CHINA’S RESPONSE TO THE GLOBAL ECONOMIC REBALANCING: PERCEPTION, POLICY AND IMPLICATION TO CHINA’S PARTICIPATION IN GLOBAL GOVERNANCE

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China faces criticism on foreign exchange policy and pressure of RMB appreciation.

Questions: how to examine the root cause of global economic imbalance and global financial crisis (GFC)? What’s China’s responses to these questions?

IPE Perspective: who loses, who benefits and who adjusts?
China is an increasingly important part of the global economy, in terms of success, problem and solution.

Chinese view is not known well in the outside world, in the West.

China used to be a follower, a rule taker, and now changes to be a leader, a rule maker.
CHINA’S DISCOURSE: TWO ASSOCIATED APPROACHES TO THE GLOBAL FINANCIAL CRISIS

- West standard approach on Global current account imbalance
- Chinese approach: there are two approaches
  - First imbalance: the global current account imbalance
  - Second imbalance: unevenly structured international economic system
This emphasis on the link between the two imbalances and their associated impacts, and the comprehensive approach to global rebalancing is different from the mainstream Western views.
The Chinese academic and policy communities take a broad perspective of the root causes of the global financial crisis of 2008-09 and highlight the two distinct ‘global imbalances’.
Chinese views of current account imbalances are broadly similar to academic views in the US and other developed countries. This global imbalance is argued to exist between the United States on the one side, and the East Asia economies and petroleum-exporting countries on the other side (Zhang, 2007; Chen and Zhou, 2011).
The second conception is the ‘unevenly structured’ international economic system, characterized by the dominant influence of the United States and the West more broadly, and the under-representation of developing countries in the IMF, the World Bank and the WTO - the major pillars of current global economic governance (Zheng, 2010; Liu, 2010).
Chinese scholars argue that these two global imbalances are interrelated, and reinforce each other. The limited representation of developing and emerging economies is said to be a main reason why the IMF has provided a ‘non-neutral’ risk assessment about the causes of current account surpluses of developing nations, and led to the GFC (Liu, 2009).
About the ways of achieving the global rebalancing, Chen and Zhou (2011) suggest that resolving internal imbalances should be enforced before external imbalances are addressed; that is, it is necessary to adjust the internal economic growth model of key economies in order to correct external imbalances.
A large number of Chinese analysts attribute the global financial crisis and the global economic imbalances to the hegemonic position of US dollar and the uneven power distribution in the International Monetary Fund, which tends to favour the US and the major Western countries.
Abuse of US dollar dominance as the fundamental Cause

- Zheng claims that the **US abuse of its status as major reserve currency issuer** cause the so-called ‘twin deficits’ of current account deficit and government budget deficit, and tremendous risks were building up in the US economy.

- **The distorted rating of US credit rating agencies:** they overstated the economic risks that accrued to the creditor nations, to help cover up the risks of the US as the debtor nation. This produced a situation that he defines as a ‘reversed risk relationship’ (Zheng, 2010; 2011a).
Zheng insists that the US abuse of its key reserve currency issuer status also led to the transformation of the US economy from a manufacturing-based ‘real’ economy into a financial speculation-based ‘virtual’ economy.

Other analysts go further to accuse the US of being the largest ‘currency manipulator’.
(ii) Biased IMF surveillance

Chinese academics generally hold the view that IMF is plagued by the deeply uneven structure of power, incapable of preventing major financial crises because it is clearly biased by neoliberal policies, and as a result, the lack of evenhandedness in risk surveillance.
Economic neoliberalism and the Washington Consensus are widely regarded as being at the root of the global crisis. Driven by banking and financial sectors, the US government worked with the IMF to impose the agenda of deregulation and liberalization on developed and developing countries since 1980s.
The above critique of the IMF’s governance problem is supported by insider observations of IMF officials from developing countries, and by the report released by IMF Independent Evaluation Office (IMF IEO, 2011). In this report, IMF IEO lists the factors responsible for the IMF failing to identify risks and give clear warnings, including analytical weaknesses, organizational impediments, internal governance problems, and political constraints.
In China, though different views do exist on how to deal with this pressure, the majority of Chinese economists are opposed to the one-off appreciation of the RMB.

They argue that the Plaza Accord was the root cause of the decade-long recession of Japanese economy, and China must not repeat Japan’s painful course. Only a small group of scholars urge for exchange rate adjustment to protect China’s own welfare.
Plaza Accord as the cause of Japanese recession of 1990s

Chinese analysts believe that the outcomes of the Plaza Accord included the sharp decline in exports, high inflation, the real estate bubble and excessive capital speculation, the erosion of innovation spirit, and the decade long recession of Japanese economy in 1990s.
For appreciation: different lesson and different approach

Contrary to the predominant view, a small group of analysts offer a different account of the root causes of the Japanese economic recession of the 1990s, and urge for the RMB exchange rate to appreciate.
(iii) Resisting US pressure on RMB appreciation

Most Chinese analysts oppose a Chinese version of the Plaza Accord as the solution to global imbalance, and believe that the dramatic appreciation of RMB only damages the Chinese economy, and would not even help the US economy. US and European demand for the Chinese currency appreciation only serves their domestic political ends.
First of all, scholars have advocated the ‘common’ responsibility theory, emphasizing international cooperation to avoid confrontation.

Secondly, some economists contend that Chinese government should maintain its political determination to carry forward structural adjustment of the Chinese economy, no matter how much other countries could help or not in global rebalancing.
Thirdly, in order to reduce China’s current account surplus, the country should adjust its foreign direct investment (FDI) policy.

Fourthly, some other economists argue for improving the financial system, to make full use of domestic capital markets, to ensure the savings can be used by domestic investors.
Finally, some economists call **for curbing the expansion of the state-owned economy** as part solution to rebalancing Chinese economy.

With regard to the global economy, Chinese academic and policy researchers urge for reforms in international economic system. In terms of reforming the existing world economic system, **Chinese analysts put some emphasis on restructuring the international monetary system.**
IMPLICATIONS FOR CHINA’S PARTICIPATION IN GLOBAL ECONOMIC GOVERNANCE

- China’s will of cooperation is high, due to high stake in interdependent global economy. Chinese leaders hailed the 2010 G20 Toronto summit decision on the G20 as the “premier platform” of global economic governance.
- China does not attempt to overthrow the existing international economy system, but believe the reform is necessary.
China and US do not necessarily confront with each other on all issues. While the two countries conflict on foreign exchange issue, the two may compromise and cooperate on other issues, based on common interests, eg, the tax haven watch list (2009), and tax on banking (2010).
China and emerging economies have seen the decreasing level of will of compromise and accommodation among G7 members after the crisis, in reforming the West-led international economic system, eg. US Congress in delaying the approval of quota reform program (2010).

China is worried about the new economic rules of 21st century excluding China and developing countries, which may be built up on TPP and TTIP by developed countries.
While keeping the cooperation with the existing institutions, China works with other countries to set up new institutions to fill the gaps of regional and global governance, especially in development affairs: BRICS Development Bank, and Asian Infrastructure Investment Bank.
THANK YOU!