strengths and weaknesses of two different models of political economy, which is too complicated to deal with here. Time will tell whether the Chinese path or the Indian path will prevail or the two paths will eventually meet in the middle point when China and India continue to balance their political economies in opposite directions.

This chapter demonstrates that China made a solid contribution to reduction in global income inequality in 1980–2010, even if we take into consideration the drastic increase in internal inequality in China. But it also shows that this contribution is set to fade or reverse when China's average income level surpasses the world average. The continuation of the historic reduction in global inequality over the past several decades depends on whether other populous poor countries can grow rapidly in the new international context of development precipitated by the China boom. China has surely changed the context of development with its competitive manufactured exports and its huge appetite for raw materials. Whether this context is enhancing or hindering the prospect of development in the developing world varies from country to country. It is therefore uncertain whether the historic reversal of the two-centuries-long trend of polarization between the West and the rest in 1980–2010 will continue into decades to come.

The prospect of economic growth never involves just economic processes. It also depends on the balance of power and relative negotiation advantages and disadvantages among different countries in the international system. We cannot get a full sense of what the future of global inequality will look like unless we seriously consider the influence of geopolitics. Many have claimed that China, making use of its increasing economic influence in the world, has been fundamentally reshaping the global political order by toppling the United States from its position of dominance and that developing countries are empowered politically under the new geopolitical configuration brought about by China's rise. In the next chapter, I show that this perception of China's subversive impact on the global political order is greatly exaggerated.

FIVE

A Post-American World?

MANY ASSERT THAT, accompanying the economic rise of China, the global political center of gravity has been shifting from West to East and from developed countries to developing ones. British writer Martin Jacques's book *When China Rules the World* (2009), discussed in the introduction, is an example of this argument. Roger Altman, a veteran investment banker and former deputy secretary of the U.S. Treasury, published the article "The Great Crash, 2008: The Geopolitical Setback for the West" (2009) in *Foreign Affairs* in the wake of the global financial crisis, arguing that the West's financial distress and China's continuous robust economic performance were accelerating the waning of American's global power and the waxing of China's. Journalist Fareed Zakaria even titled his 2009 best seller *The Post-American World*, seeing the rise of China at the expense of the United States as a global power shift comparable to the rise of the West during the Renaissance and rise of the United States in the twentieth century.

This stipulation of China's rising global power at the expense of the West in general and of the United States in particular is in fact a continuation of the theme of U.S. decline raised since the 1970s. This theme crosses the left–right divide and is shared by conservative, liberal, and radical authors. For example, looking closely at the U.S. defeat in Vietnam and its persistent fiscal, economic, and sociopolitical crises in the

1970s, in conjunction with economic challenges from West Germany and Japan, Marxian world-system analysts reason inductively that the United States had entered a phase of hegemonic decline just as the United Kingdom did in the early twentieth century and as the Dutch did in the eighteenth century (Wallerstein 1979; Arrighi 1994; Arrighi and Silver 1999; Chase-Dunn et al. 2005). Drawing on experiences of past hegemonic transitions from the Dutch to the British and from the British to the Americans, world systemists have for several decades enthusiastically looked for potential candidates for a new hegemon that will provide global leadership and reformulate the world system, with Germany (or a unifying Europe) and Japan topping the list in the 1970s through the 1990s. In more recent years, they have started to see China as a plausible new global leader in the twenty-first century, with Andre Gunder Frank's book *ReORIENT* (1998) spearheading such speculation.

From a different vantage point, Samuel Huntington (1996) also sees the long decline of U.S. and Western power in politicomilitary, demographic, and economic terms. He argues that territories controlled by Western powers have been receding ever since the decolonization movement began in the mid-twentieth century. Demographically, low birth rates have been turning the Western population into a minority in the world. Economically, the "Sinic" world has been roaring ahead and in this view is poised to replace the Western world as the world's economic center. Huntington purports that the Sinic world, empowered by its newfound economic might, is becoming increasingly assertive and is developing an alliance with the Muslim world, which has been predisposed to hate Western civilization. The shift in global power from the West to the East will eventually lead to a showdown between Western civilization and the Sinic–Islamic alliance.

This persistent view of the decline of the West and the concomitant rise of China's global power has become so popular that U.S. politicians have started running campaign commercials accusing their opponents of being responsible for American decline and an imminent Chinese domination of the country.[1] But more sober writers find that the perception of falling U.S. global power and the rise of China as a new subversive superpower may be exaggerated and that China is little more than a status quo power in the international system (see, e.g., Johnston 2003; Shambaugh 2013). The situation is the same as when talk of the rise

of Germany and Japan as challengers to the United States back in the 1970s was exaggerated. In this chapter, I discuss how the decline of U.S. dominance in world politics, although true, has been slowed and delayed thanks ironically to support from its supposed challengers, China above all. I also discuss how China has both helped to perpetuate the existing U.S.-centered global neoliberal order and reshaped the balance of power in this order at the same time. The crux of these paradoxes is the U.S. dollar's persistent hegemony in the world economy.

World Power and World Money

After three decades of discussion about a U.S. decline, some scholars have started to find anomalies in this thesis, despite the similarities of this supposed decline to earlier hegemonic declines —that is, the eighteenth-century Dutch decline and the early-twentieth-century British decline. For example, Giovanni Arrighi (1994) notes that the United States, even with the absolute economic supremacy that it once enjoyed in the 1950s and 1960s gone, has managed to maintain a military apparatus that is still far beyond challenge by any other major capitalist power. In particular, Europe and Japan, the two economic powers that at one time posed grave challenges to the United States, have only negligible military capability and depend on the United States for their security needs. This military superiority leads Arrighi to postulate that one possible post-American-hegemony scenario would be a U.S.-centered global empire, which would rest on America's unmatched means of coercion around the world.

Moreover, the economic challenge that Japan and Europe once posed to the United States has been unsustainable. Japan has sunk into an economic quagmire since the 1990s, and Europe's integration encountered huge obstacles when nationalist sentiments against the European Union rose in the 2000s and when the euro crisis erupted after 2008. Moreover, the U.S. share of world GDP has not declined as dramatically as the hegemonic decline thesis suggests, dropping from a height of 39 percent in 1960 to 23 percent in 2010 (figure 5.1) (World Bank n.d.). Leo Panitch and Sam Gindin (2012) even claim that U.S. global power fully recovered from the economic crisis and the setback in Vietnam in the 1970s and reached its zenith by the 2000s, when it successfully imposed the global

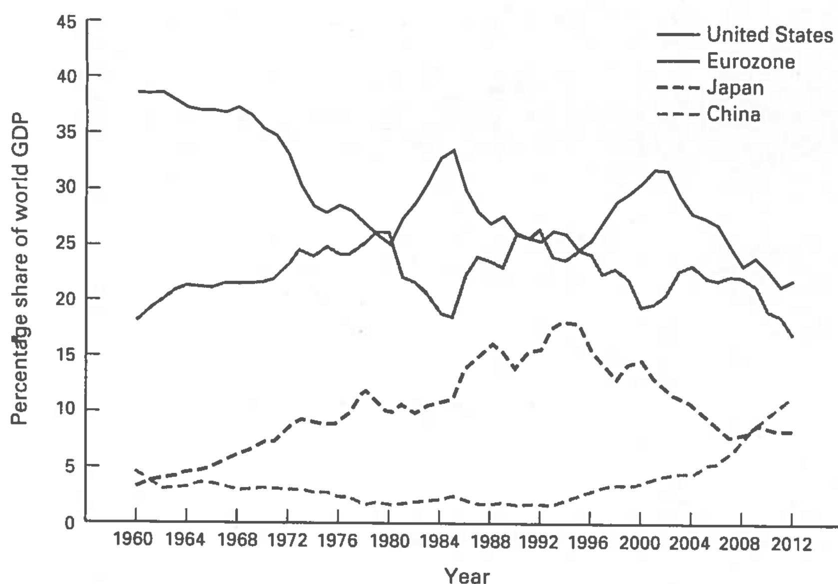

FIGURE 5.1

Share of world GDP in current U.S. dollars, 1960–2012. *Source*: World Bank n.d.

neoliberal order on all corners of the post–Cold War world. The productive and state capacity of the United States has in truth deteriorated from the 1970s to today, as illustrated by its worsening current account and fiscal deficits, but the question is how and why it can still hold up its economic dominance and sustain a formidable military apparatus.

Looking closely, we find that the persisting U.S. economic and military power is attributable largely to the ongoing status of the U.S. dollar as the most widely used reserve currency and international transaction currency in the world for the past thirty years. The internationally dominant status of the dollar, which many refer to as the "dollar standard" (e.g., Bai 2012), allows the United States to borrow internationally at low interest rates and to print money to repay its debt as a last resort. This capability to borrow in its own currency has permitted the United States to solve many instances of domestic economic malaise and to maintain the most enormous, active war machine in the world through external indebtedness, while avoiding the kind of debt crises that have wreaked havoc on many developing economies because they have had to borrow

in creditors' currency (mostly U.S. dollars). Some refer to the exceptional advantage the dollar standard confers to the United States as an "exorbitant privilege" (Eichengreen 2011) or an extreme form of seigniorage, under which all foreign private and public institutions relying on the dollar as the medium of economic activities are effectively paying tribute to the United States. Ironically, the persistence of this exorbitant privilege is now being maintained by the rise of China as the biggest foreign holder of U.S. dollar–dominated assets, mainly in the form of U.S. Treasury bonds. To understand this dynamic, we must first look to the historical trajectory of the dollar's rise to its status as a hegemonic currency and why this hegemonic status was not destabilized by successive economic challenges to the United States from Germany and Japan.

The post–World War II global hegemonic role of the dollar was sealed in the Bretton Woods Conference of 1944, which established the dollar's gold convertibility under the promised rate of thirty-five dollars for one ounce of gold. It also established the pegs of major currencies to the dollar in the capitalist world. The dollar standard was further facilitated by the postwar Marshall Plan, which vastly elevated the dollar's liquidity in the world economy. This arrangement enabled the dollar to complete its replacement of British sterling as the dominant currency in foreign-exchange reserves and international trade around the globe. The stability of the resulting global monetary order in the 1950s and 1960s was warranted by America's enormous gold reserve (two-thirds of the world total), current-account surpluses, and unparalleled competitiveness in the world economy as well as by the rise of London's Eurodollar market, where the abundant offshore dollars in the world economy, including the dollars held by Soviet bloc countries, began to be traded and invested. The dollar standard was not only a reflection of American prowess but also a means through which the United States provided leadership to the capitalist world, securing a stable monetary environment for growth.

The collapse of the Bretton Woods system in 1971 can be traced back to the rising productivity of Europe, West Germany in particular, and of Japan in the 1960s following their full recovery from World War II. Increasing international competition, coupled with the rising wage demand of domestic organized labor and the escalating fiscal and current-account deficits incurred by the troubled U.S. involvement in Vietnam, led to a run on the dollar and the outflow of gold reserves from the

United States. Nixon was left with few choices but to suspend the gold convertibility of the dollar in 1971, forcing other major capitalist economies to undo their currencies' peg from the dollar. The abolition of gold convertibility allowed the United States to attempt to reduce its current-account deficit and to revive its economic competitiveness through dollar devaluation.

Upon the collapse of the Bretton Woods system, many predicted the end of the dollar's hegemony and the rise of a multipolar global economic order grounded on more or less even domination by multiple major currencies such as the yen and the Deutsche mark. Attempts abounded to forecast the trajectory of the dollar's decline by drawing parallels to sterling's decline in the early twentieth century (e.g., Strange 1971). What is puzzling is that this predicted multipolar moment never came, and the dollar's hegemony continued for four more decades, up until today. Even with the formation of the euro as a competitor, the dollar remains the most widely used reserve currency in the world (see figure 5.2).

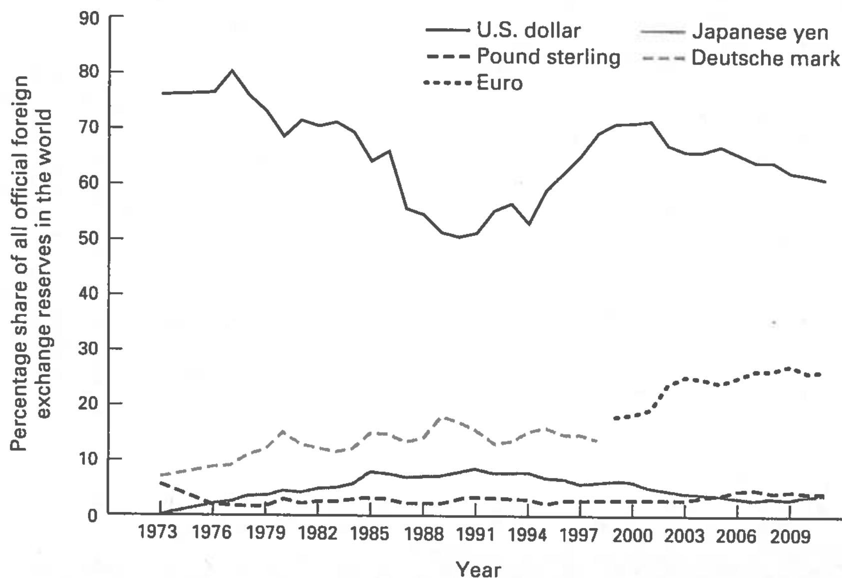

FIGURE 5.2

Shares of currencies in identified official holdings of foreign exchange in the world, 1976–2012. *Source*: International Monetary Fund n.d.c.

TABLE 5.1 Currency Distribution of Global Foreign-Exchange Market Turnover (Percentage out of 200)

	1998	2001	2004	2007	2010	2013
U.S. dollar	86.8	89.9	88.0	85.6	84.9	87.0
Pound sterling	11.0	13.0	16.5	14.9	12.9	11.8
Deutsche mark	30.5					
French franc	5.0					
Japanese yen	21.7	23.5	20.8	17.2	19.0	23.0
Euro		37.9	37.4	37.0	39.1	33.4
Mexican peso	0.5	0.8	1.1	1.3	1.3	2.5
Chinese yuan / RMB	0.0	0.0	0.1	0.5	0.9	2.2

Source: Bank for International Settlement 2014.

The same can be said regarding the use of the dollar in international transactions (see table 5.1). The euro did not in fact gain much ground in comparison to the global use of Europe's national currencies combined before its launch. Although the dollar's hegemony under the Bretton Woods system was a manifestation of overwhelming U.S. economic might, its lingering hegemony after the Bretton Woods collapse was the most significant lifeline that the United States relied on to slow its economic decline. The hegemony of the dollar, as a fiat money since 1971, lasted even longer after Bretton Woods than under Bretton Woods.

The dollar's lasting prowess was first made possible by the exchange between the United States and its military allies during the Cold War period, when the former provided a security umbrella and weapons in exchange for the latter's support of the use of dollars in trade and foreign-exchange reserves. Numerous episodes at the height of the Cold War illustrate well the role of U.S. global military domination in warranting the dollar standard, when the governments of America's European allies were requested to support the dollar by increasing their purchase of dollar instruments and U.S. military supplies, paid for in dollars, under the explicit threat of a reduction of U.S. troops stationed in their countries. Such reduction could have immediately generated a security crisis, forcing those governments to increase military spending

to pick up the slack (Gavin 2004; see also Eichengreen 2011: 71). Susan Strange (1980) notes that West Germany has always been the "obedient ally" that pays significant contribution to the maintenance of the dollar standard, which it did even after U.S. gold convertibility was suspended in 1971 (see also Eichengreen 2011: 71). Regarding other countries dependent on U.S. military protection, some analysts even find a positive correlation, which extends far into the post–Cold War era, between the number of U.S. troops deployed in a country and that country's use of dollars (Posen 2008). As shown in column one of table 5.2, before the 1990s countries that purchased the most U.S. Treasury bonds as part of their foreign-exchange reserve mix tended to be the ones that hosted the largest U.S. military bases.

This dollar–security nexus ensured that the dollar would remain the dominant foreign-reserve currency in western Europe and Japan. It also ensured that the monarchial and authoritarian oil-producing states, which needed U.S. protection even more, would invoice their oil exports in dollars. Large-scale governmental purchases of dollar instruments by key capitalist powers and the use of dollars in oil and arms trades

TABLE 5.2 Global Ranking of U.S. Military Base Size in the Top-Five Foreign Holders of U.S. Treasury Bonds

1988		2000		2009	
Top-5 Holders of T-Bonds	*Ranking of Military Base Size*	*Top-5 Holders of T-Bonds*	*Ranking of Military Base Size*	*Top-5 Holders of T-Bonds*	*Ranking of Military Base Size*
Japan	3	Japan	2	China	n/a
Germany	1	United Kingdom	5	Japan	3
United Kingdom	4	China	n/a	Brazil	n/a
Canada	n/a	Germany	1	Russia	n/a
Belgium	16	Taiwan	n/a	Taiwan	n/a

Note: Size of U.S. military base measured in total number of military personnel stationed in the country concerned.

Source: Data compiled by the author from U.S. Department of Defense n.d.; U.S. Treasury n.d.

accounted for this currency's vast market liquidity, motivating private enterprises and other governments to use it for their reserves and trade settlement.

This geopolitical support of the dollar's hegemony remained unchallenged until the end of the Cold War in the early 1990s. With the Soviet bloc as a common security threat gone, regional powers used to being held hostage by the U.S. security umbrella tried to break free of the U.S. dollar–security nexus. The Maastricht Treaty of 1992, which presaged the rise of the euro, was an explicit attempt to create a new currency that would rival the dollar. But Europe's continuous dependence on the United States to defend its geopolitical interests, as shown by the Kosovo War in 1999, as well as the lack of a centralized monetary authority and fiscal integration in the eurozone have been undermining the ascendancy of the euro as a true alternative to the dollar (see Gowan 1999, 2004; Krugman 2012; Hung 2013). Some even speculate that one reason for the U.S. invasion of Iraq in 2003 was the need to preempt the realization of an Iraq–Europe pact under which Iraq would denominate its future oil exports in euros in exchange for Europe's support of the lifting of United Nations sanctions against Iraq. This deal, if it had materialized, would have unsettled the dollar's grip on the oil market and enhanced the euro's status as an international currency at the expense of the dollar (Gulick 2005).

With the U.S. global war machine remaining unchallenged and the euro's inability to displace the dollar, the dollar managed to continue its global dominance after the Cold War. Such dominance during and after the Cold War gave Washington unparalleled leeway to adjust the value of the dollar, either in a unilateral way or through twisting the arms of its geopolitical clients, to meet the needs of the U.S. domestic economy.

Figure 5.3 shows that although short-term fluctuations of the dollar's value might have stemmed from developments beyond Washington's control (such as the Iranian hostage crisis in 1979), Washington's initiatives still have a great deal of influence in steering the long-term direction of the dollar's value. These initiatives, even if they did not target currency issues primarily but were devised to solve specific domestic economic problems such as inflation (see Krippner 2011), led to the alternate appreciation or depreciation of the dollar. Such freedom of action enabled Washington to shape the dollar's value, either boosting its value at the price of a deteriorating current-account deficit (as in the

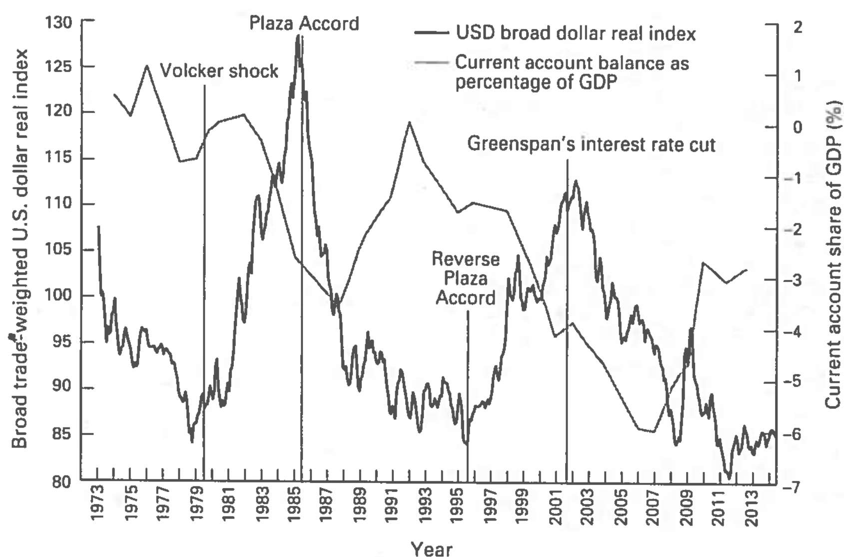

FIGURE 5.3

U.S. dollar trade-weighted currency index and the U.S. current-account balance as a percentage of GDP, 1973–2014. *Source*: U.S. Federal Reserve n.d.; World Bank n.d.

interest-rate hike at the beginning of the first Reagan administration and in the strong-dollar policy adopted by the Clinton administration) or improving the current-account balance at the price of dollar depreciation (as in the Plaza Accord of 1985, when the United States forced Japan and West Germany to appreciate their currencies against the dollar). In this way, Washington has maintained the dollar as a sound currency that is backed up either by an improving U.S. current account balance or by a strong, stable value of the dollar, making the cycle of dollar value and the cycle of current-account balance move in opposite directions. This freedom of action would not have been possible if the United States had not precluded the rise of potentially competing currencies by means of its continuous political-military supremacy in the world (Hung 2014).

But in 2000–2008, the dollar's credibility seemed to be threatened by an unprecedented simultaneous deterioration of the dollar value and of the current-account deficit (see Milesi-Ferretti 2008). This simultaneous deterioration is attributable largely to the rise of China as a formidable low-cost exporter to the United States under a currency peg with the dollar.

China's Addiction to U.S. Treasuries

Chapter 3 noted that the rise of China's export sector was enabled by a series of policy changes in the mid-1990s that precipitated an expanding stream of low-wage rural migrant laborers. This export-oriented path of growth was also facilitated by China's currency peg with the United States that kept Chinese exports competitively cheap. This path is a replication and extension of the earlier export-oriented growth of Japan and other East Asian economies, though on a much larger scale. Japan and the Asian Tigers were loyal allies to the United States during the Cold War because their economic boom was made possible by conscious U.S. policy in their favor to ensure their rise as a capitalist bulwark encircling Communist China. Starting in the 1980s, when the East Asian exporters' tension with China eased and the U.S. fiscal deficit soared as a result of neoliberal tax cuts and escalating military expenditures at the final stage of the Cold War, these exporters, instead of breaking away from the orbit of U.S. hegemony, tightened their ties to the United States by financing its skyrocketing fiscal deficit (see Murphy 1997).

Trade surplus resulting from the export sector and a high savings rate enabled these Asian exporters to accumulate substantial foreign-exchange reserves. They devoted most of these reserves to the purchase of U.S. Treasury bonds, turning themselves into the largest creditors of the United States. Their financing of the U.S. fiscal deficit allowed the U.S. government to expand expenditures while cutting taxes. It also prevented Asian currencies and hence the prices of Asian exports from rising in the U.S. market. It fueled the American appetite for Asian exports, and so the resulting increase in trade surpluses in these Asian economies led to yet more purchases of U.S. Treasury bonds. The two mutually reinforcing processes of increasing Asian exports to the United States and increasing Asian holdings of U.S. public debt continuously deepened East Asia's market and financial dependence on the United States. Asia's massive investment in low-yield U.S. Treasury bonds was tantamount to a tribute payment through which Asia's savings were transformed into Americans' consumption power, prolonging U.S. prosperity but creating a financial bubble in the 1980s and beyond.

China's export-oriented boom is a continuation and escalation of this market and financial dependence on the United States. The Chinese

RMB has been pegged to the dollar since the RMB's 1994 devaluation as an export-boosting measure. After 2001, when the dollar began to weaken following Federal Reserve chairman Alan Greenspan's aggressive interest-rate cuts, China stepped up its purchase of U.S. Treasury bonds to keep the RMB from appreciating against the dollar (Hung 2009c). In 2008, China surpassed Japan as the biggest foreign holder of these bonds (see figure 5.4).

The boom of Chinese exports to the United States under a fixed RMB–dollar exchange rate and the skyrocketing global price of oil, attributable in part to the dollar's depreciation and in part to China's mounting appetite for oil, led to America's deteriorating current-account deficit despite a weakening dollar in 2001–2008. The U.S. current-account balance improved only in the aftermath of the 2008 economic crisis, which forced a contraction in imported consumer goods in the United States. According to one estimation, one-third of the U.S. current-account deficit, which at its height in 2006 amounted to 6 percent of GDP, was due

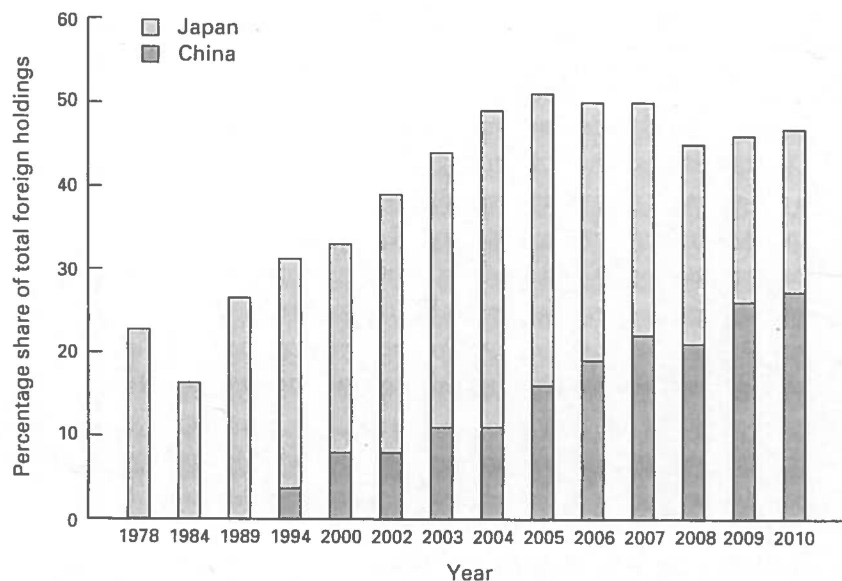

FIGURE 5.4

China's and Japan's holdings of U.S. Treasury bonds as a percentage of total foreign holdings, 1978–2010. *Source*: U.S. Treasury n.d.

to Chinese manufactured imports, and another third was due to petroleum imports (Desai 2007). In 2012, the U.S. trade deficit with China increased to 43 percent of the total U.S. trade deficit (U.S. Census Bureau n.d.). The part of the U.S. trade deficit originating from oil imports is also indirectly related to the China boom and not just because China drives up the price of oil globally. Following the 1970s oil shocks, the U.S. trade deficit with oil producers did not worsen despite the soaring price of U.S. oil imports because these imports were balanced by U.S. exports to many oil-producing countries, including arms exports. This ceased to be the case in the 2000s, when oil producers' increasing exports to the United States were no longer matched by their imports from the United States because their purchase of Chinese manufactured exports rose at the expense of American goods (Blumenthal 2005; *Economist* 2012b; Fardoust 2012).

The level of U.S. trade deficit in China's hands far exceeds the level that all of earlier East Asian exporters had ever attained in total. Many analysts are alarmed that China's massive exports and credits to the United States, unlike the earlier exports and credits from Asian allies of the United States, are posing a threat to the sustainability of the dollar standard and U.S. economic vitality.[2] They worry that the RMB–dollar peg and China's growing and unprecedentedly large contribution to the U.S. current-account deficit have reduced the room for Washington to strengthen the dollar and improve its current-account balance alternately, hence eroding international confidence in this currency. Most of all, many fear that China's hoarding of U.S. Treasury bonds makes the United States increasingly vulnerable to China, which enjoys geopolitical autonomy from Washington and does not rely on U.S. military protection, as earlier leading Asian purchasers of U.S. debt did (see table 5.2 in the previous section). China is theoretically capable of dumping its dollar assets anytime to induce a run on the currency, financial collapse, hyperinflation, and fiscal crisis in the United States. If this happens, it would spell the final disintegration of the global dollar standard.[3]

But upon closer examination, we can see that China's massive purchase of Treasury bonds is not a threat; it is as beneficial to the United States as earlier East Asian exporters' purchase of U.S. debts was. The purchase has helped Washington pay for its ever-growing budget deficit, particularly during the ongoing wars in Iraq and Afghanistan. It also

establishes a floor for the dollar's plummet. According to U.S. Federal Reserve chairman Ben Bernanke's "saving gluts" hypothesis and Niall Ferguson's "Chimerica" thesis, large-scale purchase of U.S. Treasury bonds by China as well as by other emerging economies has facilitated prosperity in the U.S. financial and real-estate markets through its bonds-yield-repressing and hence interest-rate-repressing effect (Bernanke 2005; Ferguson and Schularick 2007). And China's low-cost exports, like those from Japan and the Asian Tigers in earlier times, help keep U.S. inflation low despite a diminishing interest rate in the United States. These benefits from China outweigh the damage it generates—that is, a simultaneous deterioration of the dollar value and the U.S. current-account deficit. It is why on the eve of the global financial crisis of 2008, Washington, although it occasionally complained about the RMB exchange rate and China's obsessive focus on exports, never seriously attempted to change the status quo of the U.S.–China economic symbiosis.

China's purchase of U.S. Treasury bonds has become a compulsion generated by its export-led model of development. China's dumping of these bonds owing to its geopolitical rivalry with the United States is unthinkable. The vested interests that propagated export-oriented growth in the 1990s—composed of coastal provincial governments, export manufacturers and their lobbyists, as well as officials from the Ministry of Commerce—were keen on perpetuating this model, preempting China's transformation to a more balanced developmental model driven by domestic consumption and depending less on the United States (see chapter 6). China's entrenched export-oriented growth makes the Chinese economy vulnerable to any major contraction of consumption demand in the United States and Europe. The Chinese government's large incentive to employ its foreign reserves to purchase U.S. debt is a result not only of the vast liquidity of and presumed stability of returns from U.S. Treasury bonds but also of an effort to secure the continuous increase in U.S. demand for China's exports by helping to prevent a freefall of the dollar, uncontrollable inflation, and an interest-rate hike in the United States. Some even contend that China needs U.S. Treasury bonds more than the United States needs to sell them to China (Morrison and Labonte 2013).

China's addiction to U.S. Treasury bonds is attributable to its trade structure, too. Combining the Sinocentric Asian network of production

TABLE 5.3 China (Hong Kong Included) Trade Balance with Different Economies (in Billion U.S.$)

	2005	2010
World	92.0	143.3
United States	145.4	201.2
European Union	91.1	154.9
Brazil	-5.1	-13.7
Japan	-34.1	-79.3
Korea	-48.8	-79.5
Middle East	-8.3	-23.2
Africa	-3.3	-5.5
Australia	-3.4	-29.6

Source: IMF n.d.a.

discussed in chapter 3 and China's appetite for raw materials from the Global South discussed in chapter 4, China has become a nodal point where raw materials, machines, and components from Asia and other developing countries are put together into finished consumer goods to be exported to the United States and Europe. Although China's overall trade surplus has been growing, it has been running a rising trade deficit with the whole world if we remove the United States and Europe from the equation (see table 5.3). This means that the growth in the value of China's exports to Asia, Latin America, Africa, and other regions has not caught up with the growth of China's import of manufactured components, machineries, and raw materials from these regions. The United States and Europe are the two sole sources of China's trade surplus.

China's exports to the United States, needless to say, are settled in U.S. dollars. Even China's exports to Europe are settled in U.S. dollars instead of in euros. Right after the Great Crash on Wall Street in 2008, some Chinese exporters started to shift their settlement currency in European trade to the euro. But soon thereafter, when the euro crisis deepened, these exporters shifted back to the dollar (Reuters 2010). For example, Natutux Apparel Corp., which exported U.S.$1.5 million worth of fabric for outdoor use to Europe annually, shifted 50 percent of its settlement to euros in 2009 after the dollar was clouded by the U.S.

financial crisis. But in 2010, when it became clear that the euro was in an even bigger crisis, the company cut back on euro settlement to just 5 percent of its exports. Trade officials from Jiangsu, an export-oriented province, explicitly reminded their exporters that "considering the euro's uncertain future, exports to European countries should be settled in yuan if possible. If the buyers do not agree on yuan settlement, then use the dollar." In the end, more than 80 percent of Chinese exports are paid for in dollars (Reuters 2010). As long as China's rising trade surplus comes mostly in dollars, the Chinese central bank has few choices than to invest these dollars in the most liquid and relatively safe dollar-denominated asset—U.S. Treasury bonds.

There have recently been reports about China's activities in using its foreign-exchange reserves to "buy the world" through outward FDI. Chinese companies' acquisition of Volvo Cars from Ford Motor and Chinese SOEs' inroads into the mining and energy sectors in both developing and developed countries from Zambia to Canada attracts a great deal of media attention. But as Peter Nolan (2012) points out, despite these high-profile cases, China's outward FDI is so far of negligible aggregate size in comparison with other major sources of FDI in the world. As Chinese official statistics show (table 5.4), the stock of China's nonfinancial outward FDI by the end of 2010 amounted to U.S.$298 billion (U.S.$317 billion if financial investment is included). This amount is even smaller than the outward FDI from Singapore, a city-state with a much smaller economy than China.

TABLE 5.4 Stock of China's Nonfinancial Outward FDI in Comparative Perspective (in Billion U.S.$)

COUNTRY	1990	2000	2010
China	4	28	298
Russia	n/a	20	434
Singapore	8	57	300
Brazil	41	52	181
India	0	2	92

Source: Davies 2012: table 1.1.

TABLE 5.5 Geographical Distribution of Stock of China's Outward FDI to Selected Economies as of 2010

ECONOMY	PERCENTAGE
Hong Kong	62.8
Asia not including Hong Kong	9.1
Cayman Islands and British Virgin Islands	12.8
Africa	4.1
Europe	5.0
Australia	2.5
United States	1.5
Latin America and the Caribbean (excluding Cayman Island and British Virgin Islands)	1.1
Canada	0.8

Source: Chinese Ministry of Commerce 2011.

China's outward FDI looks even more insignificant if we take into consideration that 63 percent of that amount is FDI in Hong Kong (see table 5.5). The stock of China's outward FDI in places other than Hong Kong is less than U.S.$118 billion, which is less than one-tenth of the Chinese holdings in U.S. Treasury bonds, about U.S.$1.2 trillion. After all, no other market except the U.S. debt market has liquidity deep enough to absorb China's mammoth reserves. Paul Krugman (2009) was not exaggerating when he claimed that China has been caught in a "dollar trap," in which it has few choices other than to keep purchasing U.S. Treasury bonds, thus helping to perpetuate the dollar's hegemonic role (see also Prasad 2014).

This symbiosis between China and the United States, despite occasional squabbles over RMB revaluation and China's responsibility for the worsening U.S. current-account deficit, was strengthened in the aftermath of the global financial crisis of 2008. This is illustrated by the twofold increase in China's holdings of U.S. Treasury bonds between 2008 and 2013 despite its frequent complaint about the asset (table 5.6). China has become the biggest holder of U.S. Treasury bonds, only to be surpassed in 2011 by the U.S. Federal Reserve under the aggressive

TABLE 5.6 China's and Hong Kong's Holding of U.S. Treasury Securities Before and After the Crisis Outbreak in 2008

	CHINA (IN BILLION U.S.$)	HONG KONG (IN BILLION U.S.$)	CHINA AND HONG KONG AS SHARE OF TOTAL FOREIGN HOLDINGS (%)	CHINA AND HONG KONG AS SHARE OF TOTAL OUTSTANDING (%)	FEDERAL RESERVE HOLDING AS SHARE OF TOTAL OUTSTANDING (%)
End of September 2008	618.2	65.5	24.5	11.8	8.3
End of February 2013	1,222.9	143.2	24.1	12.0	15.5

Source: U.S. Treasury n.d.

"quantitative easing" campaign of buying Treasury bonds. China's central bank and the U.S. Fed are now the most important factors in continued U.S. political and economic dominance through supporting the dollar standard.

Though China has the geopolitical autonomy that theoretically enables it to end its dependence on the dollar and even to end the dollar standard, in reality it has been helping perpetuate the standard—and hence U.S. geopolitical dominance—through its insurmountable addiction to U.S. Treasury bonds as the new opium stemming from its export-driven model of growth. The only way that China can cut off this addiction to U.S. debt is to shift away from its export-oriented model, which is not going to happen anytime soon (see chapter 6).

The Chinese government has recently been emphasizing its ambition to internationalize the RMB into a major reserve and international transaction currency as a way to maintain its export-oriented model while reducing its holding of U.S. dollars, hence curbing its addiction to U.S. public debt. But in actuality the Chinese RMB, which is not yet a fully convertible currency, has a long way to go to become a major international currency. Its share in international currency use is minuscule, falling way behind the British pound, the Japanese yen, and even the Mexican peso (see table 5.1). The RMB's rise to the status of a significant international currency will require its full convertibility, which in

turn needs China's financial liberalization. This process will take time, even if the reluctant CCP finally agrees to take the very risky step of fully opening up its banking sector to the global economy (see Ma and Xu 2012). This step is far from an easy choice for the party-state because such an opening would be a blow to its command of the economy via its control of credits. Before any such radical shift takes place, all talk about the death of the global dollar standard and U.S. global dominance will remain little more than hot air.

Asia's Two Minds on China

Though China is not subverting and is even supporting the persistence of U.S. global power through its role as the main creditor of the United States, it has been employing its increasing economic clout as the biggest trade partner of many of its neighbors to attempt to establish its regional domination. The "rise of China" in Asia's regional politics is in fact a "resurgence." Throughout history, China had never been a political power with global reach, but the Chinese Empire did exercise hegemony in Asia until the Western imperial powers entered the scene to shatter the premodern Asian international order. Some do see the trajectory of China's rising power in post–Cold War Asia as at least a partial revival of a Sinocentric regional order, which follows a very different logic than the Westphalia international system developed in Europe and based on balance of power between states. To understand how China's political rise is contributing to the reshaping of the Asian political order, we need to take a look at China's relations with its Asian neighbors since imperial times.

According to Japanese historian Takeshi Hamashita (2008), premodern China's view of the world was dominated by a universalism in which the distinction between entities "inside" the empire and those "outside" the empire was not clear cut. The world in China's imperial view was made up of concentric circles, with the emperor at the center, directly governed provinces in the circle around the center, and tribute vassals located in the next circle. This world order diverged from the Western model of empire originating in Roman times and was not grounded on the logic of tributary extractions from the center. Instead, its operation rested on the principle of benevolence from the center and reciprocal loyalty from the periphery. Vassals of the Chinese Empire would send

envoys and gifts to the imperial capital in tribute missions. In return, these missions obtained gifts of higher value from the emperor. Under this system, rulers in the tribute states derived their legitimacy from the Chinese emperor's endorsement, and the tribute states' loyalty was instrumental to the empire's border security. At times, the Chinese Empire sent troops to topple rulers of tribute vassals that refused to pledge allegiance to China, and then it installed rulers more subservient to the empire (Kang 2010).

This Sinocentric tributary system consolidated at the height of the Tang dynasty (618–906 C.E.), with Xi'an as the imperial capital that regularly received tribute missions from Central Asia. Into the Song dynasty, when nomadic invasions from the North pushed the empire's center of gravity to the south, official and unofficial Chinese activities in maritime Asia started to grow and culminated in the Ming dynasty (1368–1644 C.E.). With this maritime expansion, the Sinocentric tributary system extended into Southeast Asia and Japan. Concomitant with the growth of private maritime trade in Asia, tribute missions gained not only from the emperor's reciprocal gifts but also from the trading activities conducted by merchants who accompanied the tribute mission to China. With the rise of commerce along with the tribute missions, the Sinocentric tributary system was in fact a tribute-trade system (Hamashita 2008; Kang 2010).

This tribute-trade system was not always peaceful. At times, rising powers in the region sought to challenge Chinese hegemony either by withdrawing from their political economic connection with China or by building up their own tribute-trade networks. For example, after Hideyoshi reunified Japan and ended the country's warring period, he aspired to usurp China's place as Asia's center and invaded Korea in the 1590s. His effort failed with the Chinese army's expulsion of Japan's forces from Korea. His successor, Tokugawa shogun, adopted a seclusion policy that outlawed Japanese trade with China after 1635 (Howe 1996). Japan also established tribute relations with the Ryukyu kingdom, which had been China's tribute vassal. The Ryukyu kingdom was eventually incorporated into modern Japan in the 1870s and became today's Okinawa prefecture of Japan.

According to Hamashita, development of modern international relations in Asia needs to be discerned in light of the transformation of this

indigenous tribute-trade system. The disintegration of the Sinocentric tribute-trade system with the rise of nationalism from within the system, such as Vietnam's anti-China movement in the late eighteenth century as well as the advent of Western colonization of China's tribute vassals—such as Burma and Vietnam—in the nineteenth century opened up space for Japan, which successfully industrialized and constructed a modern centralized state with the Meiji Restoration after 1868, to continue its ambition of usurping China's centrality in Asia. The effort to build the Great Asia Coprosperity Circle—which included Japan's colonization of Taiwan and Korea in 1895 and 1905, establishment of a puppet state in Manchuria in 1931, outright invasion of China proper in 1937, and brief colonization of a number of Southeast Asian states during World War II—was in some ways a continuation of the Hideyoshi dream of a Japan-centered Asian order.

After the collapse of the Japanese Empire at the end of World War II, the East Asian international order was replaced with a Cold War order. The United States became the hegemon that took the place of wartime Japan in dominating maritime Asia and in this way providing economic and military security to Japan, Korea, Taiwan, Hong Kong, Singapore, and much of Southeast Asia (Arrighi 1994: epilog). China, turning Communist in 1949, was at first a part of the Soviet bloc. But this Cold War order in Asia was complicated by China's increasing cleavage with the Soviet Union. In the 1950s, though still formally a keen ally of the Soviets, China became a key perpetuator of the nonaligned movement that sought to carve out an autonomous political space for newly independent and developing countries in Asia. After the Sino-Soviet split in the early 1960s, China pursued revolutionary diplomacy and provided financial and military support to revolutionary regimes and movements as in North Korea, Cambodia, and other Southeast Asian states. China's relation with these movements and regimes resembled the patronizing relationship between imperial China and the minidynasties in its neighboring vassal states. During the Cold War, this revival of a Sinocentric tributary order was only partial. China's influence over its neighbors was limited because many of them, such as North Korea, had also succumbed to the Soviet Union. China also patronized guerrilla movements not in power, such as the Communist parties in the Philippines and Malaysia, in addition to the Khmer Rouge, which was

in power only briefly in Cambodia in 1975–1979 (see Brautigam 2011: 29–40).

With the end of the Cold War and the advent of China's economic revival, the resurgence of the Sinocentric tribute–trade order became more pronounced. As noted in chapter 3, China has become the biggest exporter of finished manufactured products in Asia, and a regional division of labor has emerged in which China's neighbors specialize in exporting capital goods and components to China, thus generating a Sinocentric network of production. This regional division of labor has made China the biggest trading partner of most Asian countries. In addition to its neighbors' increasing economic dependence on it through trade, China also has been active in providing its poorer neighbors with investments, loans, and other economic assistance (table 5.7) (Lum et al. 2009; Bower 2010). The many infrastructure projects in Cambodia and Myanmar carried out by Chinese state companies or financed by loans from Chinese state banks are a good example of this activity (e.g., see O'Conner 2011; Grimsditch 2012).

When the economic dependence of these Asian countries, rich and poor, on China deepens, China gains more leverage to influence their governments. Though the Chinese government always denies the link, it is believed that the threat of severing economic ties with targeted countries has become a diplomatic weapon available to China. With respect to its territorial disputes with Southeast Asian nations and Japan, China is rarely hesitant to use or threaten to use economic sanctions on whoever is violating its claim of sovereignty (Reilly 2012). For example, when China's territorial dispute with Japan over the Diaoyu/Senkakus Islands escalated in 2012 after Japan's government nationalized the islands, the official newspaper *China Daily* explicitly threatened that "China should use the World Trade Organization's clause of 'security exceptions' to impose economic sanctions on Japan" (*China Daily* 2012). Similar threats were intermittently suggested or even tried in China's territorial disputes with weaker neighbors, such as the Philippines and Vietnam over the Spratly Islands in the South China Sea. It is reported that such unilateral sanctions have so far produced only limited results, though, because the Chinese economy itself is dependent on the intra-Asian network of production and the Chinese government is sensitive to the economic costs of such sanctions (Reilly 2012: 130–31).

TABLE 5.7 Economic Assistance to Southeast Asia from China, the United States, and the World Bank (in million U.S.$)

	CHINA*	UNITED STATES**	WORLD BANK***
2002	36		
2003	644		
2004	1,200		
2005	4,200		
2006	2,000	411	
2007	6,700	452	4,000
2008			4,500
2009			8,200
2010			7,500

* Including all forms of aid, loans, and state-sponsored investment.
** Including only foreign aid.
*** Including only loans.
Source: Weston, Campbell, and Koleski 2011: 12.

China's increasing weight and centrality in Asia are far from a simple replication of the premodern Sinocentric tribute–trade order. For one thing, the premodern Sinocentric tribute–trade order was culturally grounded on Confucianism, which justified the practices of reciprocity between the center and the periphery as benevolence from the center to the periphery and filial loyalty from the periphery to the center. Such a cultural foundation also induced most Asian nations to look up to China as a model of government, economy, and scholarship. Today China's increasing centrality in Asia's international order is on the contrary not supported by much cultural ground; it is instead based on no more than naked economic interests and realpolitik. For another thing, whereas China was the only dominating power in the premodern Sinocentric system, its rising centrality today is countered by the persistent U.S. influence in the region. The lack of a cultural foundation and the competition from the United States constitute big obstacles to the rise of China's regional supremacy.

Motivated only by economic interests and lacking cultural admiration of China, Asian states' allegiance to China is at best pragmatic and

contingent. The protracted U.S. presence also provides an opportunity for these Asian states to play one against another in their dealings with China and the United States. For instance, Myanmar's military junta, which had been supported by Beijing and benefited greatly from its economic ties with China amid sanctions by Western countries beginning in the 1990s, felt increasingly insecure because of its one-sided reliance on Chinese investment. This insecurity, together with the popular discontent regarding some Chinese state-owned mining-investment projects, motivated the junta to attempt political reform in exchange for normalization of relations with the United States and the Western world, starting around 2011. Although the Myanmar government continued its cozy relationship with China, as marked by the 2013 opening of a gas pipeline constructed by the China National Petroleum Corporation that connects the Bay of Bengal to China's Southwest Yunnan province via Myanmar, its relations with the United States warmed to the point that it was invited to be an observer in a U.S.–Thailand military drill in early 2013 (see Haacke 2012). Besides Myanmar, Singapore, Taiwan, South Korea, the Philippines, and many other Asian states strengthen their economic and political-military ties with the United States while enjoying increasing economic ties with China.

The difficulties China has encountered in its rise to political centrality in Asia manifests a contradiction in its geopolitical ascendancy in general: its rising political influence on its neighbors is a direct outgrowth of its increasing economic significance, but that political influence is checked by continuous U.S. dominance, which China ironically perpetuates through its financing of U.S. fiscal deficits. Many Asian countries—such as Japan, Vietnam, and the Philippines— desire a continuous U.S. presence in the region because they feel threatened by China's geopolitical ambitions and have territorial disputes with China. This contradiction is not confined to Asia's geopolitics but also surfaces with respect to China's rising influence in other parts of the developing world.

New Power in the Old World Order

China's practice of extending economic assistance to other developing nations in exchange for their allegiance is not restricted to East Asia. Since at least the 1960s, China has been active in supporting revolutionary movements and governments in other developing regions, Africa in particular, with financial assistance and experts. In the 1960s, such efforts were related to China's competition with the Soviet Union for leadership in the Third World after the Sino–Soviet split. These efforts were also made to win the support and vote of African nations to facilitate Beijing's bid for a United Nations seat in place of the Republic of China in Taiwan (Brautigam 2011: 67–70). After the beginning of economic reform in the 1980s, China abated its attention to Africa but then renewed that attention with greater vigor in the 2000s when rapid economic growth in China urged Beijing to get "back to Africa" as a strategy to secure the supply of oil and other raw materials there. From Beijing's viewpoint, it is important for China to establish its own mining operations in Africa so that it does not become dependent on the natural-resources extraction industries dominated by Western players.

China's general approach to African natural-resources exports is to befriend whoever is in power by means of loans, aid, and infrastructure-investment projects. China has not been discriminate in the type of regime it makes bargains with, and so it courts both democratic and authoritarian governments in the region. In comparison with U.S. investments, Chinese investments in the region are spread more evenly across different countries and carry terms that are more generous from the investment recipients' perspective (see Brautigam 2011). As noted in the previous chapter, China's increasing investment and trade with other developing countries have different socioeconomic effects, depending on local institutions and politics in the host countries. Though the amount of Chinese economic assistance trails the amount offered by traditional Western powers, most of all the United States (see table 5.8), the Chinese assistance generally brings new and positive gains to the continent, creating competitive pressure for other developing and developed countries to offer better terms in dealing with African nations.

China's increasing presence as a new source of financial support and opportunities offers these African countries autonomy to resist political demands from the United States and other Western powers. At the same time, many African states have reciprocated by supporting Beijing in such political issues as the status of Taiwan and the Dalai Lama. In 2011, when fellow Nobel Peace Prize laureate Archbishop Desmond Tutu invited the Dalai Lama to visit South Africa to celebrate Tutu's eightieth

TABLE 5.8 China's Annual Aid to Africa (in Million U.S.$)

	MINISTRY OF FINANCE AID BUDGET	LOANS FROM EXPORT–IMPORT BANK	DEBT RELIEF	CHINA TOTAL	U.S. AID*
2001	250	64	375	689	
2002	266	86	375	727	
2003	278	117	375	770	
2004	242	158	375	775	
2005	273	213	375	861	
2006	309	347	375	1,031	
2007	440	565	375	1,380	4,700
2008	515	921	375	1,811	5,200
2009	600	1,501	375	2,476	

* U.S. data denote official development assistance to sub-Sahara Africa according to the Office of Economic Cooperation and Development definition and is provided for rough comparison only.

Source: China data from Brautigam 2011:170; U.S. data from Lum et al. 2009: 9.

birthday, the South African government did not issue him a visa. The Dalai Lama also had been denied entry to South Africa in 2009. The opposition criticized the government's action as unlawful, saying it was made under pressure from China (*Guardian* 2011).

But just like many of China's Southeast Asian neighbors, which feel insecure with their increasing dependence on China, some African leaders have started to voice their concern about "Chinese colonialism." When the issue of Chinese colonialism in Africa was first discussed among Western critics in the 2000s, it was naturally discredited as hypocritical talk based on Western anxiety of losing influence over the continent to China. In the 2010s, however, discussion of Chinese colonialism emerged from within Africa, when opposition movements across the continent started to capitalize on the growing popular anti-China sentiment by attacking incumbent governments for becoming subordinate to Chinese interests. For example, in the 2011 election in Zambia, the opposition party campaigned on an anti-China platform and successfully ousted the party in power. On the rundown to the BRICS summit in Durban in March 2013, attended by leaders from Brazil, Russia, India,

China, and South Africa, nongovernmental organizations and activists in Africa organized a countersummit and employed the concept of "subimperialism" to refer to the domination of the continent by China and other BRICS countries. Some go as far as to claim that the BRICS enthusiasm in expanding their presence in Africa resembles the "scramble for Africa" among European imperial powers after the 1885 Berlin Conference (Bond 2013). This concern about China's growing influence in Africa has been so powerful and widespread that even sitting governments with close relations to China voice their anxiety about China openly. In March 2013, right before the BRICS summit, the governor of the Central Bank of Nigeria, one of the African countries heavily reliant on Chinese loans for its development, warned in the *Financial Times* that by embracing China Africa is "opening itself up to a new form of imperialism" and asserted that "China takes from us primary goods and sells us manufactured ones. This was also the essence of colonialism" (Sanusi 2013).[4]

China's rising dominance has been checked by the backlash it has generated in both Asia and Africa. The same applies to Latin America, which is wealthier and politically stronger than Africa and is geographically much farther away from China than Asia. For example, in the WTO the United States and Brazil, which is one of the beneficiaries of the resources bonanza driven by China's demand, allied in accusing China of mercantilist trade and currency policies (*Wall Street Journal* 2011).

The limit of China's political influence in other countries ultimately constrains the expansion of China's economic influence. As long as China lacks the will and capability to counteract this backlash with a projection of its political and military hard power, as traditional European imperial powers once did, the talk about China as a rising new dominating power or hegemon in any region or in the world at large will remain an exaggeration. But China's disinterest in projecting its hard power overseas may be ending. A National Defense White Paper in 2013 stated explicitly for the first time that protecting overseas economic interests is now one core goal of the People's Liberation Army: "With the gradual integration of China's economy into the world economic system, overseas interests have become an integral component of China's national interests. Security issues are increasingly prominent, involving overseas energy and resources, strategic sea lines of communication, and Chinese nationals and legal persons overseas" (Chinese

Information Office of the State Council 2013). China has also started to enlist international mercenaries to defend its overseas interests. In 2014, Erik Prince, the founder and former CEO of U.S. security firm Blackwater, which was heavily involved in the Iraq War, became the chairman of a Hong Kong–based logistic and risk-management firm that has close ties to China's biggest state-owned conglomerate, CITIC, and that provides security and transportation services to Chinese companies investing in Africa (*South China Morning Post* 2014).

China will not be a new hegemonic or dominant power in the world anytime soon, but its increasing presence across the developing world is already changing the dynamics of global politics by empowering other developing countries. As many studies have pointed out (e.g., Kentor and Boswell 2003), developing countries' political subjugation to Western, developed countries was not caused by trade with and investment from developed countries per se but rather by Western countries' monopoly role as sources of investment and as major trading partners. Because of the wide competition among developing countries for investment from a limited number of developed countries and their exportation of similar low-value-added products to a limited number of developed countries' markets, developing countries lack bargaining power, which renders them less capable of resisting demands from developed countries in a bilateral setting or in multilateral organizations such as the WTO. With the rising prevalence of China as a new major trade partner and a source of investment alternative to the United States and Europe, many developing countries have become capable of reducing their one-sided reliance on the West for investments and markets. This improves their bargaining position in bilateral and multilateral negotiations.

The rise of the G-20 as a negotiating bloc in the WTO is illustrative. The group was initiated by Brazil, South Africa, and India in the WTO ministerial meeting in Cancun in 2003 with the intention of fostering collective positions in negotiating with developed countries on various key issues. The group collectively resists developed countries' request for further opening of financial markets and urges developed countries to abolish agricultural subsidies to their own farmers (see Hopewell 2012). The inclusion of China in the group constitutes a big boost to the group's share in the world market because China's share in world GDP has surpassed 10 percent and continues to rise. China is now the single-largest economy in the group. Though it is not active in strategizing and organizing, which other members such as Brazil have taken up, its participation has significantly enhanced the group's bargaining power (Hopewell 2014). In the latest Doha round of trade talks, the group's insistence on drastic reduction of government farm subsidies in rich countries in exchange for developing countries' further opening has brought the talks to a standstill. The Doha round has been in limbo since the breakdown of negotiations in 2008. This episode signals that the WTO is no longer a tool that the United States and other rich countries can use to open up developing countries' markets at will while protecting their own markets. It points to how China's rise has contributed to a shift in the balance of power between wealthy countries and developing countries in the latter's favor, even though China has been maintaining its economically subservient role to the United States and has not yet been capable of directly challenging major Western powers head on in global politics.

Though China has altered the global balance of power to its own and other developing countries' advantage, it is still an exaggeration to claim that China is fundamentally transforming the global order. The China boom is in large part driven by the predominantly private export sector, which is closely integrated with the global free market as promoted and warranted by the United States since the 1980s (see chapter 3). China needs the perpetuation of the global neoliberal order to advance its economy through the expansion of its trade and investment ties to the Global North and South. It would be shooting its own feet if it were to subvert this global order, the institutions related to this order, or the U.S. power underlying the order.

In the aftermath of the global financial crisis starting in 2008 and in China's strong rebound in 2009–2010, which helped many of its economic partners in the developing world dodge the worst fallout of the crisis, many claim to see an accelerated shift of power from the United States as the originator of the crisis to China as its solution. They predict further enhancement of China's influence in the developing world at the expense of U.S. power. The next chapter, however, shows that China, far from being a solution to the crisis, is as much an underlying source of the global economic imbalance precipitating the crisis as the United States, given China's export-driven, investment-heavy, and household-consumption-repressing growth model. Its rebound from the crisis

is not going to last, and the China boom is set to fade. What China needs to maintain its economic vitality is a difficult economic reorientation, which will inevitably bring growth deceleration. This reorientation will be a necessary part of the global economic rebalancing and the pursuit of a long-term solution to the global crisis.

SIX

Global Crisis

THE CYCLE OF BOOM AND BUST has been perennial to global capitalism. Many works in critical global political economy point out that the contemporary globalization process has been a response to a world economic crisis in the 1970s (e.g., see Wallerstein 1979; Arrighi 1994, 2007; Arrighi and Silver 1999; Brenner 2003, 2004; Harvey 2003, 2005). They suggest that recurrent crises in the capitalist system are always caused by excessive production capacity and demand deficiency, and such crises can bring an intense process of "creative destruction" that wipes out the excesses in the economy through bankruptcies of enterprises, unemployment, and turmoil in financial markets. This process was exactly what many advanced capitalist economies encountered in the 1970s, a decade characterized by ever more disruptive recessions and financial crises as well as by endemic fiscal crisis of the state. These crises unfolded amid the escalating intercapitalist competition starting in the late 1960s, when Europe and Japan recovered from wartime destruction, built up efficient industrial systems, and generated an oversupply of industrial products that eroded the U.S. monopoly in the world market for manufactured goods. Intensifying competition, coupled with the inflating power of organized labor, led to falling profit rates in the manufacturing sector in most core countries (see Brenner 2002, 2004; Arrighi 2007: part II).