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Tsinghua Center for US-China Relations

# China's Strategic Choice in Global Economic Governance

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- The global economic governance should reflect the **changing economic weight of emerging economies** in East Asia, Latin America and other developing countries in the world.
- Compared to Latin America and Russian Blocs ,which have already took initiatives demanding bigger says in global economic governance, East Asia as a whole still **lags behind in strategic participation** in the G20 and relevant frameworks for reforming the international monetary system.
- **China is a key member** of the East Asia regional community in shaping global economic governance.



- In July 2009, China has put forward four points on the issue of global governance:
  1. The fundamental goal : **push forward the development of global economy in a balanced, universally beneficial and win-win manner.**
  2. Global economic governance should be participated in by **all the countries around the world.**
  3. Global economic governance requires countries to solve the difficulties caused by economic globalization through **consultations and cooperation.**
  4. Global economic governance requires **appropriate mechanism arrangements.**



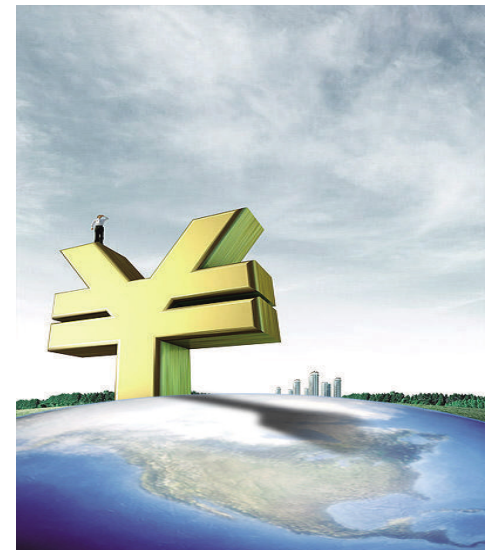
# Questions :

- How are we to understand these claims ?
- Is China adopting a “normative compliance and hard bargaining” strategy in dealing with international financial reform ?
- What is to be done in incorporating China’s initiative into a collective demand of East Asia in the remaking of global economic system ?



# Outline :

- ◆ **China's strategic choice in making China's currency ( RMB ) to an international currency**
- ◆ **The resulting impact for the East Asian community**



- Chinese government believes that it is **a time to reform the international financial system**. However, China is very pragmatic and takes a very complicated approach in dealing with the problem.
  - The current international financial system has a lot of disadvantages in terms of efficiency and representations.  
But it is **impossible to replace it with a new framework**;
  - Before a generally accepted storage currency be formed, **taking USD as the diversified, predominant international currency system** is the most realistic implementation option. Even if RMB can be put into the “basket”, it cannot work unless it is complementary with USD, Japanese Yen, British Pounds or Euro.
  - **G20 should be explored as a platform to facilitate the reform** of the international financial system.



## ■ Three major schools of thoughts in China's strategic choice on international economic governance:

- Maintaining the status quo but calling for a technical reform
- Adding new currencies including RMB into the international monetary system
- Proposing supranational currency in the future



**It seems that China has adopted its strategic choice  
in the following priorities :**



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# The first choice:

- China believes that the immediate goal should be **maintaining a status quo of the current system**. This will further stabilize the exchange rates in this era of global crisis.
- However, China has also **proposed partial reform of IMF and other international monetary institutions**.



# The logic behind this :

- China has been taking advantage of the current system in its economic development over the last three decades.
- China believes that the U.S. is trying to establish a new set of regulations and rules to improve the international financial market; thus, the supremacy of USD can be consolidated.
- China has invested a large amount of money in the U.S., so a radical change in the USD dominance system would hurt China's own interests.





## China's investment in the US treasury bond

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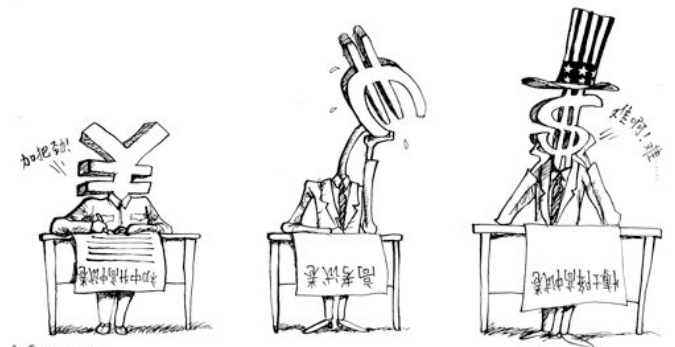


- Under these considerations, China criticizes that the current international financial system has been dominated by developed countries.
- It asks to increase the voting right of developing countries, electing one representative from developing countries as a vice president, expanding the scope of the SDR, and preventing the US from exercising its veto power.



# The second choice:

- China makes it clear that it intends to see the **diversification of the international reserve currencies.**
- In this case, it is making efforts to **“internationalize” its own currency, the RMB.**
- This year, China has signed **agreements with 6 countries exchange RMB for local currencies.** Making RMB a regionalized currency would be a central task for the next few years.
- The purpose is to **counter balance the influence of USD and Euro.**



- **One key element in making one currency to be more “international” is that its country should have some trade deficits with others.**
- **Currently, China has trade deficits with quite a few countries in East Asia, so it is possible for RMB to become a federal reserve currency in these trade surplus countries, thus making RMB a functional regional currency.**



- **China's dilemma, however, lies in the fact that it needs to further open up its domestic financial market and reform its financial system.**
- **In that case, it is almost certain that it will have to face challenges from abolishing some old regulations in accessing the Chinese capital market, further reforming the Chinese bank system and setting up new floating exchange rates with other currencies.**
- **To be more specific, RMB should be traded freely if it is to become an international currency. China is hesitant on this. China will be very cautious on loosening control over its financial market, because the Asian financial crisis had demonstrated a negative effect on this.**



# The third choice:

- The proposition of a supranational currency **in the long run**.
- Although the head of the Bank of China has called for this, the Chinese government understands that the **international community is very sensitive** on this initiative.
- So building up a world National Central Bank that releases single currency in the world would be **a long-term plan**.



# The implications for East Asian community:

- Currently China has focused on shifting growth from exports to domestic consumption and building social security systems for citizens.
- China's overall strategy:
  - take an incremental approach to further open up its domestic financial market
  - make RMB an international currency.
- **Regional cooperation** among various monetary system or **integration of the currency systems** would be China's first choice, which might also inject new dynamics in promoting trade and regional cooperation in East Asia.



- In this sense, East Asian countries can also take **advantage of China's opening up** of its **capital and stock markets**.
- However, because of China's economic expansions in the area, trade conflicts with other countries in the region may also bring about **a backlash of collective resistance to China's initiative**. That would substantially weaken the East Asian position in global economic governance.
- Also, it is predictable that **Japan and China will compete for the leadership** in the future of East Asian monetary cooperation.



Thanks to all!  
Q&A.

