POWER SHIFT TO THE EAST?
AMERICAN HEGEMONY AND CHINA’S ASCENT IN TIMES OF GLOBAL FINANCIAL & MONETARY CRISES

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Abstract

For the past six decades, the US has managed to create and sustain a hegemonic position in the global financial/monetary order. This is based on three central pillars: 1) institutional power (control over outcomes in the International Monetary Fund), 2) structural power (dollar/Wall-Street dominance, forming an ‘exorbitant privilege’) and 3) ideational power (Neoliberalism as the leading politico-economic ideology - especially since the 1970s). In concerto this has served the countries’ very own interest, whereas other nations have repeatedly been forced to shoulder most of the burdens of adjustment. However, the sovereign debt crisis of 2008ff. (as a critical juncture) not only laid bare the deficiencies of the US-centred order and the increasing vulnerability of the highly indebted and economically stuttering hegemon, but also opened a window of opportunity for its main rival: liquidity-rich and booming China. Accordingly, Beijing is now starting to contest the US by: 1) significantly increasing its influence within the International Monetary Fund, 2) extending the international role and convertibility of the Renminbi and establishing Shanghai as a new global financial center until 2020, and 3) following a Neo-Mercantilist/Listian approach which is signified by gradual financial liberalization and an accumulation of monetary reserves.
Introduction

In the aftermath of the financial crisis many scholars (e.g. see Zakaria 2008; Fingleton 2008; Jacques 2009) started striking up a swansong on American hegemony and more or less clearly predict a soon to come hegemonic shift from the liberal constituted US to authoritarian ruled China with its booming manufacturing and export sector and its decade-long double-digit growth rates. If this statement is the authors’ ultimate judgement or partially based on the fact that stories containing ‘doom and dread’ sell extremely well in turbulent times should not be on me to judge. Anyhow, that power is significantly and irreversibly shifting to China has now become a popular tune in academia and among the public. It is commonly argued that each and every hegemon has a limited lifespan and accordingly - rather sooner than later - will have to face its nemesis. The historically grounded postulation involves that hegemonic powers per se are bound to a cyclical transition in which power is irrevocably shifting from one hegemon to another; this is especially believed to be the case after so-called ‘critical junctures’ like the turbulent financial crisis of 2008ff. during which US hegemony ostensibly had been shattered, whereas China was mostly spared (Clark 2011). Hence, based on current trends it seems to be only a matter of time until US hegemony ends and China will rule the world. Of course, I do not deny that termination of US hegemony will be the case in a not too distant future, but the question is: why should it happen right now? And: has the sovereign debt crisis really been as significant to China’s ascent and US demise as it is widely perceived?

Shortly before the crisis accelerated, Michael Cox (2007) rightly asked ‘Is the United States in decline - again?’ and reminded us that only a few decades ago scholars, famously spearheaded by Paul Kennedy (1987), assumed that a hegemonic shift from the US to Japan is going to take place. It is well known today that this prediction turned out to be false - shortly after, during the 1990s, Japan began to stagnate on an admittedly high level and the US entered a period of accelerated growth. Now it seems as if we face a revision of the ‘Kennedy-moment’ however with a new constellation of actors: the US vs. China (Cox 2007). Surely, we are now a long way down the road since Charles Krauthammer (1990) famously announced America’s ‘unipolar moment’ and Francis Fukuyama triumphantly referred to the ‘end of history’ (1992) and, yes, the US has lost some ground to emerging powers like China. But still, we should not fall into the trap of overemphasising the current situation and repeat analytical mistakes that - back in the 1980s - already scholars like Susan Strange (1987) or Bruce Russet (1985) debunked. Furthermore, it is crucial that academics accept that hegemony at one time does not necessarily equal hegemony at another time. Not only is the perception of global hegemons as being all-powerful
fully misleading (this has historically never been the case so far; hegemons are at the most dominant in the system) but also is it like ‘comparing apples with oranges’ (Kornprobst 2007) since states and hegemons fully differ in the way they are constituted and in their exertion of power (e.g. the US as a national construct has become a highly adaptable state-societal complex that now manages to disperse its power whereas China still forms a more hierarchical ‘black boxed’ system that mainly exercises power via the party/governmental level) (Langley 2002; Seabrooke 2001). Hence, scholars need to be careful in defining what constitutes a hegemonic state and how exactly power is exercised.

Broadly in line with Susan Strange (1987:553) who once stated that ‘the great game of states has changed’, I believe that hegemony (understood as the predominant influence of one nation in the international system) in the current case of the US first and foremost rests on its influence on the financial and monetary order. Along with the process of financialization (i.e. the increasing role of financial markets, financial institutions and financial actors in the operation of the global system), the US has managed to dominate and shape the global order by means of diffuse, diversified and delinked forms of power (see e.g. Langley 2002; Seabrooke 2001; Helleiner 1994; Eichengreen 2008). I therefore assume that US hegemony in global financial and monetary relations is based on three central and inter-related pillars: 1) institutional power (control over outcomes in the International Monetary Fund), 2) structural power (dollar/Wall-Street dominance, forming an ‘exorbitant privilege’) and last but not least 3) ideational power (Neoliberalism as the leading politico-economic ideology - especially since the 1970s). In concerto this has served the countries’ very own interest, whereas other nations have repeatedly been forced to shoulder most of the burdens of adjustment. However, the sovereign debt crisis of 2008ff. which - as indicated before - is widely perceived as a critical juncture not only laid bare the deficiencies of the US-centred order and the increasing vulnerability of the highly indebted and economically stuttering hegemon, but also opened a window of opportunity for its main rival: liquidity-rich and booming China. Accordingly, Beijing is now starting to contest the US in the realm of money and finance by: 1) significantly increasing its influence within the International Monetary Fund, 2) extending the international role and convertibility of the Renminbi and establishing Shanghai as a new global financial center until 2020, and 3) following a Neo-Mercantilist/Listian national approach which is signified by gradual financial liberalization and an accumulation of monetary reserves. After a short but inevitable elaboration on the concept of power (Ch. 1), I am to provide an answer if these efforts (Ch. 2-4) in times of financial and monetary crisis are really sufficient to end US hegemony.

1. Sources of Power

The conception of power is a thorny issue even if most scholars agree on the fact that it has centrality in International Relations (IR) and International Political Economy (IPE) alike. Some academics in general avoid to get caught in conceptual
debates and use the term ‘power’ without further specifying it for which reason it often remains vague and undefined. Those however that engage in the long-lasting discussion have neither come to an agreement on the specific nature of power nor on the role power plays in global politics (Baldwin 2002; Guzzini 2005). Consequently, until now and probably for a while to come, it remains to be an ‘essentially contested concept’ (Lukes 1975:137). Yet, the question is do we really have to come to a common agreement on the definition of ‘power’? I reply: It depends. What surely has to be done is to detect and discuss false assumptions about power which again may lead to false conclusion (shifting hegemony) and false actions (for instance ‘preemptive strikes’) with dangerous consequences (regional/global conflict). Such fallacies have to be contained and overcome. Yet, at the same time we have to accept that power is far from being unidimensional but rather a highly diffuse thing which is ever changing with the course of history and the moving constellations of structures and agents in world politics. As such power can take a plethora of forms and therefore is hard to grasp in its sheer totality. Hence, it should not obscure us that different authors tend to attribute completely different meanings to the same term as it always depends on the time and place they are living in and the particular field of inquiry they are looking at (Malthus 1827 cited in Baldwin 1980:473). So, to gain a better understanding of the current world order it is not very helpful to directly start with a big picture and condense the multiple dimensions and conceptualization of power into one and only one framing definition. Rather, the question of power should be treated like pieces of a puzzle which need to be diligently connected. Some pieces will fit others won’t and need to be put aside. Accordingly, I will start this chapter with excluding some of the erroneous conceptions of power in order to path the way for my analysis on three crucial ‘pieces of power’ in the realm of global finance which I believe to be crucial or even the heartbeat of the current hegemonic position of the US.

David Baldwin (2002:18) who explicitly and repeatedly demanded to pay attention to the conception of power which is ‘used so often but understood so poorly’ (cited in Berenskoetter 2007:2f.) describes two dominant traditions when it comes to the analysis of power in IR/IPE. The first one is the narrow ‘national power approach’ which treats power as a possession or resource (for instance containing a countries’ gross domestic product, its military capabilities and population size) and is deeply rooted in (neo-)realist thinking (see for instance Waltz 1979; Grieco 1988; Mearsheimer 2001). It is what Stefano Guzzini (2000:55; 2010:5) likes to call a ‘lump concept of power’ as it preconditions that power is always measurable in concrete numbers which - in fact - is only seldom the case. If we would follow this power-as-resource argumentation and take a look at the current data, the ascent of China to global hegemony does only seem like a matter of time (will it take 20 years or maybe only 10 years?): the country has by far the biggest population in the world, sustained an impressive GDP-growth rate of approximately 10%/annum\textsuperscript{1} and is quickly

\textsuperscript{1} In 2001 China had a share of 8% and the US of 23% of the world economy (measured in GDP) whereas only one decade later - by 2011 - China rose to 13% and the US got down to 19% (IMF 2011b).
modernizing its vast army, whereas the US seems in relative decline. Yet, how does this translate into ‘real’ power and influence on a global level? China has surely been remarkably successful in its development which deserves a lot of admiration but its ability to convert its material capabilities into a form of global (if alone regional) dominance is not only limited but highly exaggerated. Thus, what is of crucial importance in regard to the proclaimed ascent of China to hegemony is the ‘problem of fungibility’ which refers to ‘the degree to which various components of national power are fungible or interchangeable’ (Schmidt 2007:47). So, assuming that we would measure power by GDP only and taken into account that China quite likely will surpass the US within the next decade, it seems very reasonable that the former will quickly obtain hegemonic status. Yet, besides the fact, that numbers would surely look quite different if total output would be measured in ‘value-added’ instead of tricky GDP, Chinese power quickly appears like a chimera. Especially, if we take the following observation in regard to Japan’s former rise into account (de Jonquières 2012:2): ‘Economic size does not, of itself, confer international influence. Japan, at its economic apogee in the 1980s, had the world’s second largest GDP, a huge current account surplus, bulging foreign exchange reserves and a world-beating manufacturing sector. Yet, despite widespread predictions that it was set to become a dominant power, it never translated those strengths into matching political or diplomatic influence, let alone leadership’. Thus, to measure Chinese power for instance on base of its GDP levels, is providing wrong answers.

The given example shows that power is not a unitary concept which is always and everywhere the same but has to be seen as ‘a process of interaction whereby a state is able to exercise influence over the actions of another state’ which ‘disaggregates [...] into a number of components’ and rests on many different bases (Baldwin 1979:180,192; Schmidt 2007:48). This leads us directly to the second tradition, the ‘relational power approach’, which moves away from the narrow view on national resources-as-power to an understanding that power is mainly exercised in an actual or potential relationship. Quite recently, Michael Barnett and Raymond Duvall (2005) have been very successful in developing a convincing conceptual framework that is able to cover such multiple and relational forms of power and at the same time leave room for scholars to engage in a conversation across divergent theoretical perspectives. To be precise, Barnett and Duvall define power more generally as ‘the production, in and through social relations, of effects that shape the capacities of actors to determine their circumstances and fate’ and offer a taxonomy of power which they structure along two main dimensions: i.e. the type of ‘social relations through which actors’ capacities are affected’ and ‘the specificity of social relations through which effects are produced’ (ibid.:39,43,45). As a result, they suggest four broader concepts of power that include: 1) compulsory power (power as relations of interaction of direct control by one actor over another), 2) institutional power (control actors exercise indirectly over others through diffuse relations of interaction), 3) structural power (constitution of subjects’ capacities in direct structural relation to one another), 4) productive power (socially diffuse production of
subjectivity in systems of meaning and signification (ibid.). What becomes obvious is that Barnett and Duvall are strictly moving away from the out-dated ‘national power approach’ and offer an alternative reading that is based on the ‘relational power approach’. In my subsequent analysis of US hegemony in the global financial and monetary order, I will take this helpful differentiation into account yet will modify it and narrow it down to only three sub-sources of power that I believe to be crucial for financial and monetary power as a - if not the - central element of nowadays global hegemony. Hence, I am to focus on the trinity of 1) institutional power, 2) structural power and 3) ideational power which upholds US hegemony in the global financial and monetary system. All three named sub-sources of financial and monetary power are deeply inter-connected/dependent and are conceptually detached from each other to clarify their significance.

2. Institutional Power

In 1944 the US had the capacity to (co-)create the IMF as an international institution of global reach in order to organize the post-war order corresponding to its own interests; this henceforth provided Washington with the capability to significantly shape and steer the financial and monetary rules of the game (Ikenberry 2001). Once ratified in 1945, membership quickly grew from 29 to meanwhile 188 states. However, China as one of the IMFs founding members did not have the economic magnitude to influence the bargains and only had the choice to ‘take it or leave it’ (Gruber 2000). Subsequent to the Communist victory over the Nationalists in mainland China, the Republic of China (Taiwan) officially represented the country at the IMF. This situation lasted until April 1980 when representation moved back from Taipei to Beijing after diplomatic relations had been ‘normalized’ between the US and the PRC. Initially, the IMF was meant to provide an answer to the fallacies of the Great Depression when states engaged in so-called beggar-thy-neighbor-policies (e.g. by means of quotas, tariffs and competitive devaluation) and in a nationalist move, one after the other, withdrew from financial integration (Thirkwell-White 2005:13). In view of this and due to the destructions of the Second World War, official rules of the IMF - which are still more or less unaltered since its transcription - explicitly allowed members to use capital controls in order to facilitate macroeconomic goals but at the same time provided incentives for countries to stay financially integrated (Helleiner 1994).

This was broadly the norm until the 1970s and it is more or less what China still adheres to. Yet, new global dynamics and political considerations subsumed under the rubric of financial globalization during the 1980s and 1990s significantly shifted the practice of capital controls to a desire for financial openness - or to put it in the words of Jeffrey M. Chwieroth (2010) what was ‘once part of economic orthodoxy, became identified as an economic heresy’. During this time, the IMF gradually extended its once limited focus on balance-of-payment lending to measures of structural intervention and - broadly in line with US preferences - portrayed the (liberal) marked-based system as the new ideal (Barnett/Finnemore 2004:47). In fact,
China initially aimed for global convergence and moved into the direction of capital account convertibility but was impeded to continue this process when it saw what did happen during the East Asian Crisis in 1997 after neighboring states prematurely engaged in financial liberalization and suddenly found themselves at the mercy of the IMF and the US (Robinson et al. 2000). Accordingly, Beijing opted for a neo-mercantile policy of self-insurance, kept its strict capital controls and a fixed exchange rate and thus continued to pile up immense surpluses. The IMF, on the other hand, which was commonly perceived as a willing handmaiden of the US, slipped into an institutional crisis and until recently became partially marginalized. Yet, as André Broome (2010:38) rightly points out ‘influence of international institutions in global affairs seldom remains constant over time’ just as the power of states faces up- and downturns for which reason the ‘importance of the IMF seems to increase in times of crisis and decreases in times of relative macroeconomic stability’.

Undoubtedly, the sovereign debt crisis of 2008ff. has brought the IMF as the central institution of global financial governance back into the game since it caused a high demand among affected governments for external financial support and required a central authority and lender of last resort (Copelovitch 2010:1,3; Clegg 2012). As a direct result the Fund’s lending capacities have recently been tripled to $750 billion. Nonetheless, current IMF rules after all provide an advantage for liberal and deeply financialized and globalized market economies like the US. Apart from that, the US has always been the largest financial contributor to the IMF and still exerts disproportionate influence because it holds around 16.7% of the voting-shares which entails that the US is the only country which can veto crucial decisions requiring a supermajority of 85%; including all alterations in the Fund’s Articles of Agreement (Copelovitch 2010:25; Chwieroth 2010:26). Meanwhile, Beijing never enthusiastically endorsed the institution and stays in a ‘fraught relation’ with the IMF since the country, for a significant time, ascribed itself to an opposing politico-economic philosophy which rested on a strong preference for direct financial control mechanisms (Lee 2009).

Even so, both Mark S. Copelovitch (2010), writing from a rationalist perspective, and Jeffrey M. Chwieroth (2010), writing from a more sociological/constructivist perspective, give valuable insights in that the IMF - despite its technocratic appearance - is a highly politicized institution, which does not only adapt to the wishes of its largest shareholders (first and foremost the US) but is also influenced by the training and beliefs of its bureaucrats (of whom most studied in the US). Following an expression of John Maynard Keynes (1936:383-384) ‘The ideas of economists [...] are more powerful than it is commonly understood. Indeed the world is rules by little else’. And it is true that most experts and bureaucrats are socialized by their specific training which often reflects a certain zeitgeist and the need to solve the urgent problems of the 1) time and 2) place they study in. Ad 1) The US faced the need to overcome the problem of ‘stagflation’ including economic rigidities and financial limitations when the Neoliberal ideology (especially based on the theories of
neoclassical Friedrich August von Hayek and monetarist Milton Friedman) gained momentum and by and by spread through the whole political system including the IMF. Ad 2) Most economists working for the US-government and the IMF were/are trained in prestigious US-universities\(^2\) (like Harvard, MIT, Chicago, Berkeley, Stanford and Princeton) and caused an endogenous change within the institutions by hollowing out Keynesian economics that prioritized capital controls and by embracing ideas of policy adjustment and structural reform (Chwieroth 2010:17,50,88). Hence, the rules of global finance and widespread norms within the IMF are not necessarily about reasonable economics and efficiency but about politics and believes prevalent in the US. So to say, a form of ‘ideational power’ (see Ch. 3) dissolved into ‘institutional power’.

In line with this argument, it is a common fact that Ivy League graduates and economic experts often tend to circulate in between academia, the US Treasury, the Wall Street and the IMF (Thirkwell-White 2005:181,182). Within this wider ‘Wall-Street-Treasury-IMF Complex’ (Wade/ Veneroso 1998), which could be perceived as a state/societal amalgam, interests to maintain and promote the free global movement of capital remain paramount since the US is home to the largest private creditors in the world market. Yet, support for financial liberalism does not only stem from governmental or elitist groups but is - despite temporary indignation - deeply embedded in the US society which over the decades became socialized to embrace private credit practices and direct financing (Seabrook 2001; Langley 2002 & 2008). Due to their investments and often high indebtedness most US-citizens have now a stake in financial openness and the global success of domestic banks. Nevertheless, despite certain consistencies, central institutions of global (financial) governance like the IMF are not totally rigid structures but steadily change and adjust to changing conditions. However, both given (politico-economic) ideas and interests combined with multiple sources of influence limit the potential to significantly move away from a once taken and partially locked-in path (Thirkwell-White 2005; Layne 2009:166). Therefore, even if the sovereign debt crisis required some concessions, ideational reconsiderations and a greater tolerance for unorthodox measures, like short-term capital controls and extensive public bail-outs, it is highly unlikely that the US will accept international rules that will permanently narrow the leeway of its financial institutions (Broome 2010:37).

Moreover, extending the voting share of China from 3.65% to 6.07% (reform of 2010 which is not yet in effect, see IMF 2011a) and extending the G7/G8 to a G20 does not really have a significant substance but is rather a symbolic act to keep frustrated members like China on board and provide some kind of perspective by

\(^2\) It is noteworthy, that in 2011 several Harvard students in economics left a seminar taught by Professor N. Gregory Mankiw because they were ‘deeply concerned’ about a certain bias to neoclassical/neoliberal economics and the concurrent exclusion of alternative/critical theories. In an open letter they stated: ‘Harvard graduates play major roles in the financial institutions and in shaping public policy around the world. If Harvard fails to equip its students with a broad and critical understanding of economics, their actions are likely to harm the global financial system. The last five years of economic turmoil have been proof enough on this’ (see Harvard Political Review 2011: http://harvardpolitics.com/harvard/an-open-letter-to-greg-mankiw/?mid=51).
giving these countries a supposedly stronger ‘voice’ to prevent their ‘exit’ (Hirschman 1970). However, despite the fact that voting shares have been shifted and the G20 has been established as a permanent forum in order to better incorporate emerging economies and to affirm continued relevance of the IMF, legitimacy problems still remain an issue (Seabrooke 2007; Beeson and Broome 2008). Accordingly, in order to overcome misalignments, China is - so far unsuccessfully - demanding that a more reasonable automatic quota adjustment process is installed which better should reflect changes in the relative economic position of IMF-members (Yi 2009). Still, as Jeffrey M. Chwieroth (2010:277) states ‘reform of the IMF [...] could [...] end up being an empty victory for emerging markets and developing countries if it has little impact on staff beliefs and intra-organizational processes’. Moreover, enduring dissatisfaction among China et al. does not necessarily imply that an alternative to the US-dominated IMF can be created from close to scratch as horrendous sunk costs are involved after decades of membership. Still, it has to be said, that US institutional power is not absolute in the sense that it can do whatever it wants since it seldom achieves its goals unilaterally yet, at the same time, the US is still extremely powerful in that it is able to prohibit others (like China) to realize outcomes which are in direct conflict with its national ideas and interest (Woods 2003; Thirkwell-White 2005:183). This is true for several reasons which add up to the aforementioned points: 1) the US still upholds good connections with its Western allies (forming the G53 that is in de-facto control over the IMF executive board) which makes it easier to build stable (voting-)coalitions, as well as 2) the proximity of decision-makers and lobby/interests groups to the Washington-based IMF provide the US with an advantage as it is able to influence IMF staff and diplomats.

In addition, up until now, China does not really seem to have a clear or definite idea of what it wants to achieve within the IMF; it rather knows what it wants to avoid. That is not to become too dependent on the IMF (e.g. China used IMF credits twice - in 1981 and 1986 - and was eager to pay it back quickly; see IMF 2004) besides being forced to endanger its domestic stability and growth by structural adjustment measures. At the same time, the country is required to stay on board of the IMF to help stabilizing the global financial system which remains to be crucial for the countries’ further rise and development (Zhang 2011). Furthermore, as Peter Lee (2009) points out, leading diplomats believe that ‘China has still not forgiven the Fund for introducing new currency surveillance rules in June 2007, at Washington’s behest, that make it easier for it to determine whether a country is keeping its exchange rate fundamentally misaligned to boost exports’. Not only does this prove that US policy-makers, to a large extent, succeed in achieving their preferences but it shows that the IMF is partially instrumentalized to support Americas’ financial and foreign policy objectives (Oatley/Yackee 2004). Consequently, China’s maintained fixed exchange rate is now putting the country in a problematic situation as Article IV of the IMF’s Articles of Agreement (surveillance on the monetary system) explicitly

3 Besides the US the G5 includes the United Kingdom, Germany, Japan and France.
stresses that ‘member states must avoid manipulating exchange rates to gain an unfair competitive advantage over other members’ (Bo 2010). Hence, at the same time that China allegedly gains from an increase in voting power, the country is not only stigmatized as a ‘norm-deviator’ but put under even more institutional pressure to restructure and reform its economy and appreciate its currency. Hence, it seems as if the US is momentarily on a good way to - once again - become successful in ‘outsourcing’ at least some of its burdens of adjustment.

Consequently, it is totally inadequate to perceive the US as a single actor or an evil puppet-master in full control of the IMF. Rather, divergent interests and ideas coming from the US as a broader state-society complex seep through the IMF and transform the institution into a kind of global mediator. Thus, US institutional power is not always direct but often much more diffuse in character and simultaneously articulated on many different channels. China, on the other hand still has to be conceived as a kind of ‘black boxed’-actor since most influence on the global level is first and foremost expressed by governmental (or more precisely CPC) officials only. In this case however speaking with ‘one voice’ does not constitute a strength but a weakness as Beijing does not manage to get hold of the multiple levels and forms of institutional power in the IMF. Not only has the freedom of capital never really been questioned but there is also no fully elaborated alternative ‘Chinese model’ in sight (James 2009). As a result, it is highly doubtful that US institutional power has really been significantly weakened after the crisis or that 2008ff. reflects a new beginning. Rather, it is more or less business as usual with a few new colleagues (G20) and somewhat stricter working regulations for the time being.

3. Structural Power

Susan Strange (1987) prominently coined the term ‘structural power’ and defined it ‘as the power to choose and to shape the structures of the global political economy within which other states, their political institutions, their economic enterprises, and (not least) their professional people have to operate’. In fact, the ‘structure of finance and credit’ that I will focus on is only one of four crucial elements (besides control over security from violence, control over the system of production of goods and services, control over knowledge and information) which she elaborated in her work. To be precise, since its final disentanglement form gold-parity in 1971, US structural power in global finance finds expression in the following four points: 1) ‘the ability to control the supply and availability of credit denominated in dollars’ (i.e. privilege of seigniorage) which enables the US to better finance global operations and ‘to run a persistent and increasing deficit’ vis-à-vis all other countries, 2) the capacity to avoid painful payment adjustment costs by either shifting the burden to others or delaying it, 3) the fact that governments, companies and individuals which decide to use the dollar automatically turn into stakeholders as they develop a vested interest in the fate of the currency, and last but not least, 4) the situation that all negotiations about reforms of the monetary system have to take place in the context of dollar-domination (Strange 1987:568-569; Kirshner 2008:425; Eichen-green 2011:6;
Cohen 2006). The above described sort of US power or, as it was often called, ‘(super-) exorbitant privilege’, became palpable during/after the financial crisis of 2008 (Andrews 2006; Strange 1987; Eichengreen 2011). This for several reasons: First, instead of engaging in structural adjustment measures and following IMF rules, the US government opted for the implementation of expansionary fiscal and monetary policies in order to safeguard its economy and bail-out crucial (financial) enterprises (Otero-Iglesias/Steinberg 2012:7). Such considerations required extensive quantitative easing and public spending which repeatedly made experts believe that the US will finally fall off the metaphorical ‘financial cliff’ - yet, so far, this worst-case scenario has not materialized.

(Source: The Economist – KAL’s Cartoon, 5th January 2013)

Simultaneously, the US tries to seize the chance to force hesitant and resisting China to let its currency finally appreciate in order to raise its own economic competitiveness again (as for most of the last decades US-growth was mainly based on financial innovation which seems to reach its limits now). Beijing’s decision to peg the RMB to the dollar was taken before the US-initiated breakdown of the fixed-exchange rate-regime and it became a rigid peg from 1994-2005 (8.2 RMB = 1 USD) in order to keep a competitive exchange rate and allow for macroeconomic management followed by a short period of gradual appreciation from 2005 until the outbreak of the crisis 2008 (Kaelberer 2005:336). Hence, China’s currency alignments were only sporadic and the side-effect of keeping a fixed exchange rate to the US currency was the accelerated accumulation of foreign (especially dollar) reserves; this however was initially perceived as a neo-mercantile form of self-insurance policy. Moreover, China has benefitted significantly from undisciplined US debt-financing as it helped to facilitate the demand for Chinese export goods. However, Beijing is now getting highly nervous and demands a more responsible US policy to keep the value of the dollar stable (Otero-Iglesias/Steinberg 2012). But that would imply distasteful acts for Washington like ‘austerity budgets, deflationary monetary policy, costly and
compulsory intervention in exchange markets’ which it wants to avoid at any price (Kirshner 2003).

The problem is that due to the self-inflicted ‘dollar trap’, Beijing has only limited possibilities to get out of this dilemma or strike back (e.g. dumping high amounts of dollars would be extremely self-harming and devastating for China as it would further accelerate the process of depreciation; see Segal 2003; Krugman 2009). Quite recently, in 2010 the FED initiated another round of quantitative easing and pumped $600 billion into the market, among others, with the aim to weaken the dollar and thereby undermine/destabilize the RMB-peg by exporting inflation (Otero-Iglesias/Steinberg 2012). Due to the fact that Chinese households have an extremely high saving rate and since sustained domestic growth during current times of reduced global demand depends on steady state investment this may become extremely problematic for China in general, and CPC cadres in special, as it might cause national turmoil (Feldstein 2010; China/Wang 2012). Moreover, China is by far the biggest holder of dollar-denominated foreign reserves (i.e. around 60% of $3.2 trillion; to a large extent re-invested in US treasury bills) which is why it fears a significant drop in the value of its assets and perceives such expansionary actions as a non-declared ‘currency war’ (Zhang 2010; Yao 2011). It becomes obvious, that China is not in fully autonomous control of its monetary policies anymore and depends on decisions taken in the distant US capital (Yu 2006; Breslin 2007:143). Thus, the statement of Jonathan Kirshner (2003:645,646) that ‘money is power’ for which reason ‘every choice about money reflects the outcome of a political contest’ seems adequate.

Therefore, a depreciating and diluted dollar does not necessarily imply that US supremacy is permanently weakened (Kaelberer 2005:339). Quite the contrary, in this case it is used as a powerful weapon to force China to bow to US demands. To be precise, the US which removed the fixed convertibility into gold in 1971 (the ‘Nixon shock’) and for the first time devalued the dollar in 1973 (the ‘Volcker shock’) continuously tried to force China to appreciate the RMB and openly names the country a ‘currency manipulator’ (Bowles/Wang 2006:235). However, China so far tries to be resistant out of three central reasons: it wants to 1) keep low prices so that its exports stay cheap, 2) follow a Neo-Mercantilist/Listian developmental strategy and 3) avoid the ‘Plaza Accord’-effect (i.e. in 1985 Japan was forced by the US to appreciate the yen and entered an extended period of relative economic stagnation) (ibid.:248). Nonetheless, how long China will be able and willing to fend off US demands is hard to answer. No doubt, the US is seriously harmed by its deflationary measures since it implies a loss of international confidence and trust in the dollar, and because it involves higher domestic inflation and increased interest rates. Yet, in the long run, Washington is likely to keep the upper hand vis-à-vis Beijing as the possibility to sustain disequilibria for a long while provides it with endurance.

So, in the end, it is probably less because of Chinese power but more due to the US engaging in a dangerous monetary game that dollar dominance could be
wracked havoc. And it is true; the world’s dependency on dollar and Washington’s monetary policy are (once again) critically debated in the aftermath of the global financial crisis. Nonetheless, post-2008 turbulences in peripheral European countries implicated the ‘Euro-crisis’ for which reason the common currency was significantly harmed and the dollar re-strengthened as a global safe-haven. Hence, despite its given instability, the dollar continues to be the ‘primus inter pares’ as a reserve currency for central banks (i.e. approximately 60% of the global total) and is used in approximately 85% of the foreign exchange transaction (Eichengreen 2011:5). So to say, the dollar is surely not the top currency because it is the most reliable or most beautiful one, but it remains largely out of competition due to a lack of viable alternatives which allows the US, after all, to ‘print money that others could not (save at unacceptable cost) refuse to accept in payment’ (Strange 1987:569; Otero-Iglesias/Steinberg 2012). Berry Eichengreen (2011:5) goes even one step further and is convinced that ‘America’s financial power was actually strengthened by the crisis’ due to the fact that US debts, which are largely denominated in US currency slowly melt away since the dollar continues to be depreciated. Fully aware of this problematic situation, China aims for challenging US structural power by trying to convince the world to gradually move away from the dollar/Wall-Street-dominance by accepting the RMB as a new reserve currency and by investing in Shanghai as a new global financial center.

To start with, riding on the tide of the crisis, the Governor of the PBC Zhou Xiaochuan (2009) expressed Chinese distress with the current dollar-based monetary order and - based on an old Keynesian proposal to create a supranational currency (the ‘Bancor’) - demanded a strengthened role of the IMFs’ Special Drawing Rights (SDR) which should function as an independent reserve unit on basis of currencies from major economies (including the RMB). This announcement was actually the first time that the ‘Chinese leadership has publicly issued a high-profile statement of concern about the international currency system’ and directly challenged the dollar-domination (Chin/Wang 2010:1). Yet, due to two of the leading economists from the US this was more a symbolic than a serious act (Eichengreen 2011:142ff.) and reflected ‘an admission of weakness’ as well as ‘a plea that someone rescues China from the consequences of its investment mistakes’ (Krugman 2009). Furthermore, according to Onno Wijnholds (2009; former Dutch Executive Director to the IMF) the SDR have to be seen as the ‘monetary equivalent to Esperanto’ as a foreign language. And it is surely true; SDR are unlikely to function as an international currency-equivalent as they are not in real usage because of a lack in liquidity and confidence (Eichengreen 2011:138). Anyhow, serious considerations to use SDR as an ersatz for dollars were directly choked off by US resistance in the IMF (Reuters 2009).

The aim to internationalize the RMB was first announced in 2006 after a study group on behalf of the People’s Bank of China (PBC) completed a paper called ‘The Timing, Path and Strategies of RMB Internationalization’. However, the project did not instantly take off and in the beginning remained hidden in the drawer until - soon after - the global financial crisis broke out and finally made RMB-internationalization
a top priority within the Chinese government (Zhang 2009:24; Cohen 2012:362). Due to Paulo Subacchi (2010) the PRC momentarily follows a two-track approach to reach this ultimate goal: 1) use of RMB in foreign (i.e. mainly regional) trade is slowly increased by means of currency swap agreements and 2) acceptance of RMB-denominated bonds and deposits in global finance is facilitated with help of ‘offshore’ markets in Hong Kong as an autonomous Chinese region. Yet, despite these undertakings, global demand for a national currency depends on additional determinants which according to Benjamin J. Cohen (2012:368-369) and Eric Helleiner (2008:359) include: 1) widespread confidence in the money’s future value and usability, 2) backing by political and economic stability in the country of origin, 3) well-developed and deep financial markets and transactional networks. In direct comparison to the US however authoritarian and conflict-prone China scores extremely low in most of the above factors.

Accordingly, Benjamin J. Cohen (2012:362,369) rightly concludes that for the moment the RMB not only remains to be ‘one of the most tightly controlled currencies in the world’ but that China - despite the fact that it is now the global champion in exports with an impressive growth in GDP - is ‘something of a pygmy’ with inadequate power in monetary matters. Hence, the size of an economy does not seem to be the decisive factor determining the position of a country in the global financial and monetary order. Besides, the extensive political and economic involvement of the Chinese state in internationalizing the RMB might become the central hindrance of its acceptance. Contrary, the dollar once became the central currency largely by chance and many decades after the US had climbed the top of global production. Furthermore, the measures taken so far remain largely insufficient as Chinese decision-makers have no choice than to cool down the pace of internationalization and exchange rate adjustment in order to keep domestic stability and avoid a sudden shock like it did happen to its neighbors during the 1997 East Asian crisis (Bowles/Wang 2008:343,348; Subacchi 2010). Therefore, it will remain difficult, if not close to impossible, to internationalize the RMB if it does not go hand in hand with a fundamental change of China’s economic structure which again would require that it strengthens and opens its domestic capital market, achieves full convertibility and accepts floating exchange rates (Murphy/Wen 2009).

Finally, in 2009 Chinese officials from the State Council made a strategic decision to signal their commitment to more financial openness and published a pledge that no later than 2020 Shanghai will become a leading international financial center (IFC) which should be on par with New York by offering deep and liquid markets that are opened up to the globe (Cohen 2012:364; Luo 2011:1; China Daily 2009). The underlying reasoning is that Shanghai - which once had been a heavy weight in global finance during the golden 1920s/1930s - is the ‘most qualified metropolitan city on the Chinese mainland to pursue the ambition’ (in cooperation with Hong Kong as a quasi-‘offshore market’) (Yang/Lim 2010:127). But how realistic is this determined target? In fact, a number of core challenges may
considerably delay this goal. The two most crucial ones are 1) overdue modernization and reforms of its ossified and underdeveloped financial system as well as 2) a considerable reduction of government intervention in the credit market. In regard to the first point, the internationalization of the RMB is directly connected to Shanghai’s prospect to become a world financial centre and remains its biggest obstacle. Besides, the Chinese leadership knows that an abrupt liberalization of capital flows and convertibility can be harmful when a national financial system is still as weak as China’s (Lu 2011:29). For that reason, the PRC’s rather slow and gradual process of opening up financially - as it once did economically (following Deng Xiaoping’s famous expression: ‘crossing the river by feeling the stones’) - is somehow in conflict with the aspiration to present Shanghai as an IFC and the concomitant requirement that the RMB has ascended to be a global core-currency within less than a decade (Chin/Helleiner 2008). Besides that, China’s financial market lacks advanced financial instruments and is signified by the domination of strong but inflexible state-owned banks. The second point is somehow interrelated with the first one since the financially Neo-Mercantilist/Listian developmental strategy (see Ch. 4) was based on the prerequisite to have governmental control of the domestic financial market, which implies more domination than interaction and regulation. The need to keep monetary policy autonomy in order to ensure political/social stability and buttress its export-sector based on cheap manufacturing goods made the prevention of unrestricted capital mobility across China’s borders a necessity.

Surely, China now aspires to move away from its strong bias towards export and low-price production and wants to open up financially but again this could not be done overnight. By now, Shanghai is already the most important domestic financial centre in China and is surely becoming a well-respected regional one, but if it will manage to become a direct competitor of the Wall Street or the City of London as a truly international hub by 2020 remains doubtful. Due to the Global Financial Centres Index (Long Finance 2013) which evaluates IFCs across the world based on five indices (i.e. qualified people, business environment, market access, infrastructure and general competitiveness) Shanghai is currently listed as number 21 whereas New York ranks second (after London). Hence, it is still a long way to go to reach the top five. So, to speak with Paolo Subacchi et al. (2012:5) ‘despite China’s large production capacity and trade links with the rest of the world, its financial sector lacks depth and has little connectivity with the international financial system’ for which reason its impact on finance ‘does not match its global economic significance’ for the time being. Actually, China’s integration with the world of finance, up until now, is largely restricted to the accumulation of reserve assets (ibid.). Above that, financial inflows in the form of high numbers of foreign direct investment (FDI) do not necessarily imply that China is in a position of structural strength, rather it signals foreign (i.e. especially US and Japanese) control over Chinese production and technology (Breslin 2005). Likewise, its recent investments abroad by means of its hyped ‘sovereign wealth funds’ are mostly an attempt to receive, at least, some return on its massive
reserve accumulations that otherwise would signify ‘dead money’ (De Jonquières 2012:5).

Taken in total, as in the case of ‘institutional power’ before, the US cannot unilaterally do whatever it pleases and depends on the support, trust and decisions of other states in the system. Yet, due to its ‘structural power’ which is based on the dollar/Wall-Street dominance vis-à-vis the given RMB/Shanghai insufficiency, it continues to have significant leverage in the monetary and financial order for a while to come (Sarai 2009). China on the other hand might turn out to be a dragon without teeth that for the moment produces nothing but hot air, given the situation that Beijing quite likely will fail to deliver what it has proclaimed (Skidelsky 2012). Accordingly, also in regard to this sub-source of financial and monetary power China’s influence seems largely overstated.

4. Ideational Power

The last three decades have been dominated by Neoliberalism as the central politico-economic ideology which has inextricably been linked to the intensified process of financial globalization (Saad-Filho/Johnston 2005; Harvey 2005). Broadly defined, ‘ideologies are systems of widely shared ideas and patterned beliefs that are accepted as truth by significant groups in society’ and - as in the case of Neoliberalism - have direct effects in global politics (Steger/Roy 2010:11). Consequently, certain ideas - or in its stronger form: ideologies - can convert into a form of ‘ideational power’ as soon as key actors fully embrace them as causal beliefs and subsequently aspire to shape the understanding which kind of politico-economic actions should or should not be deemed acceptable (Béland/Cox 2011:3). This is what happened when Neoliberalism as a politically applied project spearheaded by an Anglo-Saxon ideational alliance formed by Ronald Reagan and Margaret Thatcher rose to prominence during the late 1970s and early 1980s. So to say, the US and the UK initiated a domino effect of accelerated global deregulation and privatization under the slogan of efficient wealth and welfare creation which above all was biased towards the interest of their highly influential financial sectors.

Even though, Neoliberalism as modern day paradigm is deeply rooted in the liberal belief system of the Enlightenment era and emerged from the moral philosophy of Adam Smith and John Stuart Mill, it is now based on anything but the original conception of laissez faire. Rather, as indicated in Ch. 2, the theoretical writings of the Austrian (Friedrich August von Hayek) and Chicago (Milton Friedman) School of Economics are in the foreground which likewise stress the urge for liberty but extent it by giving a central role to the state as a regulatory authority. So, to speak with Alfredo Saad-Filho and Deborah Johnston (2005:3), ‘the most basic feature of Neoliberalism is the systematic use of state power to impose (financial) market imperatives, in a domestic process that is replicated internationally by globalisation’. Nonetheless, after the end of the Cold War Neoliberalism became a truly global phenomenon under the auspice of Washington (with London as its junior partner) for
which reason its total victory seemed to be perfect. However, soon after, in particular the East Asian crisis of 1997 caused an ideological setback since the US Treasury and the IMF were perceived as an unholy coalition that was accused for disreputable interference under the banner of the so-called ‘Washington Consensus’ (Robinson et al. 2000). At any rate, it took more or less another decade until US-style Neoliberalism was said to be confronted with an ideational challenge with China as its key-advocate: i.e. authoritarian state capitalism or what I will refer to as the Neo-Mercantilist/Listian politico-economic approach.

China surely is a Communist country in appearance but especially in regard to its financial relations it is Neo-Mercantilist/Listian by practice as it embraces a form of monetary protectionism and financial interventionism (Bremmer 2011). That is to say, that China managed to grow and prosper on its own gradualist and highly pragmatic terms and largely resisted US demands to significantly appreciate its currency or abruptly open up financially (Ha-Joon 2003). Thus, Beijing so far applied a Neo-Listian strategy in that it maintained a high degree of control over its financial and monetary policies which enabled it to engage in macroeconomic management and national development. At the same time, the country became Neo-Mercantilist in character as the accumulation of foreign currency reserves (like gold in 17th-century Europe) has become a transitory imperative to safeguard the country from outer interference. At this point it is noteworthy that the low levels of financial integration and considerable state investments due to China’s immense reserves helped the country to successfully weather the financial crisis. Repeatedly, China’s Neo-Mercantilist/Listian economic policies under the aegis of the CPCs dirigiste influence and authoritarian statehood are therefore perceived as an alternative and successful developmental path to US-led Neoliberalism as an out-bound universal undertaking (Amsden 2007; Selwyn 2009; Breslin 2009). Nevertheless, even though it is often portrayed as such, China is historically not exceptional in its developmental path, taking into account that there are obvious ‘continuities between the Chinese model, previous Asian models of state developmentalism, and even earlier European and American systems of state-guided development’ for which reason it is largely overstated to describe China’s strategy as something totally new and different (Breslin 2011:1336; Selwyn 2009; Ha-Joon 2003). What however is surely a novelty are the global effects that China’s economic policies create due to its sheer magnitude.

Anyhow, seen from a more theoretical perspective, Friedrich List (1789-1846) never fully rejected the assumptions of Adam Smith (1723-1790) and his followers, but in his central work ‘The National System of Political Economy’ (1841) aspired to improve their thoughts by criticizing that it is a false promise that every nation will always benefit from opening up, before reaching a certain level of economic/financial sophistication and competitiveness (Levi-Faur 1997; Radice 2008). Therefore, according to Gerhard Strange (2011:544), a Neo-mercantilist/Listian strategy is only temporarily applicable and based on national sovereignty or ‘autonomy’ defined as the ‘capacity to act’ during different stages of development. With successful growth and
sustained progress however ‘autonomy loses its potency’ for which reason the state as a central actor ‘must start to exercise (global) influence or actively project power’ if it wants to remain significant (ibid.). China has now entered the latter stage as its (financial) autonomy is reduced and increasingly limited for which reason Chinese decision-makers aspire to go global. So to say, Neo-Mercantilist/Listian ideas and policies, to a large extent, need to be seen as a means to the end of openness as permanent protectionism is not deemed feasible. In view of that, China - despite the crisis of 2008ff. - plans to liberalize and internationalize its financial sector and is experiencing a slow ‘unraveling of developmentalism towards authoritarian Neoliberalism’ as it requires a major paradigm shift to overcome obstacles and reach new modes of development; e.g. by adapting to a more flexible credit system (Strange 2012:541; Breslin 2011:1326).

Thus, Neo-Mercantilist/Listian politics are not a permanent imperative and rather function as nation-specific and thus non-exportable measure to facilitate the end of gradual openness. Actually, Ha-Joon Chang (2003) elaborates that in the 19th century the US itself used similar pragmatic tactics and protectionist mechanisms in order to gain the ability to grow and prosper under the shadow of the British Empire. Hence, the concept is not necessarily in conflict with Neoliberalism as an idea that is more integrative in character. Consequently, it is not totally unlikely that the Chinese developmental state model based on Neo-Mercantilist/Listian policies may wither away, like it was once the case with the US before it progressively evolved into the Neoliberal state form. Saying that Neoliberalism is a universal undertaking however does not imply that the world is becoming stateless in character (Harvey 2007). Quite the contrary, a strong state with regulatory capacities is required to guarantee its long-term functioning and survival (Germain 2010:12). Anyhow, it seems as if there is no real competition of ideologies taking place - rather it is a struggle of China and other emerging economies to eke out some scope to follow independent and norm-deviant paths of development within the constraints set by the Neoliberal prerogative of interpretation, which constitutes what is accepted as good or bad politico-economic policies. Still, taken into account that China’s Neo-Mercantilist/Listian politics are not necessarily a long-time challenge to Neoliberal ideas, how has US ideational power been affected by the crisis?

Admittedly, the sovereign debt crisis simultaneously signified a temporary crisis of the Neoliberal ideology but surprisingly did not cause its end - or to cite Rawi Abdelal et al. (2011:237): ‘Within the American discourse on globalization, Neoliberalism, and the nature of political economy, it was almost impossible, until recently, even to argue that market mechanisms delivered anything other than efficient, if not optimal, outcomes. The current crisis has thrown this into doubt, but it has not overthrown the idea itself and the discursive practices that constitute the identities that are themselves part of the global financial order’. Accordingly, what we momentarily observe, only a few years after, is not the demise but a re-consolidation and ‘entrenchment’ of Neoliberalism as the globally predominant
ideology (Newstadt 2008:113; Wade 2003). The subprime debacle made it necessary for US decision-makers to somewhat tame its national financial sector after more than two decades of excessive speculations. Yet, Washington’s shallow regulatory measures and the partial reduction of market inherent risk-proneness are not aiming for a permanent disempowerment of finance, quite the opposite, it is meant to strengthen banks and make them more efficient and competitive again. As indicated before, Neoliberalism essentially depends on the state as a provider of a supervisory framework so that the monetary order can be beneficiary for both the state and parts of society, namely US-based finance (Newstadt 2008:91,102). Accordingly, Washington’s post-crisis measures, which at first sight appear as a contradiction to Neoliberal claims, rather should be seen as proof to the point that the US state remains a strong financial regulator and willing stabilizer after 2008 became the ‘greatest regulatory failure in modern history’ (Altman 2009:8). Hence, neither did the crisis of 2008ff. sound the death knell for Neoliberalism nor did US ideational (and governmental) power significantly wither away. Instead, it was an overdue recalibration of private and public interests within the US. On the one hand, the government was sending strong signals to the Wall Street by deciding to sacrifice some financial institutions or clip their wings a little bit and, on the other hand, it supported and ‘bailed out’ others (e.g. the US Troubled Asset Relief Program of 2008) as they remained system-relevant for the nation’s ‘structural power’.

By now, only a few years after the crisis, the US remains to be the top destination when it comes to global investment, its financial sector is slowly but surely getting back on track and is making horrendous profits again, and the IMF, along with other crucial institutions, after all, adhere to the Neoliberal vision of a US-centred financial and monetary order. Contrariwise, politico-economic alternatives (e.g. a return to the Keynesian ideas of fixed-exchange rates) to the current system were not seriously considered or debated (Crouch 2011; Best 2010:200,202). Thus, to share the observation of Leo Panitch et al. (2008:254,285) ‘The crisis has not produced any meaningful delinking from the US-centred global order’ due to the fact that Neoliberalism has to be seen as a highly adaptable and dynamic ideology which ‘all too often […] tends to be reduced to the system of neoliberal thought, as though it was nothing but Hayek or Friedman, rather than a long history of contradictory, uneven and contested capitalist development that led the world to twenty-first century Wall-Street’. As a consequence, despite some setbacks and overdue regulations, the commitment to Neoliberalism as a highly adaptable ideational enterprise has not waned. Furthermore, the Neoliberal ideas are by now deeply embedded in global processes and actions; for which reason even the potential challenger China became progressively more subject to the ‘Neoliberal’ rules of the game which are not only enshrined in the IMF but also promoted by the ‘global monetary enforcers at the US Treasury’ and the demands of global finance (Strange 2011:542; Harvey 2005). This, however, is not to say that we are about to reach the ‘end of history’ (Fukuyama 1992) but certainly the US is not challenged by a politic-economic ideational alternative from China. Moreover, China’s economic development largely succeeded and
proceeded along with the process of (financial) globalization and Neoliberalism - not against it.

Consequently, whereas Neoliberalism surely has to be seen as an ideology which provides the US with ‘ideational power’, it is illusionary to speak of any kind of Chinese ideational power in the realm of the current global financial and monetary order. China’s Neo-Mercantilism/Listian approach reflects a sense of national pragmatism but does not constitute a unique, unitary and universally applicable ideology. It rather remains a means to an end but is not an end in itself for which reason Neoliberalism and Neo-Mercantilist/Listian economic policies are not necessarily conflicting approaches. Still, even though the US has shaped and penetrated the global financial order with its Neoliberal ideas - here, too - its ‘ideational power’ is not absolute as diverse interests and ideas of other globally influential players increasingly need to be taken into account (Germain 2010:9,77). Even so, whose crisis is it really in the end? Isn’t it momentarily rather the Chinese economic model which now requires being recalibrated and reformed so that the country remains stable and successful? Beijing’s current attempts to open up financially give proof to the point that China plans to allow for more financial freedom by following the former example of the US and British governments. Albeit the fact that we are not necessarily in a process of full global convergence, it is at least the recognition that China momentarily aims to increasingly engage itself in the Neoliberal game of global finance in which the US is the uncontested champion.

Conclusion

To conclude, it is undeniable that the sovereign debt crisis of 2008ff. has caused significant global turmoil which not only shattered US hegemony and forced the country to make concessions and adjust to new circumstances but also provided China with a window of opportunity to attempt to free itself from US domination and dependency (Altman 2009). However, even though, US ability to shape the global order has been in relative decline over the past decades, it is still not the case that it has lost a significant amount of power to China, being perceived as its main challenger, - or to quote Christoph Scherrer (2011:241) ‘A crisis as such is not sufficient to undermine hegemony’. In all three sub-sources of financial and monetary power (i.e. institutional power, structural power and ideational power) which forms the backbone of US global hegemony, the country stays predominant. China - so far – is, as I have shown above, not even a close second which again indicates that its proclaimed ascendancy is often falsely measured. The main strength of the US is that its power vis-à-vis Chinese power over time became diffused, diversified and delinked within the global financial and monetary order. Moreover, it becomes obvious that China not only is far more dependent on the US for its weal and woe than the other way around, but also that the PRC still is a comparatively lonely and inexperienced player whereas most nations (itself included) remain to have a stake in keeping the US-led system alive. As a result, Beijing, at least for now, can only act within US-constrains and will only manage to deploy its power potentials after
achieving domestic economic rebalancing and shifting to new modes of growth (Hung 2009:25; Ikenbery 2008; Overholt 2010:33). Thereafter, however, things might look quite different and the US may seriously be challenged.

This somehow reminds me on a famous BBC science fiction series from the mid-1980s called ‘the Tripods’: the hegemonic creatures are just able to stand firm when all of their three legs are intact. If only one of their robotic legs gets damaged they will start to stumble and finally fall. The case of American (financial and monetary) hegemony looks quite similar if we assume the aforementioned three sources of power represent the stabilizing legs and the US state/society amalgam reflects the body and cockpit (i.e. it gets never really clear who sits in the control room). Hence, if one of the three sources of power is weakened or lost, it will not be long until the other two get destabilized as well. This again will put America’s financial and monetary hegemony to an end. But for a while to come US hegemony seems to be secure and its exertion of power stable.

(Source: Screenshot from ‘The Tripods’; British science fiction series - BBC 1984/85)

Abbreviation & Acronyms

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<tr>
<th>Abbreviation</th>
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<tbody>
<tr>
<td>BBC</td>
<td>British Broadcasting Corporation</td>
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<tr>
<td>CPC</td>
<td>Communist Party of China</td>
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<td>G7</td>
<td>Group of Seven</td>
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<td>G20</td>
<td>Group of Twenty</td>
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<td>FED</td>
<td>Federal Reserve System</td>
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<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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IFC  International Financial Centre
IMF  International Monetary Fund
IMS  International Monetary System
IR  International Relations
IPE  International Political Economy
RMB  Renminbi
SDR  Special Drawing Rights
UK  United Kingdom
US  United States (of America)
USD  United States Dollar
PBOC  People’s Bank of China
PRC  People’s Republic of China

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