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China's Role in Global Economics and Politics

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CHRISTOPHER GRUNDY, SEP 11 2012

Assess Chinas role in the global political economy? Does it threaten dollar hegemony? With what consequences for geo-political order?

"We are living through one of the most astonishing shifts there has ever been in the global balance of financial power; the end of an era, stretching back over a century." [1]

This quote from Niall Ferguson accurately sums up one side of an argument which has never been more important to the global political economy in living memory: the importance of China in the international political and economic spheres. Ferguson, Harvard professor and bestselling author, is only one of the many prominent scholars convinced of Chinas ascendancy in World affairs. Further significant proponents of this side of the argument are Joseph Yam, distinguished Research Fellow at the Chinese University of Hong Kong and Horace Campbell noted international peace and justice scholar and Professor at the University of Syracuse in New York. Despite the impressive calibre of experts predicting a precipitous incline in Chinese influence, formidable opposition is also pitching a highly credible alternative explanation. Joseph Nye, deemed one of the most important scholars of the decade, is a vocal supporter of this alternative. Together with Robert Kagan, an internationally respected scholar, and Harvard economist Dwight Perkins, Nye believes that a myriad of factors have obscured the reality of indubitable Chinese growth, both in global political and economic circles. This essay sets out to tackle the question of China's importance within the global political economy, the threat this poses to dollar hegemony and the consequent shifts in the geo-political order arising because of these factors. These questions will be answered in a comprehensive yet concise manner, through the utilisation of primary, secondary and electronic sources as well as extensive analyses of authoritative published works in order to come to an inference which thoroughly highlights the key interpretations concerning China's economic ascendance.

"The Chinese economy has achieved extraordinary feats," [2] states Niall Ferguson in his controversial book *The Ascent of Money*. He is referring to the economic growth of China in the past thirty years, after Deng Xiaoping's introduction of watershed economic reforms. China's GDP has grown, according to *The Economist*, by around 8.4 per cent annually since 1978, [3] making it the fastest growing economy and allowing it to overtake Japan as the second largest economy in early 2010. [4] Ferguson's point is further strengthened by the analysis that, since the turn of the millennium, "the pace has intensified." [5] Data supplied by *The Economist*, a renowned economics magazine, also unequivocally points to an inexorable rise in China's importance, yet Joseph Nye contradicts Ferguson as well as *The Economist*.

"China lags far behind the United States economically and has focused its policies primarily on its region and on its still primitive economic development; its official communist ideology holds little appeal." [6] Nye supports this interpretation by underlining China's diminutive economic size compared to that of the US, pinning it around half the size of the world's most formidable economy. He goes on to say that per capita income affords a more precise account of global political power and points toward a projection by *The Asian Development Bank* that pegs per capita income at significantly below half of that of the US by 2025. [7] These facts are striking when considered in comparison with the economic position of the European Union, which ranks 84 places above China in terms of per capita income, according to the CIA World Fact-book. [8] This comparison exemplifies the relative poverty in which much of China still lives, and clarifies Nye's argument. Nye's last point, however, is opposed by Horace Campbell.

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Campbell argues that far from “holding little appeal,”[9] China has successfully managed commercial, political and military agreements with states of the ASEAN community and many others, especially in South America. He specifically highlights a deal concluded in November 2006 which encompassed a strategic partnership with Africa. “The emergence of China as a force in Africa complicated the tussle between the EU and the USA over ‘who controls Africa,’”[10] states Campbell elucidating the complex relationship between China, the EU, America and Africa, as well as alluding to the significance of China in current international affairs. China’s strengthened economic ties with Africa have doubtlessly helped to elevate awareness of China’s global economic importance.

Niall Ferguson intervenes with an altogether more harmonious interpretation of international relations. His argument is based on a plethora of beneficiary effects nations exercise upon each other, such as the low interest rates afforded to the USA, through Chinese savings, and the influx in Chinese manufacturing caused by US out-sourcing. This theory propounds an economically and politically reciprocal relationship in which nation-states benefit from the unique character of their respective economies.[11] Joseph Nye ardently opposes this idea, asserting that “as long as China’s economy does grow, it is likely that its military power will increase, thus making China appear more dangerous to its neighbours.”[12] Nye’s supposition of increased “gunboat diplomacy”[13] is substantiated by Robert Kagan, a prominent historian and foreign policy commentator. Kagan stresses that China is intent “in the near term to replace the United States as the dominant power in East Asia and in the long term to challenge America’s position as the dominant power in the world.”[14] This is a credible, if polemic, opinion that especially emphasises China’s importance in global politics and identifies it as a potential threat to the often-touted “global hegemon”, the US.

In order to understand more comprehensively, the role of the second biggest economy on the global economic and political stage, it is crucial to recognise its influence as the world’s leading exporter of manufactured goods. This is succinctly illustrated by the first prime minister of the Republic of Singapore, Lee Kuan Yew: “China can punish those who are against its interests. Increasingly, this same pressure is being felt worldwide: The balance of power has changed.” Here further support is given to the notion of immense Chinese importance for international markets, yet a second, more intriguing concept is being indicated toward. Namely the significance of China’s currency and its potential to supplant the Dollar as the World’s most widely used currency and World reserve currency. Jonathan Kirchner, professor at Cornell University, proposes that: “There are good reasons to anticipate fundamental change in the international role of the dollar, and concerns about the future of the dollar are heard with increasing frequency.”[15] The chief economic researcher at ANZ Banking Group, Ligang Liu, has propounded a set of preconditions that must be met in order for China’s currency, the Renminbi, to be implemented as the world-wide reserve currency. Among these preconditions he emphasises “a very good rule of law, clear property rights and stringent prudential regulation,”[16] which he controversially deems China to be in possession of. Liu then declares “with such preconditions, Renminbi internationalisation would be very natural.”[17] This is a compelling argument, yet Andrew Batson, special correspondent for the WSJ on China, points out that “the US dollar accounts for about 85 % of all foreign exchange transactions that take place in the world; by contrast, the Chinese Renminbi accounts for 0.1%.”[18] These figures offer an insight into the “Dollar Hegemony” and the obstacles still facing the Renminbi as a potential reserve currency.

As China’s role in the global political economy becomes clearer, it is particularly useful to consider the effects its position has on the balance of power and the order of the world market. Robert Kagan, chillingly, compares the current circumstances in international relations with those prevalent on the eve of WWI. He supports this view by purporting that “Chinese leaders chafe at the constraints on them and worry that they must change the rules of the international system before the international system changes them.”[19] This supposition is strengthened by a RAND study entitled rather ominously: *Conflict with China*, which expects China’s military expenditure to be “more than six times higher than Japan’s.”[20] This prediction, if accurate, suggests a more forceful conduct of international diplomacy on the part of the world’s largest exporter, giving it more prominence on the global stage and thus, causing severe shifts in the geo-political order. This analysis is disputed by Joseph Yam, who offers the perceptive explanation that the reserve currency “depends upon the credibility of that currency and on whether the economic fundamentals and macroeconomic policies are sound.”[21] Yam expounds that Chinese military augmentation and expansion would unsettle its economy, which would suffer enormously inflicting wide-spread privations on its citizens. Hence, Yam believes Chinese pursuance of war to be a negligibly small possibility and instead accentuates the importance of the global reserve currency and the potential benefits China could gain from possessing it.

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“As president of the G-20, I never imagined not coming to China to talk to my Chinese friends about the major economic issues that are preoccupying the world,”[22] the French President Nicolas Sarkozy told the assembled journalists during his visit to Beijing in August of 2011. In this excerpt he conveys that china now plays an “essential” part in the global political economy. The quotation elucidates the role fulfilled by China, and allows for a comprehensive, yet concise inference to be drawn. This essay has shown that China, as the second largest economy and the principal exporter in the world, fills an indomitable role in global politics and global economics. Its remarkable growth rate—combined with solidification of ties with Africa, other emerging markets as well as with the European Nations—makes the Renminbi an attractive candidate for the role of reserve currency, should the dollar weaken. Furthermore, China has managed to maintain, due chiefly to its astonishingly rapid economic advance, the initiative with respect to international relations, having a vast amount of leverage without being particularly vulnerable, allowing it to carve out its own unique position in the geo-political order.

Notes

[1] Niall Ferguson, *The Ascent Of Money*, (Penguin: London, 2008) p 285.

[2] Ibid.

[3] *GDP Forecasts*, Economist.com, accessed 3rd Dec. 2011

[4] *Country Comparison; GDP*, CIA.gov, accessed 3rd Dec. 2011

[5] Niall Ferguson, *The Ascent Of Money*, p 286,

[6] Joseph Nye, *The Paradox Of American Power*, (Oxford: OUP, 2002) p 19.

[7] Ibid. p20.

[8] “Country Comparison; GDP”, CIA.gov, accessed 3rd Dec. 2011

[9] Joseph Nye, *The Paradox Of American Power*, p 19

[10] Horace Campbell, *China in Africa: challenging US global hegemony*, (Oxford; Pambazuka Press, 2007) p 24.

[11] Niall Ferguson, *The Ascent Of Money*, p 336.

[12] Joseph Nye, *The Paradox Of American Power*, p 20.

[13] Ibid. p 18.

[14] Robert Kagan, *Of Paradise And Power: America And Europe In The New World Order*, (London: Knopf publishing group,2003) p 97.

[15] Terry Mccarthy, Lee Kwuan Yew, Aug 23 1999, Time.com accessed 1 Dec 2011.

[16] Natali Pearson, *Renmimbi: The Next Global Currency?*, Oct 6 2010, Asiasociety.org accessed 1Dec 2011.

[17] Ibid.

[18] Andrew Batson, *China Seeks to Tame Boom, Stirs Growth Fears*, Jan 1 2010, Faircurrency.org accessed 1 Dec 2011

[19] Robert Kagan, *Of Paradise And Power: America And Europe In The New World Order*, p 99.

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[20] Charles Wolf Jr, *Asian Economic Trends and Their Security Implications*, (Santa Monica: RAND, 2000), 19-22

[21] Joseph Yam, *CIC annual report*, 2010, China-inv.cn, accessed 2 Dec 2011.

[22] Marketwatch, *Sarkozy: China has essential role in G-20 talks*, 2011, Wall Street Journal, accessed 1 Dec 2011.

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