

## **CHINA AND GLOBAL ECONOMIC GOVERNANCE**

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**Keywords:** international financial institutions, global economic rule-making, global economic governance

**Abstract:** In the debates over reform of the International Monetary Fund and the World Bank, China has played a limited but important role. Although these two international financial institutions are of limited direct use to China, it thinks they could help to give developing countries a greater say in global economic rule-making, and to remind rich countries of their promises to spend more on aid for poorer countries. China should show that it is willing and able to play a leading role in global economic governance, for example by pressing to change other institutions, such as the International Monetary Fund, or building new ones.

### **Introduction**

When talking about global economic governance, we should consider China's role in the global economy; even if China's role was limited, it is nevertheless important in the process of taking decisions in international trade organizations (World Trade Organization - WTO), in reforming the international financial institutions (International Monetary Fund - IMF and World Bank), or the extension cooperation groups that bring together the most powerful economies.

### **1. China and the Global Trade Relationships**

In WTO China has a constructive role since it joined the organization in 2001 and she realizes that one of the reasons why less developed countries is not waive protectionist measures is because they fear a flood of Chinese imports, although "China is still accommodating, and they do it slowly, in Japanese-style not cowboy-style - entering a hurry in a room with weapons in hand. They don't want to scare anyone" - in the judgment a WTO official. [5]

Trade policy reforms such as those flowing from accession to the WTO lead directly to changes in policy instruments such as tariffs, nontariff barriers, and coverage of trade rules. The main policy concerns, however, are with the impacts on such economic variables as prices; output, employment, and trade volumes; factor returns; and household incomes. In this chapter we estimate the impacts on these key economic variables of China's accession to the WTO in 2001 as a guide to policy and as a basis for subsequent analysis at the household level.[6]

In 2007, WTO members have acknowledged China's growing importance within the organization and proved by choosing the first Chinese official in a position of responsibility. China - along with the European Union and United States - should provide WTO leadership to prevent a complete failure of economic development through trade liberalization measures. A failure of the trade liberalization measures would bring to reality the WTO and the multilateral trading system. If as regards industry, China has shown reluctance to accept reduced fees offered by LDCs, as regards agriculture and services, China has opposed the proposed liberalization measures, arguing that they did so much in 2001 to enter the WTO that simply can not do anything more. Based on the status of "member recently accepted" China believes that it should not do more effort to liberalize but the European Union rejected this argument considering it unacceptable [1]

China, as one of the largest economies participating in global economic cycle, default international trade, might consider that it has enough power to move towards bilateralism. But since China is so involved in the global economy as a global provider, a proliferation of

bilateral business would affect business.[2] Considered the world's largest exporter and second largest world producer, China needs the WTO as "external anchor" for reform and to prevent possible danger of weakening national economy and a pronounced interest, enough to protect business systems multilateral threat segmentation.

## **2. China and the Global Financial Relationships**

The creation of international institutions to regulate the interdependent relations among states was one of the innovative developments in international law to occur in the 20th century. In the years following the Second World War, the reconstruction of Europe took clear priority, and international cooperation for development was relegated to a position of secondary importance.

The international financial institutions are considered that might provide less developed countries a say in creating global economic rules and could remember about the promises of the developed countries to help more the less developed countries. But, when talking about China, the IMF and World Bank have limited involvement.

For now, the IMF is no longer considered the main lender to governments that find it difficult, because many developing countries have learned from their mistakes and formed large deposits in foreign currency. With reserves of 1.5 trillion dollars, China does not appear to need assistance from the International Monetary Fund. More so as China - as well as some countries in Africa, Asia and Latin America - believes that the traditional method of the IMF on open markets, free capital leakage and very low rates are factors that have contributed to generalized economic crisis developments that have marked the century global economy and early twentieth century. To demonstrate its role, the IMF seeks to adopt new measures, including supervision of global financial system and identifying the factors of crisis, support for restoring global economic imbalances. China could still benefit from advice from the IMF to reduce and eliminate macroeconomic disruptions facing currently.

Although the World Bank loaned China more than 40 billion dollars with China's economy has enough resources to finance their infrastructure and environmental projects. China itself is one of the largest creditors of the least developed countries and unconditional loans to economies facing the third world in Africa, in particular, undermine the role the World Bank. However, as signals that China would like to work constructively with the World Bank and not against it. China begins to engage in the process of lending support to underdeveloped countries and is increasingly present in discussions on development strategies. A signal that the World Bank is interested in cooperation with China is that Chinese official called a basis of liability.

China criticized a group of countries - US and EU - attributed his lead role of IMF and World Bank and China was involved in reforming the financial institutions by supporting applications for adjustment of the distribution of voting rights in both organizations to reduce the representation of less developed economies.

## **3. China and the Global Cooperation Relationships**

Role of the group of most powerful national economy – G7 – was to manage exchange rates between currencies of the Member States. When, after 2000, G7 realized that the biggest is the imbalance between members and non-members, leaders of the G8 (G7 plus Russia) invited some of its summits because this group has become unrepresentative; some of the most exclusive major emerging economies like China and India. Moreover, the G8 does not include development plans, financial stability and climate change. None of these issues can be addressed only by existing members. Germany, which retained the presidency in 2007, formalized this arrangement who offers the possibility of continuing

discussion and not just some ad hoc meetings and allows countries "O5" to submit their views, not only to attend the presentation of findings. However, each G8 government calls one party to decide whether states "O5" (Brazil, China, India, Mexico and South Africa) and if he wants to talk to them.

G8 are aware that other countries will be invited to become full members in order to create a club more representative, probably G13. Japan, which led the G8 in 2009, had no intention of extending the actually group by joining China and other countries with similar economies. Other G8 countries argue this position by the fact that China is a strong democracy and so should not be a member of a group which brings together the largest democracies, although this argument is less plausible when the Russian state power has become excessive. China is not very sure if they want to become a full member of the G8, fearing that this would weigh strong and responsible in managing global economic imbalances, climate change and development issues. [4]

China should freeze the initiative to participate in reforming the G8. In a new G13, China should prove intent and ability to play a leading role in global economic governance, for example by changing the momentum to other institutions such as IMF or building new ones.

China is already one of the world's biggest economies. So it should take a stronger interest in how rules for global trade and investment are made, and in how disputes are resolved. The current system of global economic governance largely fails to reflect the rise of China. China's foreign policy is still predominantly hard-nosed and realist, focused on the pursuit of the national interest. But that should not prevent the Europeans from seeking to draw China towards the principle of multilateralism.[3]

## **Conclusion**

For China, this is a good time to assume more responsibilities in global economic governance. The IMF and the World Bank – set up after the Second World War to help rebuild and stabilise the world economy – are searching for new *raison d'être*. Developing countries see the World Trade Organisation as biased to the interests of the richer ones. But if the Doha round of multilateral trade talks cannot be revived, and the WTO loses much of its relevance as a result, the emerging countries would suffer most. The G8 summits have become unrepresentative and ineffective; China, India and other new economic powers will eventually have to be included. [5]

The EU should also start a dialogue with China on the creation of new institutions, such as those that will be needed to manage the global system for curbing carbon emissions, or to bring together the principal producers and consumers of energy. Current institutions cannot be reformed, or new ones created, without China's active involvement.

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