such as Brazil and India. So the main question for China becomes;

“which approach to balancing relations between citizens, society, market, state and the global economy and which international normative order can produce the greatest strengthening state capacity, promoting social cohesion, maintaining territorial integrity as well as political independence, resisting encroachments on national sovereignty, achieving economic growth to bankroll material progress and advance the indicators of human development” (Chin and Thakur, 2010).

Security Framework: Consequences of a rising China for the international power structure

China’s ability to integrate into the changing global multilateral system depends on its ability to calculate all of the risks involved in gaining prominence on the world stage, whether intended or not. One of the most important
factors China must consider in its evolving global role is the security risk or even threat it may pose to the existing powers. Essentially, we must analyze the China/US relationship in terms of a security framework, before going any further in our discussion on multilateral integration. Over the last few years there has been a clear broadening and deepening relationship between US and China, fostering competitive and complementary interests. China and the US are extremely interconnected in sectors such as trade and investment, but there is certainly a lack of a definitive security framework. Their tensions are brought to light by their bilateral relationship and set against the backdrop of mutual national security anxieties. As china expands its external reach and military capacity the US begins to reassess the limits of its global engagement and begins to question the credibility of China (Garrett, 32, 2010). “China has the greatest potential to compete militarily with the United States and field disruptive military technologies that could over time offset traditional U.S. military advantages absent U.S. counter strategies’ (Gaoyue, 120, 2010). At the same time China advocates a new security outlook of “peace, equality and mutual benefit, and sets the national strategic objective of building a country of innovation and achieving scientific development, national rejuvenation, a harmonious society and a harmonious world (Neretnieks, 22, 2010). Neretnieks proposes the creation of a US-China military balance to the effect of ensuring the fraction of total resources allocated to each military is equal as well as ensuring equal quality of civilian and military leadership and operational methods (Neretnieks, 30, 2010).

In addition to economic interdependence between the US and China (a concept which will be discussed at length later on in this paper) the strategic rational for closer Sino-American ties stems from cooperative efforts to combat terrorism. After the events of Sept 11th: 2001, many nations agreed that the ‘acts of unprecedented barbarism must surely give rise to new and equally unprecedented levels of cooperation among the civilized nations of the world’ (Gaoyue, 130, 2010). During this time China expanded into international security institutions such as the Shanghai Cooperation Organization and perhaps responsively President Bush announced a “new spirit of partnership and amity with Beijing” (Gaoyue, 132, 2010) at the Asia-Pacific Economic Cooperation Summit. Finally, the global financial crisis increased the potential factors of instability around the world, especially between China and the US. It brought up questions regarding the influence of China in the security sector in the post crisis world order and increased the engagement of Chinese elite in multilateral attempts to securitize the economy.

“The Chinese engagement in multilateral organizations is fully embedded in the faith that some of the issues are better handled multilaterally, as well as in the belief that it is much cheaper to act multilaterally than unilaterally. This belief is embedded in a Real Politik notion and not a liberal post modern expression of China’s willingness to surrender sovereignty to international organizations” (Neretnieks, 2010).

On the other hand China’s involvement in existing multilateral institutions may be seen as a tool for the Chinese government to increase its own national economic and political security. It is important to analyze China’s military and security plans for reform since they are able to provide insight into understanding China’s longer term plans, keeping in mind that the analysis of military and security mostly shed light on the established networks of researchers, policy makers and the elite decision makers. China’s engagement in the current multilateral system remains in line with its policy to lay low and avoid leadership for now. Nonetheless, this period will not last forever due to increasing pressure from the world for China to act in regions such as North Korea. Therefore, China’s alteration of its security and foreign policy is not to be overestimated. Rather, it must be understood that any type of reform or transition will certainly be a gradual one.

**Multilateralism and Economics: The vulnerability and power of China**

“The world-wide financial crisis and the economic crisis that has spread rapidly since last year intensifies the turbulence and hastens profound changes in the post cold war world strategic structure” (Neretneiks, 10, 2010). China’s evolving role in the global economy and its increasing interest to participate in multilateral institutions such as the World Trade Organization, World Bank, and International Monetary Fund have provided it with a substitute choice for its pathway to the top (Cox, 1, 1997). Since multilateral institutions can function as a window
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to see how identities and interests are socially constructed by the most prominent actors in international relations, analysing China’s involvement in these institutions is critical. Gregory Chin and Ramush Thakur have suggested that China needs to “facilitate gradual and managed integration into global trade and financial markets, and to maintain national-state controls in a globalized economy where financial and economic crises are recurrent but unpredictable” (Chin and Thakur, 124, 2010). Essentially, China must pursue a policy of national economic development in addition to capital control while gradually integrating into the global economy. Particularly, one of the main relationships China has focused upon is its relationship with the United States of America. The post financial crisis world order revolves around the actions of China and the US; however the bilateral relationship between the two is becoming increasingly difficult to manage. Examples of this include the large trade imbalance, disputes over climate management, Chinese agitation for a new global currency to replace the dollar and duelling protectionism and economic nationalism (Garrett, 35, 2010).

Even more importantly the China/US imbalances are deep and structural. Subsequently, in order to manage tensions between the US and China (which for now may remain limited to the economic sphere) scholars devised the theory of the ‘group of two’ or the G-2 theory. The idea of “Chimerica” was first devised by Niall Ferguson, a professor of economic history at Harvard University, who elaborated on this concept in his article “Buy Chimerican” published in the Los Angeles Times in March of 2007. This idea then took off catching the interest of scholars all around the world (Neretnieks, 2010). While the post financial crisis order is characterized by a still powerful US, Geoffrey Garret in “G2 in G20: China the United States and the World after the Global Financial Crisis” suggests that China, a rapidly rising power has created a de facto G2 with a commitment from both the US and China to embed bilateral diplomacy in multilateralism, specifically within the G20, emphasizing that without a strong G2 a G20 would not exist. The idea of the G2 and G20 may perhaps be nothing more than a journalistic invention which has grown in precedence over the years, but its ideology is certainly transforming into reality. “The G20 represents the leading edge of worldwide recognition of China’s status as a global power, draped in the less threatening cloth of a broader balancing between the old powers of the 20th century and the new rising powers of the 21st century” (Garrett, 36, 2010).

It is clear that the tensions between China and the US mainly stem from economic interactions. For example, China happily buys US dollars and treasury bills while the US uses the money to buy Chinese goods to keep the American economy buzzing, so the challenge is for the G20 to eradicate the various tensions presented by this very structurally unequal bilateral relationship. Despite this fact, China’s position in the global economy has been solidified over the last 30 years and today China is undoubtedly a major player in the global economy, making alliances and investing outside its borders to expand its currency reserves from $200 billion in 2000 to over $1200 billion in 2007 (Mitter, 112, 2008). As China evolves the global structure is also undergoing some changes; in fact it does seem to be moving towards a kind of ‘G2’ arrangement, as previously mentioned. Since, the relationship between China and the US is extremely imbalanced in that China has $1 trillion worth of US treasury bills, the proposed solution by the two countries is for China to consume more, save less and export less while the US needs to consume less, save more, and export more. In order to aid in the restructuring and economic balancing of the global structure the current G20 agenda will need to include new global financial rules, increased international coordination of national regulations, the revival of global trade and the adjustment of institutions to the new power alignment. While the G20 structure is updated, the G2 agenda will need to find a way to strengthen its position within the G20, perhaps by way of focusing on strategic planning for the global economy rather than crisis management, while also increasingly institutionalising its operations and giving directions to institutions such as the WTO, WB and IMF. Sino- American relations need to be embedded in multilateralism because both China and the US know that their national actions and interactions present the world with global ramifications (Garrett, 2010).

In addition to integration within the existing economic multilateral institutions, China has increasing concerns about its huge dollar reserves, and is suggesting a new international currency reserve to replace the dollar. The call to reform the international monetary system requires the international community to consider diversifying beyond the dollar as the official global currency. There needs to be an international currency which is disconnected from individual nation states and able to remain stable in the long run (Chin and Thakur, 2010). Zhou Xiaochuan, governor of the People’s Bank of China, said a new currency reserve system controlled by the
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IMF could prove more stable and economically viable” (Wei, 2010). The suggestion has been made by China that the IMF’s SDR form a new reserve currency. This concern stems from the current financial crisis as it demonstrates the inherent vulnerabilities and systemic risks posed by the current monetary system. Unlike Benjamin Cohen in the “Future of Reserve Currencies” who suggests a fragmented currency system, this essay proposes the development of one single stable reserve currency, as proposed by Kindleberger, to avoid the unbridled consequences of fragmented competition. Despite the financial crisis the dollar still holds a privileged position in the global economy and will not be replaced very soon, however China's proposal for an alternative currency demonstrates that it is preparing to assume a more influential role in the world. Therefore, given China’s large and expanding role in the global economy the United States should encourage China to expand its role in international economic institutions to promote and encourage cooperation in the realm of international economic policy issues. This essay has recommended that the G20 transform from a discussion forum to an action committee (Lardy, 2005) specifically because China’s economy is likely to expand at a rapid pace and its participation in the already established economic institutions is inevitable, but should be done gradually, cautiously, and with the attitude that the current moment in history provides the global order with the opportunity for great change (Krishner, 428, 2008).

Social Implications: China’s image building and alternative model of development

China’s relationship with the world and its own population has drastically evolved over the years. In addition to political and economic reform, China is focused on internal social reform, in order to alter its mode of development, and at the same time transform the unequal political and economic order of the world through peaceful means. Today it is highly evident that Chinese politics and social relations with the rest of the world are still affected by its own domestic trends. Chinese foreign relations at almost every stage in history have been influenced by Chinese domestic politics. Chinese social elites believe that domestic challenges pose an even greater threat to China, even more so than Westernization, specifically the capitalist world order and the idea of being swallowed up by international institutions, posing threats to China’s “political order, social cohesion, national unity, sustainable economic growth, financial stability, individual livelihood…” (Jisi, 2010) However, it is quite difficult to discover the root causes of the various domestic issues, as they are extremely complex and often have deeply embedded historical roots. In his article entitled “Inside China” Wang Jisi suggests that one of the main difficulties for China is the great diversity of interests among its various regions, localities, industrial sectors, government agencies and social spectra. On the other hand because of the strong state presence and one party system China will continue to rise in a coherent and powerful manner. The difference today within China is its recognition of the importance of image building. China’s new image building focuses on showing China off as a “harmonious society” and utilizes slogans such as “apply the scientific outlook on development” which means paying more attention to the general needs of China’s population, such as the narrowing gaps between rural and urban populations, social needs, and protecting environment, while focusing on quality based development rather than quantity (Jisi, 2010). While Wang Yong, Professor at the School of International Studies, Peking University, and Director of the Center for International Political Economy argues that China will emerge from the world financial crisis with a new development model that will be good for China and the rest of the world. Going back to economics he suggests that the Chinese economic model is driven by massive exports and foreign direct investment. In addition, he states that China’s deep interdependence with the global economy has been exacerbated through China’s foreign exchange reserves (mostly in the US) and outbound investment involving mergers and acquisitions resulting in a problem of overdependence on international trade i.e. shrinking external demand affecting China’s ability to implement proper social policies to ensure its population is secure.

The current financial crisis presents China with an opportunity to rebuild a national consensus on the future path of the Chinese economy instead of simply removing itself from the global economy which is simply not a feasible option anymore (Jisi, 2010). China is presented with an opportunity to come up with a new development model for itself and the rest of the world. The new model will potentially give more incentive for domestic demand, be more
environmentally friendly, include measures to deepen market oriented reforms and create a more mature market system, and place more attention to innovation in science and technology (Yong, 2008). Additionally, China’s new model and global role within multilateral institutions will be able to potentially support its own domestic and social policies and efforts. In particular, along with China’s increasing influence within the G2 and G20, China needs to focus on the UN and its ability to build an effective platform for collective actions to cope with various threats and challenges. The UN will be able to maintain China’s peaceful image and act as the forerunner for the promotion of development, so the reform of the UN including giving it a bigger and more accountable role will allow for countries to agree upon common goals to more equitably serve humanity. China’s power and evolving role in the international community means that it must use the existing multilateral institutions to promote international cooperation in areas such as development, environment, social justice etc. The UN Framework Convention on Climate Change provides an initial model for international cooperation; however coordination and cooperation among nations and existing environmental protection institutions must be strengthened to ensure results (Wei, 2008). In sum, China is inevitably gaining leverage in the global political system; however its quick and powerful rise in the political and economic spheres within multilateral institutions should not be overestimated, in fact assuming that China will rise just as quickly in terms of social reforms is problematic. China still has a long way to go in building a national consensus on the future path of Chinese domestic and international policies.

**Conclusion: Opportunity or Crisis?**

The global financial crisis of 2007-2010 presents China with opportunities as well as challenges in its attempt to alter the role it will play within the fulcrum of power relations currently defining the global structure. The shift from a fairly reserved form of diplomacy to multilateralism was not a simple one for China; in fact the transformation continues to gradually take shape. Historically, China was highly vigilant of outside states, and even during the Cold War Chinese diplomacy was driven by self-defence and the protection of its nation from western imperialism and hegemony (Wei, 2008). However, in the 1980’s China began to open up to foreign investors under the leadership of Deng Xiao-Ping and his ‘open door policy’ demonstrating an increased interest in the ideas and views of the rest of the world. As China went through several reforms in areas such as diplomacy, economics and social policies, it emerged as an incredible power with the potential to alter the global structure in ways unfathomable before its rise. The complex history of China including its witness of the rise and fall of other dominating powers in different periods of history has provided it with the confidence that it has today to engage in multilateral organizations and meaningful dialogues with the United States and other emerging global powers. At the same time, China is aware that it must act cautiously, remaining weary of its image, it ensures that it does not portray itself as a threat to the changing global order. Instead, China’s goal is to show the world that it is a soft-power acting on the world stage by demonstrating that it wants to take on an active role and support multilateral diplomacy. In this way China seeks to protect its own interests while constructing a positive reputation for itself as a ‘responsible power’ (Lardy, 2010). Furthermore, China has increased participation in an array of global security issues, from the Six-Party talks to the diplomatic efforts in Iran and Sudan, and at the same time has increased the number of Chinese senior positions in international organizations such as the United Nations, World Health Organization, IMF, and World Trade Organization. The Peoples Republic of China has also revolutionised its attitude away from an inward looking, conservative mindset to a more active, flexible and pragmatic one, moving from a bilateral focus to a regional one, and finally to multilateral means of economic and political policy making. Nevertheless, China’s participation and role is still limited to opinion giving rather than agenda setting. But, the global financial crisis certainly has presented China with an opportunity to begin to flex its global leadership muscles within the existing multilateral institutions, while simultaneously strengthening its bilateral position in relation to the United States. Since it is incredibly challenging and difficult at this moment to draw any firm and detailed conclusions on the impact of the global financial crisis, specifically on China’s diplomacy, national/international security and economic policies, this paper only starts to make an attempt to understand the factors that are involved in all these various areas, so that we can hopefully begin to identify the challenges that lay ahead.

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