RESEARCH BRIEF

No. 6/2021

China and the Global Economic Architecture: Approaching the Challenges of the 2020s

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May 7, 2021

Key Points:

- **China and the Global Economic Architecture (GEA):** Autarky (1945-1979), engagement (1979-2008), competition (2008-2019), globalization vs fragmentation (2019 - onwards).
- **GEA impact:** Choices between conflict, competition, and cooperation between major powers.
- **GEA themes:** Three challenges or opportunities to dominate this decade: sustainability, technology, and tensions between globalization and fragmentation.
- **Technology:** China is increasingly seeking to export its own technologies to support innovation but also to build an alternative system not dependent on Western powers.
- **Sustainability:** It remains to be seen whether this is an example of a public good wherein cooperation is possible in the contexts of climate change and global health, and in the wider range of the UN SDGs including domestic resource mobilization (DRM) wherein China's successes have been significant.
- **Globalization and fragmentation**: This is perhaps the fundamental question of the 2020s: will the world be cooperating on health, environment, and political issues, competing or even conflicting?

Introduction

The 2020s are emerging as a very significant decade for the evolution of the Global Economic Architecture (GEA), with the re-emergence of a multipolar world and the role of China in that world. From the standpoint of global financial and monetary relations, we expect three key themes to dominate policy approaches: sustainability, technology, and tensions between globalization and fragmentation. The impact on the GEA will likely be profound, centering on questions of choices between conflict, competition, and cooperation between the major powers.

In considering possible scenarios, we focus in this Research Brief on the role of China in the GEA. During the post-war period, China's role in successive periods of the GEA can be characterized as autarky (1945-1979), engagement (1979-2008), and competition (2008-2019). The post-pandemic world could be characterized by any possible scenario but likely will be based on the three Cs: cooperation (mostly on health, vaccine development and supply chain, and diplomacy), competition (technology and manufacturing), and, conflict (strategic priorities, national interest, human rights and democracy, economic or even military priorities).

China and the Global Economic Architecture: 1945-2008

Over the past 2,000 years, as highlighted by Angus Maddison, China, India, and Europe and the Middle East have generally formed the major economic poles, with the addition of the US, Russia, and Japan from the late nineteenth century.[1] With the exception of the twentieth century, China has generally been the leading power in East Asia though certainly not across Asia as a whole.[2] This wider historical pattern appears to be re-emerging, from the rather exceptional period of US dominance of the period since World War II. Within this wider perspective, China's engagement with the outside world has been characterized by ebbs and flows, of periods where it focused outwards and periods where it focused inwards, and, equally, by oscillating periods of centralization and periods of decentralization.

During the twentieth century, China pursued a range of approaches in seeking to rebuild its economy and society both domestically and internationally. At the end of the Second World War, China, along with the UK, France and Russia, joined the US as the members of the UN Security Council. Hence, from an economic influence standpoint, the post-war GEA was designed at the outset to achieve a variety of complementary, albeit sometimes conflicting, purposes: reducing economic conflicts in order to prevent political conflicts and supporting reconstruction and development to encourage economic re-integration.

China, however, largely opted out of this system at the outset because of a fundamentally different economic approach, shared with the Soviet Union and other centrally planned economies. By the late 1970s, the limitations of the economic model of central planning and isolation had become obvious and China commenced a process of joining or rejoining the GEA including the International Monetary Fund (IMF), the World Bank, the Asian Development Bank and finally, in 2001, the World Trade Organization. During this process China pursued global economic engagement in order to support its own development. In doing so, it focused not only on the experiences of the major Western economies, but also those of Japan and other East Asian states.

This period can thus be seen as one during which China moved from disengagement in the context of autarky prior to 1979 to one of active engagement in the global economy in order to support its own development. China thus emerged as a rising stakeholder in the system. However, states soon became disenchanted with the status quo and began searching for an alternative beginning with the 2008 Global Financial Crisis (GFC).

A new approach: 2008-2018

The 2008 GFC caused China to reassess its economic model and global role, both to reduce dependencies on the West and to reflect its own re-emerging economic and financial significance. When its rising economic and financial weight

[1] ANGUS MADDISON, CONTOURS OF THE WORLD ECONOMY: 1-2030 AD (2007).

[2] *See*, for a broader context, Uzma Ashraf, *International Economic Order and the Chinese Belt and Road Initiative*, in GLOBAL ECONOMIC GOVERNANCE (Simone Raudino & Arlo Poletti, eds., 2019).

were not reflected in the governance arrangements of the IMF and the multilateral development banks, China sought to promote governance alternatives, both bilateral and multilateral. Since 2008, China dramatically increased its economic and financial engagement with Asia, Africa, Latin America and the Middle East, in an effort both to diversify its own sources of growth and to reduce excessive reliance on the major Western economies. Under Xi Jinping, Beijing has been focused on developing its own approaches, strategies and institutions for international engagement, under the umbrella strategy of the Belt and Road Initiative (BRI). The so-called Beijing Consensus cooperation model is presented as apolitical with a non-interference approach to the domestic affairs of other countries and a strong focus on infrastructure development. All these factors are attractive to many regimes in developing countries seeking to retain their political influence through expanding investment in infrastructure.

China's rise has led to an increasing mismatch between its economic clout and its relative influence in the Western order's multilateral Development Finance Institutions (DFIs). These structural limitations prodded Beijing to establish a series of new frameworks, initially focusing on major emerging economies and China's wider region order, by undertaking a number of political and economic multilateral initiatives, including the Shanghai Cooperation Organization, the New Development Bank, the Asian Infrastructure Investment Bank, and the Silk Road Fund (SRF).

While the Bretton Woods institutions promote a liberal economic order founded on principles of trade, transparency and human rights, Chinese-led DFIs present a Chinese vision whose discourse up to 2018 focused on non-interference, non-alignment, equal standing and, to a certain extent, equality of participating members. These principles, however, have come under strain since 2018, as the result of China's re-emergence as one of the world's largest economies, alongside the US and the EU, as has the principle of non-alignment.

While Chinese-led regional DFIs may have been the most visible part of Beijing's "Go Global" strategy, most of the work that led to building that capacity was done via its domestic financial policy institutions, especially China Development Bank (CDB) and the Export-Import Bank of China (China EximBank). Created as part of the "Go Global" and "Go West" strategies, China set up these banks to finance national state-invested projects and subsequently used them in overseas investments.

By 2018, CDB had emerged as the world's largest provider of finance to developing countries. Like CDB, China EximBank is a state-owned policy bank dedicated to supporting China's foreign trade, investments, and international economic cooperation in the "Go Global" Chinese strategy. It has access to direct credit support from the government and has financed over 1,000 projects in more than 50 countries. In 2014, China also set up the SRF to support BRI projects and to finance primarily medium- to long-term equity-based investments to support infrastructure development projects in BRI countries.

Related to infrastructure and development finance initiatives, the use and internationalization of the *renminbi* (RMB) emerged as a major strategy to reduce dependency on the US dollar. A dominant medium of exchange has always been at the heart of all great empires from the Greeks to the British and Beijing has taken many steps in this regard, including mandating the People's Bank of China to provide liquidity support, developing a network of bilateral currency swap arrangements to avoid liquidity traps and promoting the RMB as a regional invoicing currency. Given China's emergence over the past decade as the largest bilateral trading partner of the majority of countries, many developing countries including those that relied on the Asian-style export-led growth model welcomed the "conditionality-free"[3] infrastructure development.

China and the Global Economic Architecture in the 2020s

Financial market turbulence in 2015, tensions under the Trump administration, and questions about the impact and motivation for BRI financing triggered a process of reconsideration of the strategy which emerged in the aftermath of the 2008 crisis.

Chinese aid, loans, currency and other assistance to many developing countries has invoked serious criticism on its utility, relevancy and, especially, sustainability. Most projects do not have a sound repayment mechanism – not surprisingly in the world affected by a pandemic, we are witnessing not only sovereign defaults (for example, Zambia) but also restructuring of loans. The majority of Asian countries sit at the bottom of the Corruption Perception Index[4] despite an increase in their economic growth rate. History tells us that sustainable development requires not only infrastructure, but also complementary institutional development. The debt sustainability is emerging as the critical issue in Africa, Asia, Central and Latin America – whereas a global slowdown has underlined the need for sustainable development by raising domestic revenue resources and reducing reliance on debts. Technology has emerged as the biggest tool to help realize domestic revenue mobilization through the 2010s but increasingly so now in a post-pandemic world.

At the same time, since 1979, China has lifted 800 million people out of poverty by raising per capita GDP almost fifty-fold, from USD 155 (in today's dollar) to USD 11,819 (in 2021 equivalent real dollars). Undoubtedly, the China model has reduced poverty; however, it also brings to the fore a gap in the development of institutional accountability and rule of law that is needed to sustain the gains from economic growth, with questions focusing on whether it will be sufficient to take China through the "Middle Income Trap" to developed country status.

This very success combined with challenges and criticism from a widening range of circles has resulted in stronger official Chinese responses, characterized as "Wolf Warrior diplomacy." Looking forward, the question is whether China will seek a fundamental break with the post-War liberal economic order and its model of globalization, with choices between conflict, competition, and cooperation between the major powers and possible fragmentation of the GEA.

From the standpoint of technology, China is increasingly seeking to export its own technologies and standards not only as a means of supporting innovation and development in its economy but also to build an alternative system not dependent on Western powers. From the

[3] Chinese-sponsored projects often require adherence to the "One-China policy." This political conditionality is often implied. Further, China does not require adherence to Western conceptions of human rights or democracy.

[4] *See* Transparency International, Corruption Perception Index 2019, https://www.transparency.org/en/cpi/2019/index/nzl.

standpoint of sustainability, it remains to be seen whether this is an example of a public good wherein cooperation is possible both in the context of climate change and health but also within the wider UN Sustainable Development Goals, where China's successes have been significant. From the standpoint of globalization and fragmentation, this is perhaps the fundamental question of the 2020s: will the world cooperate in the face of global crises (in health, climate, and economic downturn) or become further polarized by competition (on technology and manufacturing) or worse, become divided into separate and conflicting strategic blocs?

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