

Chapter 13

Financial Marriage of Convenience between China and the US: Sustainability of Dollar – Wall Street Regime in the Post–2008 Crisis

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ABSTRACT

Despite growing global concerns regarding the reliability of the American economy in general and the Dollar as a Negotiated Currency in particular, US-shaped regime of international finance will survive the present difficulties. This is mainly due to the fact that China would be predisposed to maintain its backing of the US Dollar, not to harm it, because it staked a massive economic and political capital in that. Beijing has so far persisted in assisting the global value of the US Dollar (sacrificing considerable sums of economic return), which is an apt move to beef up the American domestic market with the intention of keeping Chinese factories busy at all times.

INTRODUCTION

The economic debacles of 2008 and onwards have delivered a substantial blow to the very basis of America's pioneering economic position as well as dollar's long-held global status as a reliable exchange and saving instrument. This is a matter

of great concern to China, the largest creditor and the export partner of the US. Beijing's economic interests were adversely affected by the global financial crisis mainly due to two inter-related reasons. The first one of them is that the returns from the assets vested in American financial markets have declined. Arguably more importantly,

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a vital market for the Chinese export merchandise was squeezed. Combined together, these two developments have led to a fierce debate in China regarding the sustainability of the present export-dependent growth model on the USD-based economic architecture. However, China still seems to be willing to proceed on such a laborious path despite the shrinking returns from the dollar-denominated assets and narrowing window of export opportunities.

Against this backdrop, this work argues that China has inescapable urges to remain fatefully tied to the US in a symbiotic relationship as creditor-to-debtor and seller-to-buyer. The most pressing reason for this persistence is that the pre-requisites of such a sharp policy turn—allowing full convertibility to Yuan, thereby, leaving its value to the free mechanism of the market economy—runs against the dictates of the state-guided capitalist economy on which contemporary China's political system relies.

The outline of the paper as follows, the first part examines the historical account of the current financial regime based on Dollar-Wall Street Regime to use the term of Peter Gowan. It will be stressed upon that American dollar evolved from being a “top currency” in the 1950s (a currency that accomplished dominance within the global financial structure because of its economic attractiveness) to a “negotiated currency” (a currency that is supported by the followers mainly due to political reasons) in the mid-2000s.

The second part deals with the dual growth strategy of China based on a nexus among foreign demand and state centered capitalism and the massive national savings held within the US' financial markets. One of these dual purposes is to ensure that the poorest portions of the society can be continually provided with economic well-being. The second purpose is to make it sure that the Chinese Communist Party stays in power as the sole pace-setter of the management of country.

This part also set itself task of probing into the negative impacts of the ongoing global financial difficulties on China's this janus-faced growth strategy. With the financial crisis erupted in the US, in 2008, the rulers of Beijing deeply sensed that the country's conventional growth model has run aground the limits of providing both economic modernization and political legitimacy at a time.

The third part will dwell into the reasons as to why Beijing still privileges its pre-crisis economic model (dependent on export to the US' internal market) over forging a whole new path that premises on promoting Yuan as a contender to the US Dollar and stimulating Chinese domestic demand. It will be concluded with the proposition that the way the current regime governs China provides no basis for tolerating such a drastic policy turn neither economically, nor politically.

BACKGROUND

All utile currency units, without fail, possess themselves of these three inherent qualities: as an account unit, a medium for transactions and a store of value. By each of these three standards of measurement, the US Dollar has remained on its towering place within the global financial structure from the end of the WW II. To all intents and purposes, however; the financial turbulences in aftermath of 2008 have pushed many into a state of suspense about the future of the Dollar's pride of place as a fiat currency. Sourcing from a set of economic, as well as political pulses, China has become the anchor of support for a drastic refashioning of what Peter Gowan (1999) calls as Dollar-Wall Street regime (pp. 19-39). If the current trend holds, the US Dollar will soon surrender to the contender currencies (RMB or Euro), sharing the same fate with the British Pound within the inter-war era. No matter who occupies the commanding heights of the international fi-

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