The Middle Way: China and Global Economic Governance

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China’s geo-economic rise, in which its tremendous economic resources have evolved into increasing geopolitical influence, is the most important strategic trend of our time. How China chooses to engage with the outside world on economic issues, and how other major powers – most notably, but not limited to, the United States – react to it, will have profound implications for international order in general, and in particular for the latticework of institutions, groupings and standards that make up the architecture of global economic governance.

Former Chinese premier Wen Jiabao’s speech at the January 2009 World Economic Forum annual meeting in Davos stood out as a direct challenge to the whole system of global economic governance that emerged in the decades following the Bretton Woods Conference of 1944. In his speech, Wen argued that the global financial crisis that began in 2008 had ‘fully exposed the deficiencies in the existing international financial system and its governance structure’, and called for ‘the establishment of a new world economic order that is just, equitable, sound and stable’.¹

While Wen’s words echoed a widely held sentiment, they were particularly significant because they seemed to represent a shift away from Deng Xiaoping’s famous counsel for Chinese leaders on the international stage to ‘hide one’s talents, bide one’s time’ (tao guang yang hui). It seemed that China was ready and willing to challenge the established international eco-

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nomic order, strengthening the voices of those who argued that a ‘Beijing Consensus’, or China model, would come to dominate global economic affairs.

Over four years on, the Chinese leadership has toned down its rhetoric on the need for wholesale reform of the architecture of global economic governance. In the intervening period, China has become a champion of the G20, is increasingly engaged with a range of international financial institutions and has publicly argued that it wants to ‘integrate’ into the global system and ‘follow the international rules’. However, Beijing has also begun to play an increasingly active role in alternative groupings, leading calls for the establishment of new financial institutions attached to both the BRICS (Brazil, Russia, India, China and South Africa) group and the Shanghai Cooperation Organization (SCO), as well as exploring numerous bilateral and regional free-trade agreements.

Western scholarship on power transitions has typically assumed that a rising power will either overturn the existing order or seek to become part of the status quo. China’s rise, however, defies such binary categorisation and requires more thorough empirical treatment. In some areas of global governance, China seems to be the quintessential ‘responsible stakeholder’ of Robert Zoellick’s urgings nearly a decade ago, while in other areas Beijing seems determined to challenge the existing order – as much by quietly shaping a series of alternative, non-Western institutions as by actively defying extant structures.

This essay addresses the implications of China’s rise for global economic governance and whether the country presents a challenge to the status quo. I discuss Chinese approaches to global governance; track the evolution of Beijing’s attitude towards global economic governance between 1949 and 2008; and consider cases relating to China’s role within the G20, development policy and relationships with multilateral development banks, and interaction with regional and ad hoc groupings since 2008.

**Chinese views of global economic governance**

Leading scholar of global governance James Rosenau has defined the concept simply as ‘the complex of institutions and processes that govern
how things happen in the world’. Global *economic* governance, by extension, is the set of institutions, groupings and norms that generates the rules and guidelines for the management of the global economy. In a Chinese context, global governance tends to refer solely to intergovernmental institutions and groupings.

Realist theory casts doubt on the utility of global economic governance as a concept, predicting that nation-states will follow their own self-interest and struggle for power and influence in a zero-sum world, rendering attempts at supranational cooperation and coordination futile. The reality of global economic governance, meanwhile, is fragmented at best, and we are far from witnessing genuine ‘collective management’ of the majority of the world’s pressing economic challenges. However, global economic governance, as imperfect and aspirational as it may be, is more relevant and important than ever in a world of globalised finance and sovereign-debt crises – the ongoing financial crisis has been a stark reminder of this, and the World Economic Forum identified global governance failure as one of the top global risks of 2013. China’s geo-economic rise means it will be at the heart of future attempts to reshape the global economic-governance system.

Chinese attitudes to global governance vary along a broad spectrum, from those scholars who see the whole concept as a Western trap designed to constrain Chinese freedom of action and view it through the prism of political conflict, to those who accept the potential value of global governance and argue for more activist Chinese engagement, in keeping with its rise to great-power status.

There are, however, certain common threads throughout the disparate Chinese views of global economic governance. Firstly, the existing structure of the international system is almost unanimously viewed as ‘unequal, undemocratic, and therefore unjust’, as Gerald Chan, professor at the University of Auckland, has put it. This links in with the narrative of China’s ‘century of humiliation’ at the hands of colonial powers, and leads, on the one hand, to calls for reforms to secure the country a greater voice in the international system and, on the other, to demands for a total shunning of international institutions and a turn towards isolationism.
Secondly, global economic governance will always be subordinate to domestic concerns, and China’s engagement with the global economic-governance system will be strictly based on a realpolitik calculation of the national interest. The same can of course be said for most, if not all, other countries, but is particularly true for a Chinese leadership that remains overwhelmingly focused on social stability and domestic economic development. In practice, this means that we see active Chinese engagement in areas where the global governance agenda intersects with its own national priorities, but more limited or conditional engagement where the international agenda cuts across its domestic interests.

Finally, Chinese officials emphasise – in their rhetoric, at least – the importance of realising a democratic international system of sovereign states. They argue that the global economic-governance system should not lead to any loss of national sovereignty and must accord with the principle of non-interference in the internal affairs of other countries. As such, China stresses the importance of achieving ‘win–win’ multilateral solutions to global problems, and emphasises that such solutions cannot be imposed on unwilling parties.


Since the death of Mao Zedong, China has evolved from a revolutionary power determined to overthrow the existing international order to a state fully embedded into the architecture of global economic governance, via a period of cautious, partial engagement with international institutions.

David Shambaugh, professor at George Washington University, breaks this transition into distinct phases: a period of opposition to the international order from the 1950s to the 1970s; a generally passive position in the 1980s and 1990s, when China ‘sought membership in international institutions and wished to learn the rules of the road, obeying them to a large extent’; and a ‘more selective and activist position’ in the early 2000s.9

During the first phase, from the founding of the People’s Republic of China in 1949 until the period of ‘reform and opening’ launched by Deng Xiaoping in 1978, China’s interaction with the outside world was condi-
tioned by a deep-rooted sense of insecurity and hostility to the Western world, and should be seen against both the historical backdrop of China’s century of humiliation and the contemporaneous context of the Cold War. China was isolated from the emerging US-dominated system of global governance, and hence viewed the whole concept as illegitimate. In place of the Bretton Woods order, China associated itself with the Soviet Union (until the Sino-Soviet split) and the Non-Aligned Movement.

The weight of the Chinese government’s scorn was saved for the United Nations, which was seen as a puppet of the West, and led in 1965 to calls for an alternative ‘revolutionary United Nations’. Somewhat ironically, following its eventual admission to the UN in 1971, China has gradually become one of the key supporters of the UN and its enshrined principle of democracy in international relations.

With reform and opening, China’s engagement with global economic governance gathered speed. In the early 1980s, it joined the World Bank, the IMF and the Asian Development Bank – receiving significant support from all three – as well as the General Agreement on Tariffs and Trade, the forerunner of the WTO. During this period, China continued to be frequently critical of the Western-dominated international order and the US in particular, but with its economy growing through increasing access to foreign capital and markets, it started to become a net beneficiary of this order. As such, China’s international engagement during this period was generally characterised by watching and learning from the edges rather than playing a more active role.

The most dramatic manifestation of China’s integration into the established economic order came with its accession to the WTO in December 2001. This followed 15 years of tortuous negotiations, and had a significant impact both on China’s international behaviour and its economic situation. In terms of behaviour, the demanding application process and body of WTO rules and regulations significantly affected China’s trade relations with the outside world, ultimately making Beijing one of the more vocal advocates of free trade in the global economy.

China’s engagement with the WTO has been dynamic, particularly when set against its participation in other international bodies. Beijing has become
one of the most active parties to the WTO Dispute Settlement Body, and has a better record of complying with rulings against it than either the US or the European Union.

But China’s engagement with the WTO has not been uniformly praised. Critics point out that Beijing has repeatedly failed to accede to the WTO’s government procurement agreement and has faced persistent allegations of unfair government support for its companies and of state-sponsored commercial espionage.\textsuperscript{13} This recently led British journalist Geoff Dyer to conclude that ‘ever since it joined the WTO more than a decade ago, China has had one foot inside the global trading system and one outside.’\textsuperscript{14}

Overall, in the years leading up to the 2008 global financial crisis, China became an increasingly active participant in the global economic-governance system, asserting its interests particularly in the WTO, but also becoming a leading voice for reform of the IMF and the World Bank. However, Beijing stopped short of advocating wholesale reform of the international economic system and tended to eschew any kind of leadership role within these organisations. As such, China’s behaviour during this period fits with its categorisation as a ‘reform-minded status quo power’ by Ren Xiao, professor at Fudan University.\textsuperscript{15}

**Reshaping global economic governance after the onset of the financial crisis**

In the years preceding the 2008 global financial crisis, scholars had already begun to link China’s economic rise with a broader power shift from West to East, and specifically from the US to China.\textsuperscript{16} In geo-economic terms, this power shift was catalysed by China’s accession to the WTO, which by stimulating Chinese export growth contributed to China becoming a net international creditor with a rapidly expanding stock of foreign-currency reserves.\textsuperscript{17} These vast reserves have fuelled large-scale acquisitions of US and other government debt, significant overseas investments undertaken by China’s sovereign wealth funds and state-owned enterprises, and intergovernmental loans from China’s policy banks. This expanded overseas footprint has given the country vastly greater political influence, and is fundamentally altering the balance of power in the international financial system.
The eruption of the current financial crisis, with its epicentre in US and European financial markets, only served to emphasise China’s geo-economic rise: the West, in the form of both financial institutions and governments, now needed China’s urgent cooperation and assistance to stabilise the world economy and stave off a depression. Perhaps predictably, this sudden change in the international situation significantly altered the tone of China’s engagement in global economic governance.

To Chinese observers, the crisis underlined the inherent unfairness and Western bias of the main institutions of global economic governance. It also erupted in the midst of an extended period of national navel-gazing about China’s rise and role in the world, epitomised by nationalistic books such as China is Unhappy.18 Taken together, this led to increasing assertiveness and self-confidence, verging on hubris, in China’s overall diplomatic posture and, noticeably, in its rhetoric about global economic governance.

It was in this context that Wen made his call for the establishment of a new world economic order at Davos in 2009. It was also in this context that Zhou Xiaochuan, governor of the People’s Bank of China, the Chinese central bank, wrote an article calling for the overhaul of the international monetary system and the replacement of the US dollar as the global reserve currency with the IMF’s basket of special drawing rights.19

China’s engagement on global economic-governance issues since the beginning of the financial crisis has been mixed, with Beijing proactively engaged and working inside the system in some areas, while working outside the system on others. In Shambaugh’s terms, China has taken a ‘moderately revisionist’ approach in which it seeks to selectively alter the ‘balance of influence’ within existing institutions, while also establishing alternative institutions and norms.20

The G20

Before the G20 Leaders’ Summit was established as the premier forum for addressing global economic issues in late 2008, the G7/G8 arguably formed the core steering group of the global economic-governance system. Beijing had always been suspicious of the G7, questioning its legitimacy and authority to set the agenda on global issues, and viewing it as an elitist club,
potentially hostile to China. The admittance of Russia did not alter Chinese scepticism, and China was never seriously interested in forming a G9 (nor was it ever invited to join).\textsuperscript{21}

A number of Western commentators briefly suggested that China and the US could form a ‘G2’ to address the most pressing global problems. This narrative received much popular attention in China, as it seemed to suggest that China’s re-emergence as a great power was now globally recognised. However, the concept was never taken seriously by Chinese policymakers, as it clashed both with China’s pretensions to developing-country status and with the fact that China still does not feel ready to take on a leadership role in global economic governance commensurate with its economic weight.

Against this backdrop, the emergence of the G20 has been warmly welcomed by China. The G20 strengthens Beijing’s position at the top table of global economic governance, putting it on an equal footing with Washington, but the diversity of the group provides cover for its ongoing claims to developing-country status and to representing the Global South (even if China was initially criticised by many G77 states for its positive engagement with such an exclusive grouping). China surprised some observers with its constructive approach at the G20 in 2008–09, particularly with its commitments in 2008 to invest $586 billion in domestic-stimulus spending to shore up the Chinese economy (and thereby contribute to global stability), and in 2009 to contribute $40bn to reinforce the IMF, as well as its active role on the Financial Stability Board.

However, following the initial progress and consensus of the early G20 summits, China has lamented the lack of subsequent momentum. As early as 2011, senior Chinese officials were urging G20 leaders to ‘take strong steps in facilitating the shift of the role of the G20 from a short-term mechanism for crisis response to a long-term mechanism for economic governance’, and this remains a frequent refrain.\textsuperscript{22} At the heart of China’s frustration with the G20 is the failure to make substantive progress on broader institutional reform, and especially on implementation of the October 2010 agreement on IMF quota and governance reform that would give greater representation to developing countries.\textsuperscript{23}
Equally, Beijing has been frustrated by a perception that other member states, centred around a core of the US and other G7 countries, have tried to use the G20 as a forum to criticise its domestic economic policies (notably, its alleged exchange-rate manipulation and associated balance-of-payments current account surplus). But that particular boot is now on the other foot, with China leading criticisms of the US, Japan and the United Kingdom for the spillover effects of their own unconventional monetary policies.

In early 2013, Robert Wade, professor at the London School of Economics and Political Science, bluntly articulated the same view in a letter to the Financial Times:

Western states have been remarkably effective in co-ordinating actions to block the big and fast-growing developing countries from acquiring substantially more influence in global governance organisations. The Group of 20 heads of government is still run mainly by the G7, and in any case has languished in ineffectiveness after the first three summits in 2008–09.24

Despite its frustrations with the current order, China’s approach to the G20 is a prime example of its willingness to work cooperatively and constructively within the existing global economic-governance system. Beijing views the group as the cornerstone of the economic-governance architecture, and is willing to act within its framework to achieve global public goods (in this case, global economic and financial stability). China has also recently expressed a strong desire to host the group’s summit in 2016, which may portend a greater interest in playing more of a leadership role.25 However, China’s engagement at the G20 on broader institutional reform makes clear its unfulfilled desire to alter the balance of power within international financial institutions to reflect the increasing economic strength of developing countries.

**Overseas aid and development policy**

Overseas aid has become both a key source and a key tool of China’s increased global influence, but has also generated significant controversy.
Although China is a member of the main multilateral development banks, it sits outside the Organisation for Economic Co-operation and Development (OECD) and so does not have to follow the standards set by the body’s Development Assistance Committee – the self-appointed ‘venue and voice’ of the world’s leading bilateral donors, and the main development and aid component of the global economic-governance architecture. As such, overseas aid is an area in which China has tended to work outside the rules of the game established by the West, and has frequently been accused of undermining established international-development norms.

China’s lead agency for overseas aid, the Ministry of Commerce, tends to view aid very much through a commercial prism. Thus, China’s development assistance to Africa in particular has gone alongside its rapidly increasing commercial interests on the continent. This assistance has been typified by generous loans, untied to any domestic-governance reform (required for much multilateral development-bank and IMF lending) but frequently conditional on employing Chinese labour in subsequent building projects or on supplying guaranteed amounts of resources to China in return. Beijing has also courted controversy through its overseas assistance to the likes of Zimbabwe and Sudan. As Shambaugh has said, ‘China’s aid often undercuts the goals and conditions of good governance and best practices – while rewarding some of the world’s worst dictators and most corrupt and repressive regimes.’ The Chinese government, sensitive to such criticism, accuses the West of hypocrisy and double standards, particularly with reference to its engagement with the likes of Muammar Gadhafi’s Libya.

Since the start of the financial crisis, as traditional donor countries have cut their aid budgets due to domestic fiscal tightening, China has looked to expand its overseas aid, investing more of its foreign reserves in development loans. Chinese scholar Pang Zhongying has suggested that ‘China is emerging as a sort of new World Bank’, and points out that in 2010 China’s development assistance surpassed that of the World Bank. The scale of China’s overseas assistance is well illustrated by the balance sheet of China Development Bank, the so-called ‘superbank’, which since 2001 has lent more to Africa than the World Bank, and which between 2008 and 2012 loaned $40bn to Venezuela alone.
However, although China’s overseas aid has continued to expand since the beginning of the financial crisis, providing further evidence of the relative increase in China’s geo-economic power, there are also signs that the country is looking to administer more of its aid multilaterally. In particular, China has recently committed $2bn to the Inter-American Development Bank’s China Co-financing Fund for Latin America and the Caribbean to support public- and private-sector projects that promote sustainable economic growth in the region. China is also currently discussing a similar ‘innovative co-financing mechanism’ with the African Development Bank to promote infrastructure and private-sector development in Africa. Finally, the new Chinese leadership has pledged to work more closely with the World Bank, and is exploring co-financing loans made by the organisation.

These are positive developments, and show that China is willing to meet the transparency and monitoring requirements for aid imposed by multilateral development banks. More broadly, this suggests that overseas aid may be another area where Beijing is willing to play by the established rules of the game, and work within the existing economic-governance system. However, it is likely that China, and specifically the Ministry of Commerce, is motivated by more practical concerns: on the one hand, by the backlash against Chinese investment in parts of Africa and Latin America; and on the other, by the realisation that managing an ever-increasing pool of loans – and doing so without losing money – requires the professionalism and experience of established multilateral development banks.

Moreover, at the same time that China is seeking to administer more of its overseas aid through established multilateral development banks, it is also leading discussions in both the BRICS group and the SCO about establishing new development banks that are completely independent of Bretton Woods institutions. Thus, overseas aid is an area where China displays a willingness to work within the established system of global economic governance, while at the same time pursuing independent alternatives.

Regional and ad-hoc groupings
In parallel to its energetic engagement with the G20 and the established institutions of global economic governance since the onset of the finan-
cial crisis, China has been active on a number of fronts to develop and strengthen alternative groupings and relationships outside of the established global order. The most prominent of these is the BRICS grouping, which (as BRICs, prior to the addition of South Africa) originated in the catchy title of a Goldman Sachs research report but has subsequently grown into a semi-formal intergovernmental grouping with all the paraphernalia of annual leaders’ summits and their communiqués.33

There is no natural empathy between BRICS countries, with the democracies of Brazil, India and South Africa harbouring more liberal political instincts than either China or Russia, and China facing heated criticism from Brazil in particular over the perceived weakness of its currency. The reluctance to discuss security or other sensitive political issues within the BRICS means the fundamental disagreements are generally kept beneath the surface, but such fissures are likely to hamper any attempt by the group to become a more influential voice on the international stage.

The 2013 BRICS Summit declaration was replete with platitudes about enhancing cooperation and representation for the developing world, and also re-emphasised the intention to create a BRICS development bank (first mentioned at the 2012 summit), as well as a commitment to create a $100bn ‘contingent reserve arrangement’ to tackle future financial crises in the BRICS economies.34 China has been a driver of both, expressing its desire to host the proposed bank’s headquarters, pushing to provide the largest share of its capital and already nominating a high-profile banker to lead Chinese planning and strategy for the institution.35

Predictably, much discussion of the proposed BRICS bank has focused on whether it is further proof of the West’s relative decline, and whether the bank would be, as Carnegie scholar Jan Techau has put it, ‘the embodiment – and enabling instrument – of an alternative model of global governance’.36 Such speculation is overblown for now, as there are significant political hurdles to overcome before the BRICS bank can become a reality, but both the bank and the contingent reserve arrangement are potentially important
steps on the road to creating an institutional framework around the grouping. Beijing has repeatedly asserted that ‘the BRICS help improve rather than replace the existing international order’, and stressed more generally that new international groupings serve to improve governance and reform of the existing institutions.37

Separate to the BRICS, China has also begun to take a greater interest in the SCO’s economic potential. The organisation was founded as a military and security confidence-building mechanism but the 2012 summit in Beijing brought economic issues to the fore with the adoption of a strategic development plan and an agreement in principle to establish an SCO development bank.38 The SCO bank proposal has attracted much less media attention than its BRICS counterpart, but Russian officials have recently suggested that concrete proposals will soon be announced and that such an institution may be more politically straightforward to create than a BRICS bank.39 The Chinese leadership does not publicise its role in the SCO as much as it does its work within the BRICS, but we should still see China’s engagement with the SCO as another strand of its efforts to diversify the playing field of global economic governance away from the Western-dominated institutions.

Similarly, since the start of the global financial crisis, China has also tried to strengthen its relations within its own neighbourhood. On the political level, this has largely failed, with Chinese assertiveness over issues such as sovereignty disputes in the South China Sea being perceived increasingly as a threat, and leading other regional powers to call for renewed US activism in the Pacific region (as well as contributing to the Obama administration’s decision to announce a ‘pivot’ to Asia). However, progress in the economic sphere – particularly in trade – has been more successful, with the free-trade area encompassing China and member states of the Association of Southeast Asian Nations (ASEAN) finally coming into effect in 2010, and China now considering free-trade agreements with Japan and Korea. Beijing is also seeking to complete negotiations over the ‘Regional Comprehensive Economic Partnership’ to bring together ASEAN countries and six other regional states by the end of 2015.40
This renewed regional focus can be seen as an attempt to increase China’s voice in regional economic governance, at a time of relative deadlock elsewhere (particularly in Doha Round negotiations). At the same time, China sees itself as being on the receiving end of US-initiated free-trade agreements designed to contain China in Asia and beyond. Chinese commentators have argued that both the proposed Trans-Pacific Partnership (TPP) being driven by the US with 11 other Pacific nations and the US–EU Transatlantic Trade and Investment Partnership demonstrate an ‘anyone but China’ approach, and are aimed at keeping China out of a new wave of trade liberalisation and restricting its economic rise.41

However, although the TPP has been held up as a focal point for tensions in the US–China relationship over the coming years, there are recent signs that Beijing may be softening its opposition to the scheme. A December 2012 article in the journal of an influential Chinese government think tank was an early voice in favour of Beijing keeping an open mind to joining the TPP, and a Ministry of Commerce spokesman confirmed in May 2013 that China would study the pros and cons of becoming a member.42 Optimists hope that this could presage a round of domestic reform similar to that which preceded China’s accession to the WTO, and tie US and Chinese interests firmly together within a new set of institutional rules and norms.43 It is nevertheless possible that China’s late interest in the TPP could simply be a ruse to gain a better understanding of US and Japanese intentions, and to slow down the overall negotiating process.

While the official rhetoric continues to emphasise China’s deep commitment to the established global-governance architecture, recent Chinese engagement with the BRICS and the SCO, as well as efforts to build a range of regional economic partnerships, all suggest that Beijing is actively trying to build a set of parallel groups and networks that are independent of and insulated from Western, and particularly US, influence. These alternative groupings have neither the institutional coherence nor the political drive behind them to make a meaningful mark on the global-governance landscape any time soon, but the BRICS group in particular has the potential to grow in stature and could develop into an influential voice on the world stage. China will be at the heart of such developments.
Prospects for the future

China is at an inflection point in its geo-economic rise, with the hubris and sense of economic superiority engendered by the apparent failure of the Western capitalist system in 2008 giving way to serious concerns about the sustainability of its own economic-growth model and the vital need for domestic macroeconomic reform. This means that, for the foreseeable future, the primary driver of China’s international behaviour will continue to be its domestic economic development and pursuit of social stability, and issues of global economic governance will only be prioritised where they intersect directly with domestic priorities.

This does not imply that China will be stepping back completely from global economic governance, and there are some limited signs that the country is becoming more confident in its international engagement. Indeed, its active lobbying to host the G20 in 2016 suggests that it may be prepared to take on more of a leadership role in future. But there is still no blueprint for Beijing’s vision of global economic governance and the international applications of former Chinese President Hu Jintao’s ‘harmonious society’, and now his successor Xi Jinping’s ‘Chinese dream’, offer little more than generalities about contributing ‘positively to the realization of the dream of the world for enduring peace and shared prosperity’.

Thus, we should not expect a radical new Chinese vision of global economic governance, beyond continuing generalisations about win–win development, because China recognises that it is doing well within the existing system. What we will continue to see is Beijing’s frustration with the perceived structural unfairness of the Western-dominated system of global economic governance and a desire to speed up the reform of existing institutions. At the same time, although China will continue to operate broadly as a rule-taker within the existing system and will continue to burnish its responsible-stakeholder credentials, we should expect to see continued efforts by Beijing to develop and strengthen alternative groups and networks, such as the BRICS, as well as significant bilateral aid flows invisible to outside scrutiny. In this way, China will continue its modest steps to dilute the power and authority of the West.

At present, groups such as the BRICS lack consensus and a concrete policy agenda, so they are unlikely to make a significant dent in the author-
ity of the established governance institutions in the near term. Moreover, Chinese officials go to great lengths to emphasise that these ‘new international groupings may help promote the reform of existing international economic governance’. However, the energy with which Beijing is pursuing its engagement with such parallel structures suggests that it intends for them to form part of a broader system of global economic governance, with China playing a pivotal role. Beijing lacks a detailed vision of what such an alternative system would look like, but the relationships and structures will already be in place should that change. Therefore, although suggestions that China’s rise presents a fundamental challenge to the established order are exaggerated, there are scenarios in which the country might retreat towards alternative governance arrangements.

Domestic and global economics will be key variables. Deeper economic malaise or a severe financial crisis could precipitate more inward-looking or protectionist policies from China and lead to gradual disengagement from global economic institutions. However, this risk should not be overblown as China is now so embedded in the global trading system, with wide-ranging international investments and more and more firms with overseas interests, that it has become a strong voice in favour of trade liberalisation and coordinated global solutions. More likely, just as after the 2008 crisis, another economic disaster would see China adopt the parallel strategy of working through the established governance channels to push for markets to stay open, while also deepening its engagement with regional and emerging markets to find alternative sources of growth.

A more unpredictable variable will be China’s relations with other states, particularly those within the Asia-Pacific region and, by extension, the US. While cordial US–China relations should ensure the ongoing primacy of the established order, a serious crisis in this relationship would accelerate China’s efforts to establish and strengthen alternative structures. Such a crisis would likely be centred on East Asia, with the US and China vying for influence there, and would lead to calls from both Beijing and Washington to keep the other side out of regional structures.

Even in the midst of a serious bilateral spat, US–China economic interdependence would still be high, but the impact on the system of global
economic governance could be dramatic. Under such circumstances, international institutions would be significantly less relevant and hampered from constructively addressing global challenges. The whole basis of the current liberal order would therefore be undermined.

Fortunately, despite numerous thorny issues in the US–China relationship, the tone of the first Xi–Obama summit, held at Sunnylands in June 2013, was positive, and Xi has set about defining his concept of a so-called ‘new type of great power relationship’ with the US, precisely to overcome the common tensions that arise between incumbent leaders and their challengers in the international system. At the same time, it is an encouraging sign that both Beijing and Washington are now at least paying lip service to the idea of China joining the TPP. Just as a fragmented network of ‘mini-lateral’ agreements risks undermining the overall coherence of the global governance system, so any moves to bind the US and China together with further ties in broader-based institutions and agreements should strengthen global economic governance.

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Beijing is seeking neither to overturn the existing order nor to completely adhere to the status quo. China eschews a simplistic narrative by accepting, and even engaging fairly constructively with, many of the established rules and norms, and ignoring others completely, while taking steps to develop parallel networks and institutions. For now, the official justification for this behaviour, very recently espoused by Chinese Ambassador to the US Cui Tiankai, fits plausibly with most of the facts:

You cannot say that the rules that were set up half a century ago can be applied without any change today. But what we want is not a revolution. We stand for necessary reform of the international system, but we have no intention of overthrowing it or setting up an entirely new one.47

Sustaining and strengthening the existing global economic-governance system will require sensitivity to Beijing’s concerns that does not compro-
mise values or standards. Three key areas will be: making rapid progress to address China’s legitimate grievances about the under-representation of the developing world in the global economic-governance architecture, most notably through implementation of the 2010 agreement on quota and governance reform; demonstrating to Beijing the ongoing value and relevance of the G20, and encouraging China’s interest in playing more of a leadership role; and, finally, ensuring Washington and Beijing work closely together on future governance initiatives, for example through encouraging China’s interest in joining the TPP. If these conditions can be met, notwithstanding any major domestic political or economic shocks, the global economic-governance system will be able to successfully accommodate China’s geo-economic rise.

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Notes


9 Shambaugh, *China Goes Global*, p. 125.


11 In a June 2013 meeting with UN Secretary-General Ban Ki-moon, Chinese President Xi Jinping pointed out that ‘the United Nations carries the hope of people all around the world and shoulders a lot of important missions’. Ministry of Foreign Affairs of the People’s Republic of China, ‘President Xi Jinping Meets with UN Secretary-General Ban Ki-moon’, 19 June 2013, http://www.fmprc.gov.cn/eng/zxxx/t1052186.shtml.


18 Song Xiaojun et al., *Zhongguo bu Gaoxing: Da Shidai, Da Mubiao, Ji Women de Neiyouwaihuan* (Nanjing: Jiangsu Renmin Chubanshe, 2009).

19 People’s Bank of China, ‘Zhou Xiaochuan: Reform the International

20 Shambaugh, China Goes Global, p. 125.

21 Former Chinese President Hu did attend a number of G8+5 meetings, but the last of these took place in 2009 and China now pays scant attention to the G8. Chinese media coverage of the 2013 G8 summit was derisory, generally focusing on Russian President Vladimir Putin’s efforts to avert a strong G8 statement criticising Syrian President Bashar al-Assad.


23 The communiqué from the meeting of finance ministers and central bank governors at Gyeongju on 23 October 2010 announced ‘an ambitious set of proposals’ to change the distribution of voting rights at the IMF to benefit developing countries, double IMF members’ capital quotas, shuffle the IMF board and end the current practice of appointing IMF and World Bank heads from Europe and the US respectively. G20, ‘Communiqué: Meeting of Finance Ministers and Central Bank Governors’, 23 October 2010, www.g20.org/load/780983249.


27 Shambaugh, China Goes Global, p. 204.


news-releases/2013-03-16/china-co-financing-fund,10375.html#


47 Cui, ‘Beijing’s Brand Ambassador’.