# China's role in the global political economy

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Today we know China as the new form of communism which came about after the death of Mao Zedong in 1976 and the further solidification of Deng Xiaoping as paramount leader of the Chinese communist party.[1] Deng Xiaoping, was a veteran of the revolution and had held various high ranking positions before being sent to exile by Mao, who saw him as a 'capitalist roader'. He was recalled by Mao in 1973 to take eventual charge of the army, as he was the only high-ranking communist Mao could turn to in order to stabilise the army[2]. Following Mao's death; Deng rejected the 'ultra leftism' that characterized the decade of the Cultural revolution (1966 – 1976), referring to this period as being "*virtually at a standstill or in a lingering state"* ***[3]*** and in December 1978, at the famous Third Plenum of the Eleventh Party Congress the Communist party of China (CPC) committed itself to modernisation, broad based economic development and the rule of law[4]. From this point, China's development has been characterised by the so called 'gradualist reform' model by form of which the Chinese government gradually opens up whilst at the same time solving the various arising problems through reform. This model of development has radically transformed China into a prosperous country with an economy which in 2007 was calculated to be more than 9 times larger than it was in 1978, thus placing it in fourth place, after Germany, Japan and the united states. If trends continue, it is set to become the second largest within a decade.[5] But just how far has the Chinese economy come? This essay looks at analysing just how far the Chinese economy has come in the past thirty years and to see whether it's economy in particular has grown to such maturity that today it can challenge the hegemonic power of the United States, and what this will mean for the geopolitical order of the world. To do this, we will draw on evidence from several sources, such as books, journal articles and news papers.

Deng's economic reforms started in the countryside, with farmers being given the right to sell their crops on the free market as well as individuals being encouraged to set up enterprises, Special Economic Zones were also created on China's southern coast, which, along with highly preferential tax rates attracted foreign direct investment. This, along with the opening up of shanghai in the 1990s lay down the first phase of economic growth which began with manufacturing and industry. Companies from Hong Kong and Taiwan have flocked to China, attracted by a seemingly unending supply of low-wage workers. Furthermore, the Chinese government has indeed been very successful in building a modern, efficient infrastructure comprising of ultra-modern ports and roads, along with cheap container ship transport and low factory building costs; which has made Chinese products up to 70% cheaper.[6]

Today, China has a central role in the global political economy. It's role as a manufacturing base is clear. For more than 15 years exports have grown by over 20% a year[7] to the point that in 2006 China's trade surplus with the rest of the world was US$177.47 Billion[8]. Furthermore The startling growth rate of the Chinese economy (around 10% per year in the early 2000s) has also been coupled with unprecedented openness; in the 1980 the share of trade[9] in Chinas GDP was 15 per cent whilst in 2006, it exceeded 70 percent. The United States is the only continental economy ever to have matched China's impact on the world economy and even the U.S. was not as open to trade then, as China is now.[10]

China's export- oriented strategy of development has been spectacularly successful thus far, it has meant that China has had to strengthen and create diplomatic and economic ties with other countries in order to secure the necessary raw materials to keep production at current levels. Indeed, all over the world, one can find how Chinese firms are investing in various projects. This investment has been spread all around the world; however Africa has been amongst the biggest recipients of Chinese investment in the world due to the continent's vast richness in natural resources. In late 2007 the Congolese government announced that Chinese state-owned firms would build or refurbish various railways, roads and mines around the country at a cost of $12 billion. This would all be done in exchange for the rights to mine copper ore of an equivalent value. This high risk investment serves to illustrate just how much China is doing in order to secure resources, as it is willing to invest vast sums of money in a war- torn place like Congo. [11] China's vast investment in Africa does not stop there, among many projects all around the continent; china is rebuilding the railroad network in Nigeria and a new one in Gabon. In Rwanda, it paved more than 80 percent of the main roads. In more than a dozen countries, Chinese firms are exploring for Oil and gas and rebuilding electricity grids and telephone networks. Even in Ethiopia which arguably has not got as many resources as its neighbours; diplomatic and economic ties are established as its capital[12] (which houses the headquarters of the African Union) provides the Chinese with vital opportunities to meet many African Leaders.[13]

Furthermore, Chinese investment has not been limited to Africa, China's hunger for natural resources is evident in places like Canada, Indonesia and Kazakhstan where Chinese firms are securing oil, gas and metals. Otherwise they are paying for the right to explore for them. Australia's biggest Coal port, Newcastle, is constantly loading ships destined for China and at one point on June 2007, the queue was 79 ships long.[14]

In economic terms, China's burgeoning consumption over the course of 2007 -2008 helped push the price all manner of fuels metals and grains to new peaks. Even the price of shipping raw materials reached a record high. The recent economic downturn has not had an effect on commodity prices either as imports for Liquidated natural gas (LNG), coal and copper imports rose sharply since the beginning of 2008.[15] China has a population of approximately 1.3 billion people which amounts to a fifth of the World population; it now consumes a third of it's steel and over a quarter of it's aluminium.[16]

One would be wrong to think that Chinese investment has been limited exclusively to developing nations. As I mentioned above, China has a very large trade surplus which has allowed it to buy a $3 Billion stake in the American buyout from Blackstone[17] as well as sharing a $2.4 Billion stake in the British bank Barclays[18]. One of the most interesting cases of Chinese investment in the west is the purchase of the 200 year old ThyssenKrupp in Dortmund Germany which had once employed around 10.000 people. The plant had to close as a result of increased competition from Mills in south Korea and other Asian countries as well as the 2000 slump in global steel prices. Within a month of the plant being put on the market, a Chinese steel company called 'shagang' had bought it. The company then proceeded to dismantle it piece by piece and ship it back to China. The whole process took less than two years so that in 2002 all that was left of Germanys plant was empty space.[19] The financial Crisis has also allowed smaller Chinese manufacturers buy big European brands; the Swedish car manufacturer Volvo was purchased earlier this year when on the 28$^{th}$ of March 2010 Geely, a small Chinese car manufacturer announced a takeover deal of £1.2 billion, a figure well below the £6.5 billion Ford paid for it in 1999. A deal of this kind would have been unimaginable just a few years ago; however the economic downturn has if anything facilitated the attempts by Chinese companies to enter western markets.[20]

From the above evidence it becomes clear that China's role in the Global Economy is no longer limited to Production, as was the intention of reform *" a sustained commitment to ensuring that foreign investments lead to the transfer of technology and the acquisition of skills amongst Chinese"* ***[21]*** would ensure, China meeting one of the key points of the Four modernizations as Chinese leaders have long been aware that Japan, Taiwan and Korea soon moved away from becoming manufacturing hubs to providing high value-added goods to the world. Furthermore, China is clearly using it's great purchasing power to create the necessary links needed in order to keep production levels high and it is also acquiring the necessary knowledge form companies abroad.

China's place in the global economy does seem to have been solidified over the last 30 years. It is now a major player in the international field, making alliances and investing beyond it's borders and actively contributing to the international community. Furthermore, it's large trade surplus has allowed the Chinese government to expand its currency reserves from $200 billion in 2000 to over $1200 billion in 2007.[22] this growth however, has placed the Chinese economy in direct competition with the U.S. economy, as the latter sees itself being threatened by a rising foreign power; one with which it does not share the same ideological and cultural basis.[23]

Since the post second world war Bretton Woods agreement, which cemented dollars ascendancy over sterling, The United States has enjoyed the privilege of borrowing cheaply from the rest of the world as governments banked on the dollar being a safe bet. The dominance of the American economy made the Dollar become the hegemonic currency of the world as virtually everyone traded with America, so it made sense to use their currency.[24] However, the depth of the recent financial crisis which is the worst since the 1930's has left the United States and the Dollar in a very vulnerable state. In 2005 the U.S. trade deficit was calculated at over 5% of GDP; total external liabilities were calculated at over 25% of GDP and are projected to reach 50% in 2015 and a 100% in 2030.[25]

These are alarming figures and ones that the Chinese Government has not failed to notice. Thus in a landmark speech by Zhou Xiaochuan (Governor of the People's Bank of China) pointed to the inherent need for a reform of the International Monetary System (IMS), as the current crisis has laid bare the defects of the international monetary system and a such the international community should look at diversifying beyond the dollar system. Furthermore, the current IMS has allowed the United States to run a large current account deficit which in turn has led to it's rising levels of external debt. Persistent external debt is said to have eventually led to depreciation of the dollar thus causing havoc in the international monetary and trading system.[26] trouble for the dollar does not seem to stop there, as Robert Zoellick the president of the World Bank Speaking ahead of the World Bank/IMF annual meetings in Istanbul, warned that the *"United States would be mistaken in taking for granted the dollar's place as the world's predominant reserve currency"****[27]*** the significant household and government debts have left the United States with sharply reduced prospects of growth. Developing nations such as China, Brazil and India have weathered the economic storm significantly better and are thus in a position to share decision-making with the old powers.

indeed, on October 2009 it was claimed by several news papers that a number of Arab Gulf states together with China, Russia and France were planning to end dollar dealings for oil and instead move to a basket of currencies comprising of the Japanese Yen, Chinese Yuan, the Euro, Gold and a new unified currency planned for nations in the Gulf Cooperation council. These allegations have of course been denied since. [28] However they serve to point out just how much doubt there is on America's waning Economic Power. These allegations, together with the reduced prospects of prosperity for the United States has led to speculations of a 1920s style international monetary system with four or five global currencies as regional anchors; with the Yuan, Rupee, Euro, Real and the Dollar as the first amongst equals but not a hegemon.[29]

However, throughout the boom years, China was lending America the money which allowed it to run such a large trade deficit. As a result, China currently holds approximately $2 trillion U.S. currency reserves.[30] If China really wants to threaten Dollar hegemony, it is important to remember that the resulting rapid sell-off in the dollar, or loss of confidence in treasuries goes completely against China's interests as it would dramatically reduce the value of the dollar, thus dramatically reducing the real value of it's currency reserves. Furthermore, it is also important to remember that although China has been very successful on reducing poverty which fell from 250 million in 1978 to 29 million in 2003, a dramatic shift from 30.7% of the population to just over 3.1%. there is still a large number of the population in relative poverty as well as clear inequality between the less populated urban areas and the highly populated rural areas. Whilst state intervention mitigates the worst aspects of poverty and unemployment, the Chinese clearly believe that economic growth is the tool which will provide the final solution to poverty in China.[31] Were the Chinese central bank to allow the Yuan to float like other currencies do, a significant reduction on exports would inevitably follow, thus worsening what already are some worrying statistics. Therefore, China might be interested on financing the U.S. deficit for a while longer as politically, the Communist party of China cannot allow exports to be dramatically reduced.

It then becomes clear that whilst China might want to become less reliant on America in the long term, the two countries need each other as America needs China to buy it's treasury bills; and China needs America to buy her exports. Furthermore, despite the clear proliferation of red flags, the dollar remains relatively attractive as it enjoys political stability, a dynamic economy and deep financial markets and institutions; whilst competitor currencies such as the Yuan and Yen are plagued by political rivalry in Asia along with internal unrest which could develop within China. [32]

Massive US debt, unprecedented Current account imbalances and the current distinct Geopolitical setting have caused the dollar to drift towards unchartered waters. As a result, a reduced role of the dollar is likely, this would have significant political consequences not only for the U.S. but also for the rest of the world. We will now move towards considering the likely geopolitical consequences of the Dollar loosing it's hegemonic power. First of all, in a world where fewer people hold dollars, fewer would have anything at stake in the wellbeing of the U.S. economy. Furthermore, those who fill the gaps where the dollar once reigned would see their own influence enhanced as holders of say Yuans, see their interests more in line with those of the Chinese economy, this would further encourage investment in China and would in turn, create stronger competitors on innovation. Moreover, as the Dollar is used less across the world, the U.S. would lose twice, first, from the reduction in its own influence in third world countries and second from the enhanced political influence of other powers in the world.[33] A case in point would be that of Africa, where some in the United states see Chinese growing influence in Africa as a zero-sum equation whereby China's rise will inevitably undermine U.S. interests in the region.

The fall of the US Dollar as the primary currency of financial markets would result in increased market scrutiny of American macroeconomic policy choices, this would affect the U.S. during moments of international crisis and periods of wartime as markets tend to react negatively to the prospects for a country's currency as it enters crisis and war due the prospect of increased borrowing and government spending.[34] This would inevitably lead to the US being more reluctant to embark in costly humanitarian missions such as Kosovo in 1999 and arguably Iraq in 2003.

Finally, it is important to mention Taiwan, as this small island has been according to Deng Xiaoping a big obstacle in China-US relations. As China, becomes more and more frustrated as a result of America's constant military support of Taiwan; China has threatened to sanction against American firms and withdrawal of support on international issues.[35] More importantly however, is to consider the prospect of China dumping its enormous Dollar holdings on the international market, as an act of political coercion against the US, any of the above moves would be highly prejudicial to China's economy and would create internal unrest within China. However, a move as drastic as dumping Dollars would be based on a gamble that the US would be hurt even more than China. However such a scenario is virtually impossible, this is because as outlined above, China's interests are crucially intertwined with those of the United States.[36]

In conclusion, it is clear that China has come a long way since 1978, however, it is still relatively young power in the international arena and this means that there are a number of factors which could potentially hurt China. The United States on the other hand is a more mature power with a built up infrastructure and an established reputation. China is embarking on the process of creating that reputation and it is therefore too early to predict China's rise or America's demise.

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[4] Will Hutton, "China and the west in the 21st Century", (London: Abacus, 2007), p97

[5] Ibid, p4

[6] Ibid, p15 – 16

[7] Ibid p22

[8] Rana Mitter, "Modern China, A Very Short Introduction", (Oxford university press, 2008), p111

[9] Exports plus imports

[10] Will Hutton, “China and the west in the 21st Century”, (London: Abacus, 2007), p22

[11] The Economist, “china’s quest for resources, A ravenous Dragon” 13th March 2008 <http://www.economist.com/surveys/displaystory.cfm?story_id=10795714> accessed 03/05/2010

[12] Addis Ababa which houses the headquarters of the African union

[13] Arcel Kitissou “Africa in China’s Global strategy” Chapter 1, Marcel Kitissou “Globalization and fragmentation: the new era of Africa China Cooperation” (Adonis & Abbey Publishers Ltd, 2007) p19

[14] The Economist, “china’s quest for resources, A ravenous Dragon” 13th March 2008 <http://www.economist.com/surveys/displaystory.cfm?story_id=10795714> accessed 03/05/2010

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[17] This took place in 2007

[18] Rana Mitter, “Modern China, A Very Short Introduction”, (Oxford university press, 2008), p112

[19] James Kynge “China Shakes The World” (Weidenfeld & Nicolson London, 2007) p6-9

[20] Richard Wachman “China moves up a gear among the world’s carmakers with £1.2bn takeover of Volvo”, (The Guardian, Monday 29th March 2010) P, 24

[21] Marcel Kitissou “Africa in China’s Global strategy” Chapter 2 by Michael Sachs “china’s leap into the heart of the twenty first century”, (Adonis & Abbey, London 2007) p29

[22] Rana Mitter, “Modern China, A Very Short Introduction”, (Oxford university press, 2008), p112

[23] As the UK did witht he U.S. after WWII

[24] The Independednt "leading article: the end of the Dollar spells rise of a new order", 6th October 2009 <http://www.independent.co.uk/opinion/leading-articles/leading-article-the-end-of-the-dollar-spells-the-rise-of-a-new-order-1798200.html> accessed on 7th May 2010

[25] Jonathan Kirshner "Dollar primacy and American Power: what's at stake", (review of international political economy, August 2008) p,419

[26] Paola Cubacchi and Driffill, "beyond the dollar, rethinking the international monetary system" ( Chatam house, March 2010) P,46-47

[27] The Guardian "US dollar se to be eclipsed, World Bank president predicts", 28 September 2009 <http://www.guardian.co.uk/business/2009/sep/28/us-dollar-usurped-china-euro-world-bank> accessed on 04 May 2010

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[31] Marcel Kitissou "Africa in China's Global strategy" Chapter 2 by Michael Sachs "china's leap into the heart of the twenty first century", (Adonis & Abbey, London 2007) p30-31

[32] Jonathan Kirshner, "Dollar primacy and American power: whats at stake?", (review of international political economy, August 2008) p420

[33] Ibid, P429

[34] Ibid p 430-431

[35] The Economist "Facing up to China" February 4th 2010 <http://www.economist.com/opinion/displaystory.cfm?story_id=15452821&source=login_payBarrier> accessed on 1st May 2010

[36] Jonathan Kirshner, "Dollar primacy and American power: whats at stake?", (review of international political economy, August 2008) p428

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