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## China's Economic Ascent in the 21<sup>st</sup> Century



Global economic leadership is constantly changing. On October 24, 2014, China created the Asia Infrastructure Investment Bank (AIIB), a 21-nation financial institution which funds infrastructure projects throughout the region. China established the AIIB as a means to circumvent the current banking and financing structure, to gain more regional control and influence, and to expedite regional development.

If China has its way, the establishment of the AIIB could position the yuan as the world's next reserve currency.<sup>1</sup> As a result of WWII, many international industrial powers experienced economic dislocation. Only the United States' industry and economy remained intact. By war's end, the U.S. owned  $\frac{3}{4}$  of the world's gold reserves and accounted for 50% of manufacturing.

In order to pursue post-war economic stability, world leaders convened in July of 1944, at Bretton Woods, New Hampshire. There they constructed the "Bretton Woods Accords," a system of rules, institutions and procedures to regulate the post WWII global monetary system. The accords established the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD), subsequently to become the World Bank.

After WWII, economic activity increased in Asia. The Asian Development Bank (ADB) was created in 1966 to provide food production, rural development, rehabilitation and restoration. Despite the fact

<sup>1</sup> More at <http://bit.ly/1baUvIX>



that China is the dominant economic power of the region today, it commands just 6.47% of the vote in the ADB, 5.17% in the World Bank, and 3.81% in the IMF.<sup>2</sup> The U.S., the European Union, and Japan have marginalized China's influence, undeterred by China's insistence on having a greater impact.

China's rapid economic ascent during the past 25 years has transformed the old economic order. In 2013, China overtook Japan as the world's second largest economy, and the yuan surpassed the Euro and became the second most used trade-financed currency in the world. In 2014, China even exceeded the U.S. in total GDP adjusted for purchasing power,<sup>3</sup> and was recognized by the SWIFT system for reaching the top five world payment currencies.<sup>4</sup> China is now a global economic power, imposing risk upon America's preeminent position as the world's central bank and the U.S. dollar as the world's leading currency.

The U.S. spearheaded a strong opposition to the establishment of AIIB. Mohamed A. El-Erian, former CEO of PIMCO, observed that similar U.S. opposition occurred in the 1990s, with regard to an Asian Monetary Fund. He writes, "Countries in the region were extremely dissatisfied and angry about their treatment by the existing, Western-dominated institutions (particularly the International Monetary Fund, which had assumed huge influence with the 1997-98 financial crisis)." Of the more recent Asian/Western clash, El-Erian states, "This time, China is leading countries rebelling against the glacial pace of reform at the institutions that arose from the Bretton Woods system, the IMF and the World Bank."<sup>5</sup>

President Obama had a legitimate reason to oppose the formation of the AIIB. Hugh White, of the School of International, Political and Strategic Studies at Australian National University, says, "...Obama argued against the AIIB precisely because it would strengthen China's leadership in Asia, and hence erode the U.S.'s." Regarding the establishment of the AIIB, White asserts, "this is a massive diplomatic defeat for Washington, as so many of its friends reject the logic underlying U.S. policy in Asia, and embrace a future in which China is increasingly acknowledged and accepted as a regional leader in its own right."<sup>6</sup>

White writes of China's motives and the future development of the region, "To reach its economic potential Asia needs to invest about \$1 trillion each year over the next decade on infrastructure of all kinds." He continues, "Existing outfits like the World Bank and the Asia Development Bank have neither the money nor the expertise to meet this challenge. China alone has the money needed to get things moving and the expertise, built up through its extraordinary achievements in developing its own infrastructure over the past decade."

Julie Makinen, an LA Times reporter, states, "Publically, U.S. authorities expressed concerns that a China-led development bank might not adhere to sufficiently high standards of transparency or

<sup>2</sup> <http://qz.com/372326>

<sup>3</sup> <http://rt.com/business/194264-china-surpass-us-gdp/>

<sup>4</sup> <http://reut.rs/1tnafQC>

<sup>5</sup> Full article at <http://bv.ms/1HB6yeN>

<sup>6</sup> Full article at <http://bit.ly/1ESBGG7>



environmental requirement. But many observers suspected such stated misgivings marked more fundamental U.S. worries about China eroding America's preeminence on a global scale.<sup>7</sup>

Larry Summers, 71<sup>st</sup> Secretary of the Treasury, stated, "In the future, the priority must be promoting investment, not imposing austerity. The present system places the onus of adjustment on 'borrowing' countries. The world now requires a symmetric system, with pressure also placed on 'surplus' countries."<sup>8</sup>

China's frustration over the U.S., Europe, and Japan's control of the global economic system has evoked a profound response. In order to sidestep the current financial structure, obtain more regional influence, and accelerate development, China has established the AIIB. The outcome of the formation of this institution, however, will remain unknown for many years. It is China's intent to eventually replace the U.S. as the dominant global economic power and to establish the yuan as one of the global currencies. The U.S. will continue to resist China in its efforts to gain global economic superiority. This struggle for global supremacy will likely be the dominant event of the 21<sup>st</sup> century.

- Roger L. Johnson

<sup>7</sup> Full article at <http://fw.to/CxMOqjK>

<sup>8</sup> Full article at <http://bit.ly/1G4111g>