

China's Leadership Role during the Global Financial Crisis

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ABSTRACT

China's economic growth performance over the past three decades, averaging 9.7%, and especially during the most current global financial crisis has led many countries to change their perceptions of China. China is no longer viewed as an adversary, but rather as a significant partner, and possible leader, in helping the rest of the world to recover from this financial meltdown. China's leadership role was witnessed during the November, 2008, G20 summit in Washington and later in London, when China's President Hu Jintao was given a place at a table, along with other developed nations, recognizing China's economic global leadership; the third largest economy in the world, second largest exporter and third largest importer. However, many argue that China is unprepared to lead the world out of the global financial crisis. That is, China is not positioned to take the lead. During the recent global financial crisis China did not go unaffected. During 2008 China began to experience the impact from the global financial crisis. Their economic growth rate for the first quarter was 10.6%, second quarter 10.1%, third quarter 9% and fourth quarter 6.8%, with an annual average of 9%. This decline, although favorable as measured by global standards, demonstrates how the global financial crisis has affected China's economy. However, China's leadership response to the global financial crisis was influenced by their assessment of the nature, duration, and causes of the global financial meltdown and they suggested that the origin of the crisis was initiated in the U.S due to a lack of financial sector regulations, loose banking regulatory guidelines and a weak international financial structure. Therefore, during June 2008 the Chinese leadership, recognizing that the global financial crisis could affect China, proactively developed economic growth strategies to minimize the impact. The result of China's internal response resulted in an 8.7% economic growth rate for 2009, thereby shifting the declining trend of 2008 upwards.

Key words: China and the global financial crisis, financial crisis, China's response to global financial crisis

INTRODUCTION

China's growing domestic market economy and its careful and gradual approach to integration with the global financial system may have been instrumental in cushioning the impact of the global financial crisis. However, although China has not been severely impacted by the global financial crisis, China has not remained unaffected by this global challenge. Accordingly, China's leadership role in the global financial crisis "has made all possible efforts to create a facade of confidence in the latest meeting of the National People's Congress (NPC), (Yep, 2009). To this end, in order to have a clear understanding of China's leadership role during the recent global financial crisis, this study's purpose focuses on a review, evaluation and interpretation of the literature in understanding China's internal and external strategies and responses to the global financial crisis. Further, to help the focus of this study and to provide a framework this study will provide responses to the following research questions: Was China's economy affected by the global financial crisis? What strategies were employed by China's leadership? Did China's economic model have an impact on their outcomes? What effect did government intervention strategies have? Are there any expectations by foreign countries with regards to the leadership role that China should play in shaping the financial crisis?

Within the past two years China's leadership goals were to stabilize the country's growth and regulate its over-heated economy. During 2009 the focus had been on establishing a foundation for income growth and job creation, elements that are necessary for stabilizing China's economy (Yep, 2009), in view of China's large income inequality gaps. Further, decades of market economic reform has changed China's welfare system. "The all-caring welfare philosophy of the pre-reform era, with the workplace supplying comprehensive support for its employees, is long gone" (Yep, 2009, p. 2). In addition, as the global crisis continues, China is also concerned about what the effects of changes will have on its social harmonious state, which their leadership argues can also be achieved through economic stability.

To this end, the single most important impact on China's economy, resulting from the global financial crisis, has been from the decrease in global demand of China's exports, which has the highest global dependency amongst the world economies (Yu, 2009; Landler, 2010). China's reliance of international market fluctuations makes them vulnerable and affected by the global financial crisis. In fact, China has witnessed a decline in their

exports and although their economic growth is impressive by any global standard its rate of growth has declined. This decline in exports has caused millions of job losses, mostly in the coastal regions and migrant workers from interior provinces, with factory closures, and layoffs, especially in the Southeastern part of China; and with further job decline projections (Prasad, 2009; Miles, 2009; and Landler, 2010). Further, China's slight economic decline in growth has caused many to question if China's past economic reforms and model, that have been the foundation of such an impressive decade of growth, is still valid going forward (Prasad, 2009; Miles, 2009). Furthermore, projections from the World Bank placed China's growth in 2009 at 6.5%; a decelerating economy (Zhang, Li, & Shi, 2009). However, the Chinese economy grew by 8.7%, surpassing the projections of the World Bank, and the government's 8%; suggesting that China was managing through the global recession favorably (Landler, 2010). Much of the growth for 2009 was due to the November 2008 stimulus; again suggesting that focusing on the real economy would help China through the financial crisis. However, concern is stirring that this may be fueling inflation.

To this end and in response to the global financial crisis China developed a strategy that dealt with the effects of the immediate crisis in the *real economy* while at the same time looking for potential opportunities. China's past emphasis has been on expanding its domestic exports to increase its economic growth. Further, to meet the challenges of the global financial crisis China has developed and implemented a comprehensive strategy that provides for fiscal support of its infrastructure and public service projects. In addition, China has also implemented a monetary stimulus strategy to yield even greater outcomes. However, while China's approach has demonstrated favorable results, China still has structural imbalances to address. Moreover, China is challenged with how to increase its domestic demand and create jobs; and stimulate its real economy, in light of the global financial crisis. (Zhang, Li, & Shi, 2009).

During 2008 China recorded a 10.6% economic growth rate for the first quarter, 10.1 & for the second quarter, 9% for the third quarter and finally, 6.8% for the fourth quarter. The economic growth rate average for 2008 resulted in 9.0%. While this economic growth rate was better than most experienced by other countries, it was lower than China's past performance, declining due to the global financial crisis. The effect on China's export annual growth rate was even more dramatic: 35.7% in 2004, 23.2% in 2005, 23.8% in 2006, 23.5% in 2007 and 17.2% in 2008. And the beginning of 2009 did not show any improvements. (Zhang, Li, & Shi, 2009). This decline in economic performance has also caused internal concerns and the rising unemployment has caused many Chinese people to question its current policies about the western market-oriented reforms that have brought this new found suffering and not the expected rewards. Therefore, many Chinese people are divided on the issues of whether they should go back to the old ways or continue on with the existing market strategies and economic reforms (Miles, 2009).

Furthermore, differences in perspective with regards to China's exchange policies, sales of arms weapons to Taiwan and visits to the Dali Lama, by the U.S., are only but a few of the many rising tensions in China and U.S. relations. In the meantime, China has demonstrated confidence resulting from its economy during the global financial crisis (Landler, 2010). And notwithstanding, according to Bergsten, Gill, Lardy, and Mitchell, (2006) there are five key factors underlying China's growth performance over the past three decades: embracing of market forces, opening its economy to trade and inward direct investment, high levels of savings and investment, the labor structural transformation and investments in primary school education.

This study will discuss China's perspective on the global financial crisis. Further, this research will provide the basic foundation and framework for understanding the strategic approach China's leadership took to minimize the impact of the global financial crisis in order to avoid having a substantial negative and detrimental affect on its "real economy." The study will then discuss an overview of China's economic reforms and strategies that established the foundations in helping them minimize the effects of the impact of the global financial crisis. During this discussion the researcher will discuss China's monetary and exchange rate policies, financial and monetary stimulus strategies. The research will also provide a brief overview of China's ambivalence towards the world, followed by China and the global economy. Finally, the study will conclude with a brief summary.

China's Economic Reforms

After many decades of having closed their doors to the rest of the world, China, with a central planning system, opened its economy to a market economy in hopes of achieving economic growth and social development. This strategic approach was motivated by China's desire to gain, economically and financially, from globalization. To accomplish this, China had to develop internal policies that promoted integration into the global institutional

systems, such as the WTO. However, the current global financial crisis has exposed the problems of the global institutions and system processes. Furthermore, this recent crisis has also exposed China's structural weaknesses. Globalization has created an integrated and interdependent global economy where negative effects of a down turn in a developed country's economy will affect other countries' economies. Such has been the case with China. China's response therefore, has been to prevent the external crisis from affecting its internal, real, economy while providing strategic support to the other countries.

Economic change in China began with economic reforms as early as 1979. Specifically, China's economic reforms began with socio-political, economic and cultural reforms. Equally important, China's economic institutions and practices have been deeply embedded in these reforms. Furthermore, analyzing the economy requires an analysis of the impact of the reform process on economic institutions and practices. In contrast, past World Bank, IMF, and scholar economists argued that by putting in place capitalist countries' economic institutions into transitioning countries, success would be guaranteed and therefore, socio-political and cultural systems and practices were not necessary. Research suggests that this is no longer valid and especially in China, where their culture, philosophy (norms, values and systems that shape their social actions and behaviors), and socio-political systems deeply integrate with their economic systems and institutions (Guthrie, 2006).

Deng Xiaoping, politician, statesman, diplomat and a leader of the Communist Party, was instrumental in helping China reform to a market economy. In December 1978, Deng conveyed his vision of economic reform to the Third Plenum of the Eleventh Central Committee of the Chinese Communist Party (Guthrie, 2006). At the time, "Deng's plan was to lead the country down a road of gradual and incremental reform, leaving the state apparatus in tact while slowly unleashing market forces" (Guthrie, 2006, p. 38). Ultimately, this was the framework and foundation that led China to its economic growth. Of significance here was the gradual, and not rapid, approach to economic reform, as suggested by many past World Bank and IMF economists. Maintaining the control by the central government to intervene and support during times of crisis or need, and releasing market forces was central to China's economic reform. To this end, China represents the most successful of all centrally planned systems implementing economic reform during the twentieth century. Guthrie (2006) suggests there were three broad changes that together helped to shape China's transition to capitalism: "gradual receding of the state control over the economy, without privatization; continued growth of foreign investment; and gradual emergence of a rational-legal system to support these economic changes" (Guthrie, 2006, p. 39).

The Chinese road to economic reform and growth has been gradual. China has taken its time while experimenting throughout the process. Guthrie (2006) also attributes China's gradual reform success to the government's ability to maintain stabilization during time of turbulence, and by giving economic control to the local administrators of the townships, villages, and municipalities under their jurisdiction. This gradual process enabled the *dual-track* system, focused on planning while at the same time giving more autonomy to markets; eventually, letting the markets take over a more leadership role than the planning (Guthrie, 2006). Moreover, China's economic reforms began with institutional changes at high levels of the government; firm and state-level institutions that reflect the legal system and that support grievance proceedings for workers; while labor relations have been shaped by the emergence of new employment (Guthrie, 2006).

China's economic changes have been brought about by three main points, according to Guthrie, (2006). He suggests that the changes in China's political and social reforms have been gradual, while at the same time radical and continually evolving. He also argues that the reforms have been successful because of government's intervention. In fact, he suggests that China's policy on gradualism is more effective than rapid privatization. Finally, China's gradualism policies have created changes in China's central planning system with some elements of a democratic system. For example, from the 1990s the government's role has changed from a central planning system of the economy to more of a guideline planning system of developing macro level regulations (Baek, 2005). This suggests that while the government centrally controls policies, economic systems and structure, the markets operate under a market system.

Moreover, the Chinese economy has performed with an annual GDP growth averaging nearly 10 percent due to a combination of macroeconomic and structural policies (Prasad, 2008; Yu, 2009). Further, while China's economy has been growing at unprecedented rates, their financial sector remains in poor shape, distorting domestic demand (Prasad 2008). In addition, Prasad (2008) argues that investment in physical capital, financed by credit from state-owned banks at low interest rates, has been the major reason for economic growth in China within this decade, accounting for approximately two-thirds of the GDP growth, while at the same time creating a slow

employment growth. Furthermore, direct financing, through the stock market, is not well developed; while corporate financing in China still depends on mostly bank loans via indirect financing. Finally, most banks in China are still owned by the state (Baek, 2005).

On the other hand, China is still a poor country, with per capita of approximately \$3,000; one eighth of the US level (PPP), and ranks China in 97th place in the IMF world rankings. In addition, consumption accounts for one third of GDP, while consumer credit is limited and historically the Chinese people have been savers, saving more than a fifth of their disposable income (De Jonquieres, 2009). Also, China's exchange rate has been relatively stable since 1995 against the U.S. dollar; an area that has received much attention and controversy. However, with a lot of intervention the exchange rate has been kept from increasing since 2001. China's high export growth and current account surplus suggest a substantially undervalued currency (Prasad, 2008). Further, inflows of speculative capital have added to the liquidity in the banking system and further complicated credit growth. And to avoid inflation, the PBC has sterilized these inflows (Prasad, 2008). In addition, China's corporate and household savings has been very high and with few alternatives for investment, these savings flow into the banking system adding to its liquidity situation. Therefore, monetary policy independence is reduced with the lack of exchange rate policy which also affects banking reforms (Prasad, 2008). These measures minimize the effects of market influence. Moreover, extensive capital controls have been used to promote inward foreign direct investments while protecting the banking system from external competition. Basically, the state-owned banking system is the only banking system in China. "Ultimately, stable macroeconomic policies and a well-developed and efficient financial sector are crucial ingredients for balanced and sustainable growth, while exchange rate policies are important in achieving policy reforms and improving growth and welfare" (Prasad, 2008).

China's Internal Response to the Global Financial Crisis

China's response to the crisis was dependent on their assessment and analysis of the nature, cause and projection of its duration. According to Chinese economists the origin of the crisis was initiated in the U.S., due to a lack of financial sector regulations and loose banking regulatory guidelines. Further, they suggested that Wall Street's greed and extreme financial innovative policies added to the crisis. On the international level, the financial crisis could not be avoided due to a poor or lacking international financial architecture, infrastructure and integrated policies. That is, these global capital movements and the existing international system failed to regulate these innovative financial policies. The Chinese also suggested that the U.S. dollar is a major source of the problem, since it is undisciplined, and not subject to international regulations, as under the gold standard. And yet the U.S. dollar serves as the international accounting standard. As a result the U.S. can over consume and this could lead to global imbalances (Zhang, Li, & Shi, 2009).

In order to have a clear understanding of the Chinese internal response to the global financial crisis, it is important to understand that Chinese researchers and economist suggest that the financial crisis began in the *financial sector* and then spread to the *real economy*. Further, they suggest that unless the Chinese used a different approach to minimize the impact on their economy, they would experience unfavorable outcomes. However, as a result of actions taken in prior years by China, with regards to financial reforms, such as recapitalizing major banks, reforming their corporate governance systems, and increasing banking regulations, the impact on the Chinese financial sector was projected to be minimal in the short term. Therefore, Chinese banks were not in danger due to bad loans or creative financial innovative strategies that has affected the U.S. and Europe (Zhang, Li, & Shi, 2009).

China's concern was more on the effect of the global financial crisis on its real economy, due to its vulnerability resulting from its imbalanced structure (Prasad, 2007) and its reliance on investment, export and property development (Prasad, 2009; Yu, 2009). Consequently, Chinese researchers suggest that the global financial crisis will originate in China's real economy sector and then spark their financial sector. In contrast, the U.S. crisis began in the financial sector and transferred its ill effects into the real economy. Therefore, to fight off the effects of the financial crisis China's focus was on stabilization of output and employment, thus making the real economy sectors the challenge in China (Zhang, Li, & Shi, 2009). In June 2008, China began to develop a plan to reduce the negative effects of the global financial crisis on China's economy. In fact, these strategies were being developed during the Olympic Games' preparations. This reaction demonstrated the seriousness that China's leadership viewed the crisis (Zhang, Li, & Shi, 2009).

Therefore, the Chinese strategy for minimizing the global financial crisis' impact on China has been to curtail the immediate effects of the crisis with measures that address the real economy in the short term, since the Chinese experts believe the global recovery will begin to occur in late 2010. This short term approach may also help

minimize or prevent any effects on its financial sector. The second element of China's strategy focuses on seeking new opportunities that had not been previously available to China, such as raw materials and technology. This belief originates from the Chinese Yin/Yang principles where "these two extremes or dualities are the basis of creation. And this philosophy helps the international negotiator understand how the Chinese view conflicts in negotiations as a positive process that yields potential favorable outcomes" (Torres, 2010). That is, the Chinese view conflicting challenges, such as the global financial crisis, as an area that can generate favorable outcomes. Further, the third element in China's strategy is the most important, increasing its domestic demand. Chinese economists have been aware that their Chinese economic structure is imbalanced and biased for some time. They argue that its dependency on domestic demand to stimulate and improve its economy is too small a proportion in economic growth (Yu, 2009). However, the global financial crisis has highlighted the importance of stimulating China's domestic demand to improve exports. To this end, increasing domestic demand has become a primary ingredient in China's efforts to fight the financial crisis (Zhang, Li, & Shi, 2009).

China's comprehensive relief package to combat the global financial crisis focused on general measures to stimulate its domestic demand by pumping RMB 4 trillion Yuan, along with tax reductions. This plan's objective was targeted at upgrading technology to enhance competitiveness, innovations, and increase social security and employment (Zhang, Li, & Shi, 2009). Hence, China deployed a fiscal stimulus and monetary policy consistent with their expansionary fiscal policy. The fiscal policy was to address allocation of government funds to projects. And the monetary policy was tasked with promoting economic growth through stabilization of prices (Zhang, Li, & Shi, 2009).

Subsequently, in November 2008, the government of China introduced an RMB 4 trillion stimulus package for the years 2009 and 2010; mostly for infrastructure. And in March of 2009, the People's Congress approved the new budget for 2009. According to this budget, government expenditures would increase by 22.1 percent or 7.635 trillion Yuan (Yu, 2009). The stimulus package was intended to boost China's output growth and employment. Additionally, the components of the stimulus package were in transportation and power grids (45%), post-earthquake reconstruction (25%), rural infrastructure (9.25%), environmental projects (8.75%), public housing (7%), research and development (4%), and healthcare and education (1%). And in the same month, March, 2009, the Chinese Prime Minister suggested he was confident that the world economy would recover by the end of 2010 (People's Daily as cited in Zhang, Li, & Shi, 2009). This was supported by Chinese advisors and economist suggesting that the global financial crisis was not as bad as the great depression of the 1930s (Zhang, Li, & Shi, 2009).

Accordingly, China's expansionary fiscal policy has been a great success and was instrumental in stabilization and revitalization of its economy. This is not surprising since the Chinese government can spend at will (Yu, 2009). China's stimulus package for 2009 is also justified due to China's past decades' low budget deficits, and small budget surplus for 2007 and 2008. As a result of this history, China's budget deficit, after the stimulus, has been projected to be approximately 20 percent of GDP, (Yu, 2009), much lower than the U.S. deficit. To this end, one-quarter of the stimulus package has been financed by the Central Government through direct grants and interest rate subsidies. And the Ministry of Finance, with approval from the National Development and Reform Commission (NDRC) of government sponsored projects, funded registered capital. The second source of finance for the stimulus package came from bank credit for local government projects.

For many years prior to 2002 China had been struggling with deflation. By the middle of 2003, China's economy began to show signs of overheating. To slowdown the overheating, a tight money supply strategy was implemented by the Chinese Central Bank. This continued until the beginning of 2005, when the central bank began easing their previous strategies of tightening of the money supply (Yu, 2009). However by the end of 2005 tightening of the money supply was reinstated through 2006 and 2007. This monetary policy was implemented to deflate the economy because the monetary authorities were concerned about loosening the money supply for fear of bringing back inflation (Yu, 2009). This policy continued until 2008 when the economy began to loose its positive movement and the concerns of inflation decreased (Yu, 2009).

Therefore, during 2008 China's monetary policy made many changes. For example, in early 2008, because of inflationary concerns, the interest rate was increased five times. Then at the end of 2008 when Lehman Brothers filed for bankruptcy, China reduced its interest rates. These changes in monetary policy were dramatic, in comparison to previous years, going from protectionism against overheating and inflation to precautionary measures (Zhang, Li, & Shi, 2009). Further, in an effort to increase the supply of liquidity, the People's Bank of China

(PBOC), China's central bank, began the slowdown of three year central bank bills, lowered the frequency of issuance of one year and three month central bank bills, and reduced the interest rate of central bank bills at issuance (Zhang, Li, & Shi, 2009). Also during the beginning in September, 2008, the central bank implemented five consecutive base rate cuts and reduced the ratio of required reserves four times, ending with a one year primary lending rate decline by 2.16% and the savings rate dropping by 1.89%. These actions suggested that monetary policy was focused on promoting economic growth and financial market stability (Zhang, Li, & Shi, 2009).

“Since 2009, the PBOC has adopted a very expansionary monetary policy to support the expansionary fiscal policy” (Yu, 2009, p. 10). During the beginning of 2009, bank credit increased by 7.3 trillion RMB. Credit growth and money supply, M2, were both high, growing at record rates relative to GDP (Yu, 2009). For example, the central bank removed restrictions on commercial banks' lending. Many loans were encouraged for agricultural projects and SMEs, for example. In addition, credit was to be made available for economic restructuring projects and upgrading technology. Furthermore, to stimulate the housing market demand, the central bank lowered the bottom of mortgage rate floating and supported new home buyers (Zhang, Li, & Shi, 2009). As a result, the inter-bank money market has had excess liquidity (Yu, 2009). In the past, because of rapid liquidity caused by the PBOC's intervention in the exchange market, large amount of central bank bills had been sold to address the excess liquidity. Since the latter part of 2008, this practice has stopped. Consequently, liquidity is high in the inter-bank money market and interest rates are lower (Yu, 2009). Another feature of China's financial market system improvement initiatives is increasing the size of inter-bank bond issuance and services (Zhang, Li, & Shi, 2009).

Because China has written off non-performing loans and has introduced a large amount of capital, their financial situation differs from that of the U.S. and Europe, especially during the financial crisis. Furthermore, China's banking system has been stable, safe and sound while the West's banking system was stressed. As a result, China has not had any liquidity or credit issues; unlike the U.S. Thus, China has had availability of bank credit and money (Yu, 2009). While the expansionary fiscal and monetary policies have been instrumental in reducing the decline of economic growth in China, there are concerns over the impact of these policies in the long term. One reason for this concern comes from investment due to overcapacity and decline. For example, China's stimulus package has been focused on its infrastructure, which takes long to generate revenue and not on new factories. However, investment must be made in the manufacturing sector in order to yield returns. Finally, China's monetary policy may also be too loose (Yu, 2009).

China's Ambivalence towards the World

China's success with regards to their internal strategic response to address their real economy and prevent negative impacts from the global financial crisis will be crucial. For one, if China is successful the world will be revitalized by its approach to the global financial crisis; in decreasing the negative impact to its internal real economy. On the other hand, if China's internal response policies fail, then it may reverse the reforms it has implemented and the world will then face a China that will not be too receptive to its integration policies and institutions. Either way, the world will be affected (Yep, 2009).

The U.S. has argued that China has kept its currency at a low level so that it would have an advantage in selling exports. And Chinese officials deny such allegations and refuse to be subjected to these pressures. Moreover, China's leadership has expressed dissatisfaction with U.S. discussions on economic policy, when they are their chief debtor. It has been further suggested that China requires a low currency to stimulate its domestic exports (Landler, 2010). According to Nicholas R. Lardy, a China expert at the Peterson Institute for International Economics, China is puzzled about the criticism they have received, when to the contrary, they feel they should receive accolades for stabilizing their currency during trying times (Lardy as cited in Landler, 2010). Furthermore, leading economists agree that the Chinese currency, the renminbi, is undervalued by 25 to 40 percent in comparison to other currencies, including the U.S. dollar. Since July 2008, the renminbi has held the same value and today the dollar is equal to approximately 6.83 renminbi, also called the yuan (Landler, 2010).

China and the Global Economy

During the recent G20 meeting between the U.S. President Barack Obama and China's Hu Jintao, the Chinese counterpart, Mr. Jintao “stressed China's commitment to strengthening macro-economic control and expanding domestic demand” (Anderlini, & Dyer, 2009, p. 7); consistent with this study and strategies that have been in practice for the past couple of years. Both leaders agreed to work together in renewing global economic growth, strengthening the global financial system, and establishing a group that will meet in Washington later this year to discuss global economic strategies. Further, President Obama committed to visiting China later this year

(Anderlini, & Dyer, 2009). Further a discussion of a potential G2 suggests that both countries, the U.S. and China must be in agreement on many future international issues.

Moreover, the recent global financial crisis has led China to lecture the U.S. on the need to maintain the value of the dollar, since China has more than \$2.4 trillion in foreign exchange reserves and is the largest holder of U.S. debt. Further, Chinese economists are concerned that the U.S. could print more dollars and issue more bonds, decreasing the value of the dollar (Landler, 2010). In the meantime, China has established currency swaps, worth RMB650bn, with Indonesia, Belarus, Malaysia, Argentina, Hong Kong, and South Korea, indicating their new global leadership presence, diplomatic confidence and a future role in international financial relations (Anderlini, & Dyer, 2009). Critics suggest that China has been a culprit in helping create the crisis because of their large current account surplus and reserves, while at the same time and with such huge holdings of US bonds, they have not been able to influence US policy (Anderlini, & Dyer, 2009). China has also been under pressure by the U.S. and UK to provide substantial contributions to the IMF. However, China has responded that they are still a poor country. In addition, recent events suggest that China may have altered their perspective with regards to increasing their voting rights within the IMF. This position conveys China's flexibility while at the same time providing financial support to the IMF (Prasad as cited in Anderlini, & Dyer, 2009).

Summary

Finally, "China responded to the outbreak of the current economic crisis by adopting a studiously detached and noncommittal posture. It has been repeatedly argued that the West created the financial mess and should take responsibility for cleaning it up" (De Jonquieres, 2009, p. 4). Whether China's leaders have the commitment and are able to meet the challenges of the global financial crisis and the global community is still uncertain. In the meantime, China has insisted that the best it could do in the financial crisis has been to sustain growth and stability of its economy, while at the same time supporting international efforts. Experts suggest that China's cautiousness in the global financial crisis results from their divisive collective leadership, where some would like to continue pursuing reforms, and others, led by Mr. Hu and Mr. Wen would like to pursue income redistribution, as the priority. These opposing goals suggest more compromises and tradeoffs will be made (De Jonquieres, 2009).

And during a recent testimony before the Committee on Ways and Means, U.S. House of Representatives on March 24, 2010, C. Fred Bergsten, of the Peterson Institute for International Economics, suggested that "the Chinese renminbi is undervalued by about 25 percent on a trade-weighted average basis and by about 40 percent against the dollar" (Bergsten, 2010, p. 1). He further suggested that "the Chinese authorities buy about \$1 billion daily in the exchange markets to keep their currency from increasing" (Bergsten, 2010, p. 1). Furthermore, these practices suggest the Chinese are practicing protectionism and are thus manipulating their currency. This undervaluation has had not only an impact on the Chinese current account surplus but it has had an unfavorable effect on the U.S. as well. For example, appreciating the Chinese currency could help realign the US current account deficit favorably by approximately \$150 million according to Bergsten (2010). Moreover, making this favorable adjustment to the Chinese currency will also help generate additional US jobs, thus reducing unemployment.

Notwithstanding and despite arguments to the contrary, Chinese leaders encourage stability, domestically and internationally, in the face of conflicts with regards to currency, trade, financial and economic differences. This is supported by having an understanding of Chinese culture and philosophy where the Chinese use a combination of the Yin/Yang principle, dialectic logic, Maoist bureaucracy, a Confucian gentleman, and a Sun Tzu like strategist when negotiating. Accordingly, the Chinese view conflicting perspectives and management as a positive process in that it generates favorable outcomes (Torres, 2010). Furthermore, "some Chinese scholars argue that this preference for a pragmatic, low-profile, approach has had deep historical roots" (De Jonquieres, 2009, p. 4). Chinese leaders are also aware of the benefits they have received by having an open global market presence. And they are not willing to jeopardize these benefits and those forthcoming in the future. Further, China's leadership argues that their continued focus on internal concerns is supported by their developing country status. Although one of the leading economies of the world, China's per capita is still low and the income inequality gap is wide due to its large population (De Jonquieres, 2009). Consequently, China's foreign policy, its use of *soft power*, increases in trade and investment with developing countries has all been driven by their internal socio-economic needs. This was also reflected in China's decision to join the WTO.

Recently, "China has launched a series of initiatives which demonstrate a desire to move centre-stage. And Zhou Xiaochuan, China's central bank president, has called for the eventual replacement of the U.S. dollar as the

global reserve currency” (Anderlini, & Dyer, 2009). Moreover, tensions between the U.S. and China are further aggravated because the U.S. claims that China has not been willing to support the U.S. with tougher sanctions against Iran over their nuclear programs (Landler, 2010). Notwithstanding, the U.S. and China are two of the most dominant economies in the world with China’s economic growth outpacing all countries’ economies. Further, the two economies of the U.S. and China are becoming more and more integrated and interdependent on each other through global flows of products, financial capital, and people. Therefore, getting this relationship on the right track is essential to not only the U.S. and China but to the rest of the world (Prasad, 2009). Finally, while China has achieved extraordinary progress in the past three decades, it has a great deal of work ahead of them to keep the economy resilient to large shocks, insure economic growth stability, and improvements that will benefit its people, through better welfare systems, higher employment and reducing the income inequality gap, while at the same time becoming a better global citizen.

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