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A Crisis of Transition: Geopolitical Causes and Impacts of the Global Downturn. The Rise and Demise of “Chimerica”

Abstract:

This paper analyzes the spatial dimension of the current global economic crisis. It focuses on an international economic constellation described as “Chimerica”: a symbiosis between the two economic models of the U.S. and China – with the U.S. as the indebted “consumer of last resort” in deficit and China as the “workshop of the world”. The paper adopts a world-systems analysis approach and argues that “Chimerica” is rooted in an economic power shift in the capitalist world system. In this shift, East Asia – with China as its new center – has moved up to a new position. However, this process has fostered imbalances in global economy. The structural change and the refusal of the U.S. to adapt its economic policies to the new reality of the world market finally even turned out to be a decisive contribution to the global economic crisis 2007ff. Once examined, it will be clear that the West was more affected by the crisis and that China spent large amounts of its resources in crisis management – China even appears to be the first to be taking steps towards a model changeover. The hitherto restorative reactions of the U.S. and EU aiming at the maintenance of Western dominance do not seem to be sustainable in the medium-term. Until now, institutional changes in global economic governance have, however, remained notably insignificant. Though, in the long-run, the phase of transition could be accompanied by a new map of global power. The paper concludes with a discussion of the different scenarios of such a radical change.

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1: Introduction

When American and Chinese scientists as well as policy makers meet, their divergent views often emerge. Some of the controversial issues debated by the two superpowers are human rights, the Taiwanese question and having a say in international institutions. However, despite their charged disputes, an implicit agreement on economic policy exists between the two countries that has even brought some analysts to characterize China as the U.S. preferred junior partner (Cho, 2006; Hung, 2009b). Both countries are seen as a part of a economic constellation described as “Chimerica” – a term coined by Niall Ferguson (Ferguson, 2008, pp. 332ff) and now commonly used in public debates. The symbiosis between the two economic models of the U.S. and China – with the U.S. as the indebted “consumer of last resort” in deficit and China as the world's export nation and workshop – has led to structural imbalances. While China continues to make immense current account surpluses, the U.S. accumulate an ever spiraling deficit that currently stands at 4 trillion US\$ (June 2010). Contra-wise, China counts as the U.S. biggest creditor while the latter grows to be the largest debtor country, despite the fact that it is considered one of the world's wealthiest nations. Regardless of massive catch-up processes, China remains a country in which a considerable part of the population lives in poverty. The problem in the two models was best brought to light by the current global economic crisis. The Chinese government invested a large part of its currency reserves in U.S. Treasury securities instead of strengthening its domestic market. As a result, China not only indirectly boosted US consumption, it also inflated the American real estate bubble and induced the American financial institutions to ever higher risks (Brender & Pisani, 2009, pp. 59ff).

The thesis of this paper is that this constellation (“Chimerica”) is rooted in an economic power shift in the capitalist world system. In this shift, East Asia – with China as its new center – has moved up to a new position. However, this process has fostered imbalances in global economy. The structural change and the refusal of the U.S. to adapt its economic policies to the new reality of the world market finally even turned out to be a decisive contribution to the global economic crisis 2007ff (Boris & Schmalz, 2009, pp. 630ff). Thereby, it remains unclear how the current world order is going to develop. However, the hitherto restorative reactions aiming at the maintenance of Western dominance do not

seem to be sustainable in the medium-term. This spatial dimension of the global economic crisis will be analyzed below. At first, it will be interpreted as a “switching crisis”, i.e. as the transition of a spatial configuration of capital accumulation to a new world order. Next to be scrutinized will be the long-term power shifts in the global market (with focus on East Asia) and the development of structural imbalances within the “Chimerica”-constellation. Once examined, it will be clear that the West was more affected by the crisis and that China spent large amounts of its resources in crisis management – China even appears to be the first to be taking steps towards a model changeover. Until now, institutional changes in global economic governance have, however, remained notably insignificant. Though, in the medium-term, the phase of transition could be accompanied by a new map of global power. The paper concludes with a discussion of the different scenarios of such a radical change.

2. Theoretical Approach

David Harvey (Harvey, 2009) draws to our attention the fact that the interpretation of the global economic crisis as a collapse of financialization to be too shortsighted or narrowly considered. Essentially, the crisis is connected to a deeper dimension that one might fail to see at first sight. The crisis also deals with a specific spatial arrangement of global capital accumulation. The “gravitational center of capitalist development” is tending since the 1960s towards East Asia and is thereby efficiently reversing the long-standing flow of resources that has been there since the 18th century, in particular from East, Southeast and South Asia to Europe and North America (Ibid.: 3). However, such shifts of capital – for instance, the shift from Great Britain to the U.S. - have been known to repeat themselves in the history of capitalism. Harvey is here echoing the thoughts of Giovanni Arrighi (Arrighi, 1982, pp. 71f), who worked out that the most dangerous crises of capital accumulation historically reveal themselves as crises of specific world market structures – structures shaped by a hegemonic world power. Hegemonic powers characteristically thus recognize the need to pool material, administrative and military capacities to eventually provide systemic world-governance capabilities (Arrighi & Silver, 2002, pp. 26ff). They make home the “commanding heights” of global capital accumulation and of military power.

Historically, the function of a hegemonic power shifted step by step from city states to nations to even continental economies, e.g. from Genoa and Spain over to the

Netherlands, then to Great Britain and finally to the U.S. The steady expansion of the capitalist world system has always been in the form of growing and ever more complex “spatial fixes” (Harvey, 2005, p. 109), thus, growing blocks of powerful governmental and business company’s organizations. According to Arrighi, the “signal crisis” of this configuration is characterized by an enormous expansion of the financial sector due to a system-wide aggressive competition for liquid capital. Through this, the hegemonic power is able to accumulate new power resources in the financial sector. In the long run, however, this constellation eventually pulls the rug from under the hegemonic states' feet. Also, the growth of the financial sector and the neglect of the industrial base in one region go hand in hand with the emergence of new production centers in other regions. This in the end results in the destruction of the structure of the world market in a major financial crisis. Schumpeter's (Schumpeter, 2005, p. 139) observation that a “creative destruction” shatters old structures through new innovations could be transferred to the world market. Thus, the old spatial configurations of capital accumulation are replaced by a new system through a “switching crisis” (Harvey, 1999, p. 428). Such a development reflects itself, however, unevenly on both the institutional level and the control over different power resources. Even if an erosion of the current imperial block of governmental and business company’s organizations under American leadership took place, the U.S. still would monopolize military power. As a result, a “global bifurcation” might emerge, with the U.S. as the military power and East Asia as the financial center (Arrighi, Hui, Ray, & Reifer, 2002, pp. 95ff). Also, the US dollar, key global governance institutions such as IMF and World Bank as well as the technical standards that have been used since the Second World War still would help to diffuse rules favorable to the U.S. (Panitch & Gindin, 2008, pp. 37ff). Nevertheless, earlier hegemonic transitions were also known to be characterized by gradual changes For instance, the U.S. dollar replaced the British pound as the global currency approximately 50 years after the American economic performance overtook that of Great Britain (Arrighi, 2008, pp. 202f).

3. The Rise of East Asia in the Global Economy

Also, today’s shift in the world economy since the World War II was steady, but gradual. Distinctive turning points were often accompanied by crisis-ridden breaks that respectively resulted in harming individual countries or whole regions. Throughout the last decades, the most important change was the rise of East Asia and China. The reintegration of East Asia

in the world capitalism – since the Second World War – has taken part in three phases. The process was set in motion by the reconstruction of the capitalist world order under American hegemony accompanied by the successful integration of Japan in the world economy. Japan proved to be a surprising economic success in the 1950s and 1960s with its economy experiencing an outstanding double digit growth rate. The “new international division of labor” that had already marked the 1960s resulted in a considerable relocation of industrial production, especially within East Asia itself. In the scope of this change was a new kind of division of labor established in East Asia described by the Japanese economists Akamatsu (Akamatsu, 1962) and Kojima (Kojima, 1977) as the „Flying Geese Model“. In order to protect their profitability, Japanese companies made production flexible and located labor intensive branches in the form of joint ventures and sub-contracting in neighbor states. In this process, the industrial sectors of the first generation of tiger states (Hong Kong, South Korea, Singapore and Taiwan) expanded with double digit growth rates annually (Dicken, 2009, p. 44). After this model run out, begun a double movement: the first generation of tiger states developed their own export industries through technological upgrading (Jessop & Sum, 2006, pp. 175ff). Furthermore, there quickly emerged a second generation of tiger states, in particular Indonesia, Malaysia and Thailand, which in turn profited from direct investment from Japan and the initial tiger states. Thus, the rapid rise of East Asia proceeded even when after – if not because of – the growth dynamics in Japan died down. The result was a hierarchical regional division of labor with Japan at its head: “Japan focused on the most high-value-added items, the four tigers on middle-range products and the emerging tigers in Southeast Asia on low-cost, labor-intensive ones.” (Hung, 2009c, p. 7).

The astronomical rise of China to a center of global capital accumulation would not have been possible without China's integration in the surrounding East Asian region. Together with third generation tiger states like Vietnam China began to integrate in the regional economic system. The Peoples Republic of China grew with a GDP growth rate of about 10% yearly since opening its economy in 1978. This was due to different factors. Firstly, the Chinese economy gained an existing network through the Chinese diaspora who now held key economic positions in different countries and provided the necessary capital and scientific know-how (Arrighi, 2008, p. 351). Furthermore, Chinese leadership achieved a gradual transition from state socialism to capitalism without having to forfeit control over the transformation process in the medium term. In the end, China's sheer size offered unlike other smaller countries enough room for the setting up of different stages of the

value added chain. As a result, China began in the later years to establish itself as the new center of capital accumulation in East Asia. As well as increasingly investing in China, East Asian companies integrated themselves as suppliers in the Chinese dominated value added chain with the aim of making use of the vast domestic market (Hart-Landsberg & Burkett, 2006). In short, due to the dynamic of Asian economic development, Asia alone was able to boost its percentage in the global GDP from 24.1% to 37.2% in the period of 1973 to 1998, at a time when China had gone through a particularly dynamic development (Maddison, 2001).

However, it is worth noting that East Asia's boom was strongly based on successful exports to the U.S. In the 1980s, Japanese and tiger states' export accounted for about 15% of the GPP, whereof approximately a third was going to the U.S. market. East Asian states thereby often generated trade surpluses with the U.S. Until the 1990s, little remained to be complained about in this constellation, for the USA could nonetheless simultaneously import consumer goods at low costs without any evidence of deep crisis dynamics. Necessary amendments were dealt with through mutual agreements, for instance the 1985 Plaza Accord whereby the U.S. dollar was devalued vis-à-vis the Yen in order to strengthen the U.S.-industry, and exactly ten years later the revaluation of the American dollar was agreed on (Brenner, 2002). The fact that China likewise slowly grew into this structure with ever increasing percentages in foreign trade with the USA was ignored and simply seen as a normal process.

4: Global Imbalances

A qualitative structural alteration took place primarily due to the 1997/98 Asian crisis. This contributed to East Asian countries current account balances sliding into the negative- partly due to their previous currency links to the U.S. dollar and the liberalization of capital markets. It also contributed to their exports efforts to later re-emerge as surplus producing countries. For instance, South Korea had before the Asian crisis in 1996 a negative current account balance of 23.2 US\$ billion which later transformed to a surplus of US\$16.6 billion by January 2005. As a result, many East Asian countries accumulated massive currency reserves that had in January 2006 increased to a value of US\$ 2.9 billion (Dieter, 2008, p. 10). As in the 1970s, this profit was frequently invested in more secure American Treasury securities. In turn, the USA generated increasingly higher current account deficits with the Bush Jr. government actually going ahead and forcing a model that drove the

financialization and indebtedness of the US-economy even further.

Yet, China in particular began to place high percentages of its own exports on the US market. After the remarkable spiraling of exports until the year 2000 – after only a decade – from US\$ 18.7 billion to US\$ 100 billion, exports tripled yet again until 2009 which translated to almost a third of the goods being delivered to the US (including the export over Hong Kong). Likewise, the country's currency reserves rose from US\$ 218 billion at the end of 2001 to over US\$2 trillion in the year 2008, thus increasing tenfold in a period of just a decade. Ultimately, China was financially at the core of this model. In comparison to the U.S., the Peoples Republic of China's current account surpluses had risen to US\$49.7 billion at the onset of the 1997/8 Asian crisis to US\$ 268 billion in 2008 (U.S. Census Bureau, 2010). These surpluses then flowed into the U.S. financial and bond markets. China finally replaced Japan as U.S. principal creditor by 2008. In the following year, China held around US\$739.6 billion and therefore over a quarter of the foreign creditor's U.S. Treasury securities (see Figure 1). In this way, China and East Asia succeeded in being at the peak of an economically imbalanced global structure. These “global imbalances” pertain to relatively durable (structurally) surplus or deficit constellations between countries or groups of countries that are in the long run barely stable. Above all, U.S., Great Britain or Spain play the role of deficit countries, while Japan, Germany and particularly China as well as countless other emerging countries (East Asia, oil producing countries, Brazil, Russia, etc.) take on the role of surplus producers (Wolf, 2008, pp. 78ff). By 2006, the surpluses of the semi-peripheral countries amounted to about US\$ 544 billion; which were compensated through a massive capital inflow from the semi-periphery to the core countries.

Thus, from 2000 to 2006 about 42 from 113 developing countries became net capital exporters (Conference on Trade and Development, 2008, pp. 52ff). The “Chimerica”-constellation between U.S. and China is consequently the most significant characteristic of a global structure where paradoxically countries with some of the highest poverty rates finance the consumption in wealthy industrialized countries with their surpluses – mainly because they cannot spend them in their own domestic markets. Hence, the “Chimerica”-constellation was described by Martin Wolf as “perverse” (Wolf, 2008, p. 4). The U.S. counted as one of the wealthiest nations whereas China remains – despite fast catch-up processes – a country in which a considerable part of the population lives in poverty. Because of this paradox, we will take a closer look at this symbiotic relationship.

5: The United States of America: The “Consumer of Last Resort”

In the “Chimerica”-constellation the U.S. plays the role of the principal consumer of Chinese (and other emerging countries) surpluses. However, the U.S. is not only often viewed as an “import addicted nation” (Otte, 2009, p. 12), it has also gained other negative indicators. The American 'triple deficit' covers the dimensions of domestic consumption, public debt and external trade. American households have for a while accumulated high debts in order to compensate for real wage losses. The U.S. real wage losses had since the 1970s constantly fell or stagnated with a slight gain in the late 1990s (Foster & Magdoff, 2009, p. 28). The debt of American households rose dramatically to the extent that even the poorest quarter of the American-population landed in a vicious circle of debt. A constant 27% of this part of the population spent more than over 40% of their income repaying debt in the period 1995 to 2004 (Ibid.: 32ff)! The U.S.-household debt accumulated in 2005 skyrocketed to almost 92% of the GDP at a time when the savings rate of American households had dropped further to a negative. Thus, local consumption clearly overtook local production (Wolf, 2008, p. 101). In addition, the U.S. became further indebted after the new economic bubble – itself a fore runner of the current crisis – burst in the year 2000/1 as tax cuts as well as high military expenditures were straining the budget. However, the national debt of 63.1% of the GDP in 2007 remained out of the red. Far more threatening were the escalating current account deficits that had skyrocketed in just 15 years from a balanced stand in 1991 to about US\$ 817 billion in 2006 – an increase to 6.1% of the GDP (Deutsche Bank Research, 2007). Therefore, the U.S. current account deficit ultimately consumed one-seventh of world's savings (Wolf, 2008, p. 63). However, local consumption and the growing American debt could be sustained by a fresh supply of capital. Also, the U.S economy continued to grow even after the Dot.com bubble burst where an average growth of 2.8% was achieved between 2003 and 2008.

A central factor in this growth strategy was the Fed's low interest rate policy. The U.S. interest rates dropped to 1% in 2003. This resulted in the availability of extremely low-interest loans that in turn added to the fact that “from the year 2000 more bank loans, bonds and derivative contracts being finalized.” (Ferguson, 2008, p. 297). What followed was then a general growth of the financial sector. At the same time, consumer loans were very cheap such that it remained possible to sustain U.S. over-consumption despite low real wages. However, the constellation was not crisis proof. Through interest rate cuts, 30-year-fixed mortgage rates dropped to a 50 year low of 5,25% (Baker, 2008, pp. 74ff). The

real estate bubble that had in 2002 already stood out with its 30% price increases, continued to grow rapidly. From then on, the prices spiraled upwards at a rate of 7.1 % annually. The boom in the construction sector was also massively fueled by over than 2 million new buildings. However, as the Fed elevated the interest rates again and the bubble started to shrink in 2006, as a result of the sinking real estate prices, the interest rates of mortgage loans with variable interest rates in the sub-prime market begun to rise, too. Property prices also dropped. Between June 2006 and July 2008, prices fell by over 21%. In September 2008, the 5th biggest American investment bank, The Lehman Brothers, declared bankruptcy. The crisis had begun.

6: The Peoples Republic of China: “The Workshop of the World”

On the other side, the PRC supported the consumption and debt driven U.S. model by two mechanisms. Firstly, the labor costs and undervaluation of the Yuan-based Chinese export surpluses to the U.S. contributed to the fact that the American consumers could manage to maintain their living standards against a backdrop of falling real wages (Ferguson, 2008, p. 296; Luce & Bonacich, 2009, pp. 155ff). Through direct investment, off shoring and sub-contracting, Chinese workers became an important source of cheap imported goods. Robert Scott from the Economic Policy Institute calculated that in the period between 1996 and 2007 alone, a lowering of production costs led to the relocation of approximately 2.1 million jobs from the U.S. to China where industrial workers wages are 5% of the American standards. Additionally, the raising de-industrialization of U.S. capitalism, has led to the fact that about 17.4% imports originate from China. Thus, cheap Chinese consumption goods also indirectly helped to sink the U.S. wage ratio further by 2% in the 2000s (Huffschmid, 2009, p. 56). This model results in the reinforcement of the hierarchical relationship between Chinese and American employees – on the one side underpaid export workers without almost any rights; and on the other hand – on a global scale – rather privileged workers (Luce & Bonacich, 2009, pp. 162ff).

Secondly, the Chinese central bank systematically promoted the transfer of export surpluses in American Treasury securities and other financial stocks (Brender & Pisani, 2009). The “policy of cheap money” that made possible low interest rates, fueled the real estate bubble and drove stakeholders on the financial market to even higher risks, was all due to excessive lending from East Asia – in particular from China. Just before the outbreak of the crisis in July 2008 not only a significant amount of U.S. Treasury securities

was owned by Chinese investors, Chinese creditors had also invested in different U.S. institutions and financial institutes. For instance, currency reserves of about 10% of China's GDP were invested in two American mortgage banks – Fannie Mae and Freddie Mac (China Daily, 9/12/08). Consequently, the bankruptcy of the two real estate giants irked the Chinese government making them pressurize the U.S. government to nationalize the two mortgage banks. However, despite this conflict and the fact that the Chinese government had already begun to diversify its currency reserves before the onset of the crisis, it was still in China's interest not to sell off the U.S. Treasury securities because this would have devaluated the US dollar and ultimately would have had an impact on China's export industry, too.

The dark side of the Chinese export model is an extremely imbalanced economy. The (individual) consumption rate lies somewhere over a third of the GDP with the savings rate ranging between 50% and 60%. In 2007, 11% of GDP went into foreign investment with low profitability, and that was equal to a sum of a third of individual consumption (Boris & Schmalz, 2009, p. 633)! Additionally, salaries of industrial workers didn't improve significantly – unlike in the rest of East Asia's emerging countries. At the same time, a structural over accumulation was reinforced by the strong investment rate being fueled by the investment rush in the provinces. This will continuously build „bubbles“ as seen in the current housing bubble that were up to now contained by the government. In addition, the massive transfer of Chinese resources to the U.S. is very fragile. Various factors threaten the model; labor unrest in the Chinese export industry and resulting salary increases, the risk of a crisis induced by overaccumulation which in turn was brought about by excessive investment or world-market based shocks.

7: The Crisis: on the Road to a New Configuration?

The "Chimerica"-constellation was eventually shaken by the bursting of the real estate bubble and the 2008 bankruptcy of Lehman Brothers. The collapse in the U.S. sent shock waves over the entire world including China. The American economy sunk into a deep recession despite the American government's efforts to counter the growing crisis with massive financial bailout (US\$ 700 billion) and stimulus packages (US\$ 789 billion). From the third quarter in 2008 to the end of 2009, the GDP shrunk to the point that the U.S. economy experienced zero growth in 2008 and dropped 2.4% in the following year. Unemployment quickly followed with an increase to a rate of 10%, and it was not until the first

quarter in 2010 that signs of improvement begun to show. This phase of the growth model-fueled by the real estate boom is now over. Loans are much harder to obtain despite extremely low interest rates of 0.25%. The indebtedness of private households – in 2007 at 129% of disposable annual income – cannot continue to expand infinitely (Economist 04/21/2010) and, as a result, – for the first time in decades the savings rate of U.S. households turned positive. At the same time, the U.S. has succeeded in filling the demand gap and in just three years the GDP increased from 63.1% (2007) to 91.6% (2010). Foreign creditors however also played a central role in financing; accounts payable to foreign creditors raised from US\$ 1 trillion in July 2008 to about US\$ 3.7 billion in January 2010- of which US\$ 889 billion was owed to Chinese creditors (US-Department of the Treasury, 2010). Nevertheless, the crisis of the “Chimerica” model has led to first attempts in balancing the U.S. economy. Barack Obama's government tries to strengthen the export industry and to devalue the US dollar slightly. It also insists on the substitution of energy imports with alternative sources of energy, so as to reduce the trade deficit in the medium term, which reduced in just one year through the shock of the crisis from US\$ 696 billion to US\$ 379 billion – the lowest value since 1998. The scope for action is however limited, for a too rapid depreciation of the U.S. dollar could alienate foreign creditors.

However, the solution to reorientation lies in further development of the Chinese economic model which was initially heavily affected by the crisis. After the Chinese economy in 2008 grew to over 10% in the first two quarters and 9% in the third, it dropped in the first quarter of 2009 to 6.1% (Schüller & Schüler-Zhou Yun, 2009, p. 168). This had to do with the declining foreign trade, which broke from January to September by 20.9% (MOFCOM, 2009) and affected the dynamic export oriented coastal regions such as Shanghai, Guangdong, Jiangsu and Zhejiang. The consequences were quickly cushioned by a comprehensive economic stimulus package of over US\$ 585 billion. A part of which – approximately 207 Euro billion – went into the infrastructure and about 38% going to environmental concerns (Garnreiter, 2009, pp. 32ff). After that, China quickly went back to its previous growth rates and had in January 2009 already grown by 8.7%. Whether it is possible that the Chinese economy switches to domestic demand in a short period of time is however still questionable.

Imagining a change is challenging given the situation of the lower class – despite the Chinese National People's Congress efforts since 2004 to change the model. Also, the country's peculiar social cultural character of having a high savings rate (in 2008 it was 56 %!) stands in the way of a quick “switch”. In anticipation of these problems, the Chinese

government reported in 2009 a goal to establish free health insurance by 2011 – this would cost about US\$ 100 billion to implement. But it was not until March 2010 when China reported a trade deficit and, therefore, signs of change in the foreign trade imbalances were seen. In addition, the Communist Party of China seemed set on strengthening domestic consumption. For example, a recent wave of strikes in the export industry was not repressed unlike before. Instead, the 1982 abolished right to strike was reintroduced as part of a pilot project in the economically most important province of Guangdong. The declaration of the party leader of Guangdong, Wang Yang, that it was time "for emptying the bird cage for new birds to settle down", (Financial Times 6/10/2009) is also supported by a progressive increase of minimum wages and a rigorous course to implement environmental standards in production.

In short, the "Chimerica"-constellation has in the meantime been recognized by policy makers from both countries as a crisis-shaken model and is openly combated in China. Alongside economic structural blockades also exist political power interests in both countries that stand in the way of a swift change from the "Chimerica" symbiosis to a new model. The "Chimerica"-constellation has had a sticking effect on the world order: on one hand the US-dollar and American buying power have remained on a high standard while East Asia and China on the other hand have remained the source of cheap supplies. This fact accounted for the economic power shift to East Asia in the last decade. A model change will therefore almost inevitably draw a political realignment of economic relations: the Wall Street regime that is built on the American dollar as the world currency reserve and the deep U.S.-financial market is in crisis: the role of the US dollar has been weakened by the possibility of inflation and devaluation and the U.S.-financial market has been shaken by the crisis (Gowan, 2009).

At the same time, the crisis highlighted the fact that the East Asian emerging markets could cope with their own resources much better and therefore continue to grow faster than the West (see Figure 2). While Europe, Japan and the U.S. in 2008-10 had either zero growth or were experiencing a recession, in comparison East Asia and especially China managed to cope better with the crisis. In addition, emerging markets that had stronger links to the U.S. or Europe such as Mexico or Eastern Europe landed in great difficulties whereas states that had diversified their foreign trade and had strengthened their ties to East Asia – for example, Brazil and Sub-Saharan Africa survived relatively unscathed. One can therefore claim that the crisis accelerated the economic power shift from "East" to "West".

8: The Influence on Global Economic Governance

Currently, the crucial question is how and whether the economic shift will be reflected institutionally. At least in two aspects, the crisis had a transforming and renewing effect on global governance institutions. Firstly, a renaissance of these institutions was seen after the de-legitimization and weakening of the IMF. Immediately after the onset of the crisis, the IMF began to function in many situations as a savior (Becker & Jäger, 2010). The IMF initially gave loans totaling to US\$ 50 billion to countries like Iceland, Hungary, Latvia, Belarus and Pakistan. This was followed by other agreements with various Eastern European countries such as a credit to Romania of more than US\$10 billion. Finally, in the spring of 2010, the IMF was again called on for assistance in the Greek debt crisis. Nonetheless it is obvious, that countries in regions that were once dependent on the IMF – especially in East Asia, Russia and South America – made ends meet using their own means or bilateral aid.

The regionalization of IMF lending was, however, accompanied by a reform of these institutions. In November 2008, invitations had already been made to an international financial summit in Washington where the measures against the crisis were to be discussed. This came hand in hand with a second change: the forum for this negotiation process was not the G-8 but the G-20 – an institution where important semi-peripheral countries like India, Brazil, Indonesia, South Africa, Saudi Arabia and China were involved. The summit concluded with a final statement on reforms in the financial sector agenda. The proposed new rules are not very far reaching. Thus, they are not a “Second Bretton Woods” (Helleiner & Pagliari Stefano, 2009). The real substantive change was the expansion of the group. In a follow-up summit in London in April 2009 IMF reforms were adopted. For instance, IMF credit volumes were intermediately increased to US\$ 750 billion whereby a new credit line of over US\$ 250 billion was issued with special drawing rights where the loan was not tied to structural adjustment programs. Even the World Bank budget was topped up with a hand out of US\$ 100 billion. The decision to establish the G -20 as a permanent forum was of historical importance for it meant that China, India and other up-and coming countries had “exceeded the threshold to the core of global power.” (Klein, 2009, p. 214) In future, it will be difficult to ignore these countries completely in global government decision making. This was later to be proven in the following months. Firstly, the governments of Russia, China and Brazil began to buy IMF bonds of over US\$ 80 billion, of which China took over

US\$ 50 billion and thus evaded further purchases of U.S. Treasury securities. In September 2009, at the meeting in Pittsburgh the most important resolutions were once more related to institutional reform: until 2011, 5 % of IMF's voting shares should have to be re-grouped from industrial nations to developing countries. Thus, the latter would have over 48% of the votes and China would have about the same votes as Great Britain. In addition, the G-20 was to meet at least annually from then henceforth.

Even though the crisis managed to bring about an institutional reorganization, this is only to some degree evident in the economic power shift. The Chinese government went considerably further with its idea of regulation due to changing economic relationships. However, China also rejected the idea of a "G2" politically although it is often assumed that "Chimerica" would eventually lead to a bilateral settlement between U.S. and China: "[...] global leadership will increasingly devolve onto the two most important countries in the world: China and the United States. They will shortly be the two largest economies and are already the two largest traders" (Bergsten, 2010). In reality, China has laid a strict multiculturalism foreign policy that has however a harsh criticism on the dominant role of the USA in global economics. As an alternative model, Zhou Xiaochuan, the President of the Chinese Central Bank formulated a new concept for a world currency system that would involve the IMF being at the core of a common resource reserve currency. This was almost always commented on with amazement in Europe and America (FAZ 28/03/09). To strengthen this cause, China joined forces with its partners in the BRIC-group and at the last summit in Brasilia in 2010 the BRIC countries supported the Chinese demand of an end of the dollar hegemony. Consequently, they strived for a denomination of common trade in their own currency amongst other things. However, according to China's perspective, until now, reforms on global governance have been disappointing. For instance, the Chinese voting shares were raised from 2.9% to 3.6%, but they still remained behind those of Japan (Liu, 2010, p. 22). Ultimately, despite the new weight in international institutions, key decisions will continue to be decided by mainly the U.S. and EU.

Consequently, China will expand further its bilateral donor activities as well as financial agreements coupled with south governance forums like the BRIC-group or the Shanghai Cooperation Organization. Along the same lines, China had reinforced regional cooperation. For instance, in May 2009, China introduced emergency funds of over US\$ 120 billion alongside Japan, South Korea and the 10 ASEAN-countries as a way of countering liquidity shortages (Zheng & Lye, 2010, p. 280). Additionally, different initiatives such as a US\$ 10 billion investment fund for ASEAN-countries were implemented. Above all, the Chinese

government begun to systematically sign Swap-Agreements with countries outside East Asia such as Argentina, Hong Kong, Indonesia, Island, Malaysia, South Korea and Belarus (Park, 2010, p. 4; Xinhua 7/23/10). In a similar move, individual acquisitions go through China's state funds Investment Cooperation that during the crisis took over raw material suppliers like the Canadian concern Penn West Energy as well as PT Burmi Resources, an Indonesian company. In short, even if the crisis had recognizable influence on global political economy, it seems as China doubts the range of reforms, thus, the legitimacy of the institutions and will in a dual strategy rely on its own institutional cooperation and the further reform of the IFIs.

8: The Crisis: Towards a New "Spatial Fix"?

The crisis from 2007 to 2010 has significantly accelerated the power shifts in global economy – from „West“ to „East“ and from core countries to the hitherto existing semi-periphery. The thesis of Arrighi and Harvey, that each severe crisis in capitalist development as part of a „systemic cycle of accumulation“ leads to a period of hegemonic transition and spatial restructuring, seems to prove true. The collapse of important parts of the U.S. financial system weakens the Dollar-Wall Street-Regime, that served to guarantee U.S. hegemony over the past decades (Gowan, 2009, pp. 38ff). To continue, the foreign debt-driven U.S. consumption model requires political concessions. More than ever, the Chinese export-driven low wage-model is challenged by social unrest and political will. Also, devaluating or inflating the US dollar could alienate foreign creditors and weaken the role of the U.S. dollar as global key currency in the medium term. Thus, the crisis acts like a catalyst for change: While the U.S. bailout programs and stimulus packages rather had a defensive-stabilizing impact, most measures of the Chinese government supported systemic change such as the attempt to rise the consumption rate or to acquire foreign high-tech-business (Financial Times 07/28/09).

At least, three possible scenarios for a further development of the "Chimerica" model exist: a) First, in the short run, it is likely, that the "Chimerica" model will remain more or less stable, since class structures, production and consumption can't be modified abruptly (Hung, 2009a). Thus, the US may remain in its position as a debtor and devalue and/or inflate the U.S. dollar slightly. The East Asian creditors will probably tolerate such a development for a short time, because their export strategy is highly dependent on the U.S. market, and up to now there is no alternative at the horizon. Also, East Asia and

China are underrepresented in global governance-institutions and, thus, aren't able to exert influence on global rule setting in the field of production and finance significantly.

b) A second scenario would be a long lasting process of transition with intermediate stages such as a temporary joint hegemony of U.S. and China. However, in this scenario, in the long run, a new transnational strongly multilateral organized East Asian „spatial fix“ could develop, granting other emergent nations certain rights to participate. For this scenario, Inner Asian relations will be of prime importance. The economic ties in East Asia have to be embedded in deeper political integration, in particular a better coordination between China and Japan will be necessary. The current attempts of the Chinese government to weaken the “Chimerica”-constellation through a further diversification of financial investment, e.g. in the Euro zone, may support development in this direction.

c) In a third scenario, the U.S. together with its European allies may use their combined financial, economic and military power to counter the „threat“ of rising powers. This may result in a partly disintegration of the world market due to protectionist block building or even a confrontation between the old transatlantic powers and the new emerging powers. However, this scenario is rather unlikely. It will gain in importance only, if no further institutional reforms are set into motion, and if China will start to expand its power more ruthlessly.

So far, it is uncertain which tendency will prevail. However, there is evidence that a further rise of East Asia and a slow opt out of the “Chimerica”-constellation is the most likely development, and, as a result, a hybrid form of scenario a and b might come to pass.

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Figures:

Figure 1: Major Foreign Holders of US Treasury Securities (in billions of US dollar)

	Jan 2008	July 2008	Jan 2009	July 2009	July 2009(2) ²	Jan 2010(2)	June 2010(2)
China	492,6	550	739,6	800,5	939,9	889	843,7
Japan	586,9	637,6	634,8	724,5	720,9	765,4	803,6
Great Britain	161,9	66,1	123,9	220	94,5	206	362,2
Oil Exporters	140,9	162,9	186,6	189,2	209,9	218,4	223
Caribbean Banking Centers	108,1	117,6	176,6	193,2	137,9	143,5	165,2
Brazil	141,7	154,8	133,5	138,1	146,8	169,1	158,4
Hong Kong	54,4	65,2	71,7	115,3	111,1	146,6	141
Taiwan	38,9	67,9	73,3	77,4	114,4	119,9	128,6
Russia	35,2	104	119,6	118	141,3	124,4	123,4
Total	2403,8	2624	3072,2	3428	3502,6	3706,1	4009,2

Sources: US-Department of the Treasury 2009, 2010

Figure 2: GDP Growth Rates of Selected Economies (compared with the same quarter of the previous year)

	3rd/08	4th/08	1st/09	2nd/09	2009	Forecast 2010
U.S.	-2,7	-5,4	-6,4	-1,0	-2,5	2,7
Japan	-3,9	-13,1	-11,7	3,7	-5,3	1,7
Germany	-1,3	-9,4	-13,4	1,3	-4,8	1,5
France	-0,9	-5,6	-5,3	1,3	-2,3	1,4
England	-2,9	-7,0	-9,3	-3,2	-4,8	1,3
Brazil	5,6	-13,8	-3,3	7,0	-0,4	4,7
Mexico	-2,3	-9,8	-21,2	-4,4	-6,8	4
China	9	6,8	6,1	7,9	8,7	10
India	7,6	5,3	5,8	6,1	5,6	7,7
ASEAN-5	k.A.	k.A.	k.A.	k.A.	1,3	4,7

Sources: IMF 2010, IMF 2009; El Mercurio, 21.8.09; www.stats.gov.cn/english/; www.mospi.gov.in/

2 In June 2009, a new calculation system for the US foreign debt was introduced. The data, which has been calculated with the new system, is marked with (2).