


RISING GLOBAL ECONOMIC POWER BY CHINA TO CHALLENGE NEW GLOBAL ORDER

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“If chess is about the decisive battle, wei qi is about the protracted campaign. The chess player aims for total victory. The wei qi player seeks relative advantage.” – Henry Kissinger (2011).

“Great leadership results from the collusion of the intangible and the malleable, from that which is given and that which is exerted.” – Henry Kissinger (2022).

Abstract: *This paper's arguments guide Chinese political economy. This analytical idea is based on Rodrik's political-economy trilemma: global economic integration, democracy, and national sovereignty. Chinese policymakers face a trade-off among three policy goals: (hyper-) globalization, democracy, and national sovereignty. China's President Xi and the Chinese Communist Party (CCP) have chosen global economic integration and national sovereignty (fewer human rights). To reflect the analytical idea, which can measure the length of a vector, is a mathematics methodology. As a result, Chinese political events such as the Great Proletarian Cultural Revolution in 1966, the death of Mao Zedong in 1976, and the choice of Chinese President Xi Jinping as General Secretary of the Communist Party in 2012 had an impact on reshaping when the length of vector (the sphere's radius of 2) was more than 2. The future direction of China will lead to a “Golden Straitjacket.” The “Golden Straitjacket.” makes a country push forward trade liberalization and national sovereignty -- i.e., democracy is constrained. Chinese policy has changed to stronger centralization of political power and decision-making for President Xi and the CCP. Also, China expands a global economic integration and national sovereignty. However, China needs to contribute to globalization without causing more conflicts to Western countries. In other words, China should be loath to relinquish the individual and national benefits of integrated international economies. “Fast and furious” is the first step of globalization for a peaceful world.*

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1. Introduction

China's participation in the World Trade Organization (WTO) allowed China to access new trading partners, raising prospects for improved living standards and a seat at the table in a globalizing world. Integration between China and the global economy partially expanded the world's economic growth. According to Rumbaugh and Blancher (2004), increasing China's integration with the global economy contributed to sustained growth in international trade. Regarding the benefits of economic globalization based on the future development of China – United States trade relations, the Ministry of Commerce of the People's Republic of China (2017) states that the essence of the China – US economic and trade cooperation leads to mutual benefit and a win-win result. Paulson (2023) discusses US – Chinese policy; these efforts to shut out China will certainly hurt China, but they will hurt the United States, too. As a result, US businesses are put at a substantial competitive disadvantage seeing that US consumers pay the price.

On the other hand, "President Xi Jinping was dominant already and is even more dominant now," said Dali Yang, a professor at the University of Chicago¹. Indeed, President Xi, a General Secretary of the Chinese Communist Party (CPP), chairman of the Central Military Commission, and the paramount leader of China enacted a more established hegemony with his ambition through Chinese foreign policy to realize China 2049. It includes creating the nine-dash line in the South China Sea², annexing Taiwan – China no longer accepts the status quo of Taiwan's situation³ and increases already intense high pressure on the self-governing island and expanding their power to African and Eurasian through the Belt and Road Initiative⁴. Their economic strategy accelerates to Digital Silk Road Initiative like 5G network, satellite system, and fiber-optic cable⁵. Now, President Xi cemented his power to win an overwhelming victory for an unprecedented third term as the Chinese supreme leader.

Rudd (2021) stated, "Xi has carried a massive crackdown on China's Uighur minority in the region of Xinjiang; launched campaigns of repression in Hong Kong, Inner Mongolia, and Tibet; and stifled dissent among intellectuals, lawyers, artists, and religious organizations across China. According to Davis (2020), renewed Hong Kong constitution from China has threatened Hong Kong. The central government from Beijing seemingly seeks to address a perceived internal threat to Hong Kong's people themselves.

Currently, the relationship between the United States and China faces a difficult situation. Rudd (2021) stated that China will seek to achieve global economic dominance and regional military superiority over the United States without

¹ China's Leader Now Wields Formidable Power. Who Will Say No to Him? on October 23, The New York Times: <https://www.nytimes.com/2022/10/23/world/asia/xi-jinping-china-loyalists.html>.

² China stakes claim to 90% of the South China Sea. The nine-dash line is based on map in the 1940s by a Chinese geographer.

³ On February 27, 1972, the United States of America and the People's Republic of China issued the Joint Communiqué of the United States of America and the People's Republic of China, known as the Shanghai Communiqué. The diplomatic document pledged that the United States "acknowledges that all Chinese on either side of the Taiwan Strait maintain there is but one China and that Taiwan is a part of China" and that the United States Government does not challenge that position.

According to National Security Strategy (2022), we oppose any unilateral changes to the status quo from either side, and do not support Taiwan independence. we remain committed to our one China policy, which is guided by the Taiwan Relations Act, the Three Joint Communiques, and the Six Assurances. And we will uphold our commitments under the Taiwan Relations Act to support Taiwan's self-defense and to maintain our capacity to resist any resort to force or coercion against Taiwan.

On August 15, 2022, the US policy on Taiwan island has "preserved peace between China and the US for 50 years," Henry Kissinger, former US Secretary of State, said, noting that "one should be very careful, therefore, in measures that seem to change the basic structure." <http://en.people.cn/n3/2022/0815/c90000-10135108.html>.

However, "What's changed is this: the decision by the government in Beijing that that status quo was no longer acceptable, that they wanted to speed up the process by which they would pursue reunification," Anthony Blinken, the 71st United States Secretary of State, said. <https://www.reuters.com/world/china-has-made-decision-put-more-pressure-taiwan-blinken-2022-10-26/> Also, national security adviser Jake Sullivan described China as the "most consequential geopolitical challenge".

⁴ China's Belt and Road Initiative (BRI), sometimes referred to as the New Silk Road, is one of the most ambitious infrastructure projects ever conceived. Launched in 2013 by President Xi Jinping, the vast collection of development and investment initiatives would stretch from East Asia to Europe, significantly expanding China's economic and political influence. <https://www.cfr.org/backgrounder/chinas-massive-belt-and-road-initiative>.

⁵ Penn World Table version 10.01, <https://www.rug.nl/ggdc/productivity/pwt/?lang=en>.

provoking direct conflict with Washington and its allies. President Joe Biden calls it a "contest for the future of our world with China" or "managed strategic competition." In President Biden's 2023 state of the Union Address, he stated, "I've made clear with President Xi that we seek competition, not conflict." Indeed, "managed strategic competition" would imply reducing the risk of competition to avoid escalating into open conflicts between the United States and China.

Concerning the US and China trade relationship, Kannan and Feldgoise (2022) discussed that *the CHIPS and Science Act*⁶ is an industrial policy aimed at competing with *China*. Raimondo stated on November 30, 2022. "We are not seeking the decoupling of our economy from that of China's⁷." The US policy steps toward weakening global economic dominance by China. Despite escalating national security tensions, the United States commerce with China increased. According to the United States Commerce Department, the US trade deficit with China was reported as \$536.8 billion and exported them for \$153.8 billions in 2022. Commerce Secretary Gina Raimondo said, "We want to promote trade and investment in areas that do not threaten our core economic and national security interests or human rights values."

To measure a historical Chinese political direction and anticipate a future one, an idea, which is a political economy trilemma⁸, is beneficial. A traditional macroeconomic trilemma is the Mundell-Fleming trilemma. Mundell (1963) concluded that capital mobility, fixed exchange rate, and independent monetary policy could not coexist. *I.e.*, in a macroeconomic framework, only two policy objectives out of capital mobility, exchange rate, and an independent monetary policy can be accomplished because a country clearly cannot have an independent monetary policy if they choose a fixed exchange rate.

Padoa-Schioppa (1982) reformulated this proposition with free trade, capital mobility, fixed exchange rates, and independent monetary policy. Obstfeld and Taylor (1997) developed the "open-economy trilemma." Obstfeld, Shambaugh, and Taylor (2005) researched varying fixed exchange rate regimes, varying openness to international capital, and varying extents of independent monetary policy. Regarding the formation of the trilemma, Eichengreen and Leblang (2008) concluded that trilemma led to a guideline for political economy principal during the Bretton Woods era. On the other hand, Rey (2015) shows that a global financial cycle transforms the trilemma into a "dilemma" or an "irreconcilable duo": independent monetary policies are possible if and only if the capital account is managed⁹.

The policy trade-offs are associated with this trilemma. The three sides are capital mobility, fixed exchange rate, and independent monetary policy. For example, Chinese policymakers wish not only to keep a fixed exchange rate but also to cut interest rates by the People Bank of China (PBoC) to boost growth. However, investors wish to sell yuan (Chinese currency) and buy dollars due to the cutting of interest rates by PBoC.

⁶ The act enacted hundreds of billions of dollars to scientific research and domestic production of high-tech goods such as semiconductors.

⁷ Gina M. Raimondo: Remarks by U.S. Secretary of Commerce Gina Raimondo on the U.S. Competitiveness and the China Challenge <https://www.commerce.gov/news/speeches/2022/11/remarks-us-secretary-commerce-gina-raimondo-us-competitiveness-and-china>.

⁸ According to Bordo and Harold (2022), there are four types of trilemmas. A first type consists of Traditional Macroeconomic Trilemma between capital mobility, fixed exchange rates and an independent monetary policy. A second one is based on international relations trilemma between capital mobility, sovereignty, and international order. Thirdly, it composes political economy trilemma between global economic integration, democracy, and national sovereignty. A final type is formed by financial stability trilemma between capital mobility, financial stability, and independent national policies.

⁹ For the past few decades, international macroeconomics has postulated the "trilemma": with free capital mobility, independent monetary policies are feasible if and only if exchange rates are floating. The global financial cycle transforms the trilemma into a "dilemma" or an "irreconcilable duo": independent monetary policies are possible if and only if the capital account is managed. So should policy restrict capital mobility? Gains to international capital flows have proved elusive whether in calibrated models or in the data. Large gross flows disrupt asset markets and financial intermediation, so the costs may be very large. To deal with the global financial cycle and the "dilemma", we have the following policy options: (a) targeted capital controls; (b) acting on one of the sources of the financial cycle itself, the monetary policy of the Fed and other main central banks; (c) acting on the transmission channel cyclically by limiting credit growth and leverage during the upturn of the cycle, using national macroprudential policies; (d) acting on the transmission channel structurally by imposing stricter limits on leverage for all financial intermediaries.

A phenomenon will result in an outflow of dollars. These capital outflows result in downward pressure on the currency. The Chinese policymaker thereby restricts a capital flows. The policymaker finally needs to accept a high value of yuan. In this case, a floating exchange rate (exchange rate instability) is associated with an independent monetary policy and capital mobility (open financial markets). If a policymaker wished to not only have a fixed exchange rate but also change interest rates by monetary policy, it could control the outflow of money.

Rodrik (2000 and 2007) applied this to formulate the political economy trilemma between global economic integration, democracy, and national sovereignty. Rodrik also argued that maximum globalization or hyper-globalization could be workable provided that all countries adopt the same rule. According to Bolotnikova (2019), the Rodrik trilemma shows a nation can be democratic and sovereign, but then it cannot be hyper globalized. It can be hyper globalized and democratic, but then it would have to give up its national sovereignty to a global government. It can be sovereign and hyperglobalized, but it must abandon democratic accountability. According to Rodrik (2011), the best case of the political economy trilemma is the European Union seeing that there is the best global governance, global economic integration and democracy.

A country cannot avoid a trade-off of selecting two out of three policy goals; global economic integration, democracy, and national sovereignty. For example, the country has to give up either democracy or national sovereignty if the country takes its global economic integration. Friedman (1999) said, “your economy grows, and your politics shrinks¹⁰.” This phenomenon is defined as the “Golden Straitjacket.” *I.e.*, the Golden Straitjacket makes a country push trade liberalization and national sovereignty while democracy is constrained.

Also, global federalism can pursue both global economic integration and democracy. It implies that a country has to give up on its national sovereignty. Additionally, the Breton Woods compromise is defined as pursuing of both national sovereignty and democracy; however, a country must give up global economic integration.

The remainder of the paper is organized as follows: Section 2 describes the data analysis and collection. Section 3 explains the methodology. Section 4 outlines empirical results. Section 5 discusses the rising global economic power of China in 2049. Finally, the last section contains concluding remarks.

2. Data

This empirical analysis is based on the yearly human rights index, yearly democracy index, and yearly exports of goods and services with a current US dollar value in China. All data are for China.

Concerning the human rights index, Fariss et al. (2020) measured the index from a model of human rights¹¹ (Figure 1). The scores capture the extent to which citizens' physical integrity is protected from government killings, torture, political imprisonments, extrajudicial executions, mass killings, and disappearances. For example, the human rights index abruptly fell due to Tiananmen Square in 1989. To convert to the national sovereignty index from human rights index, the national sovereignty index is transformed by multiplying by -1.

¹⁰ As your country puts on the Golden Straitjacket, two things tend to happen: your economy grows and your politics shrinks.... [The] Golden Straitjacket narrows the political and economic policy choices of those in power to relatively tight parameters. That is why it is increasingly difficult these days to find any real differences between ruling and opposition parties in those countries that have put on the Golden Straitjacket. Once your country puts on the Golden Straitjacket, its political choices get reduced to Pepsi or Coke—to slight nuances of tastes, slight nuances of policy, slight alterations in design to account for local traditions, some loosening here or there, but never any major deviation from the core golden rules.

¹¹ <https://dataverse.harvard.edu/dataset.xhtml?persistentId=doi:10.7910/DVN/RQ85GK>.

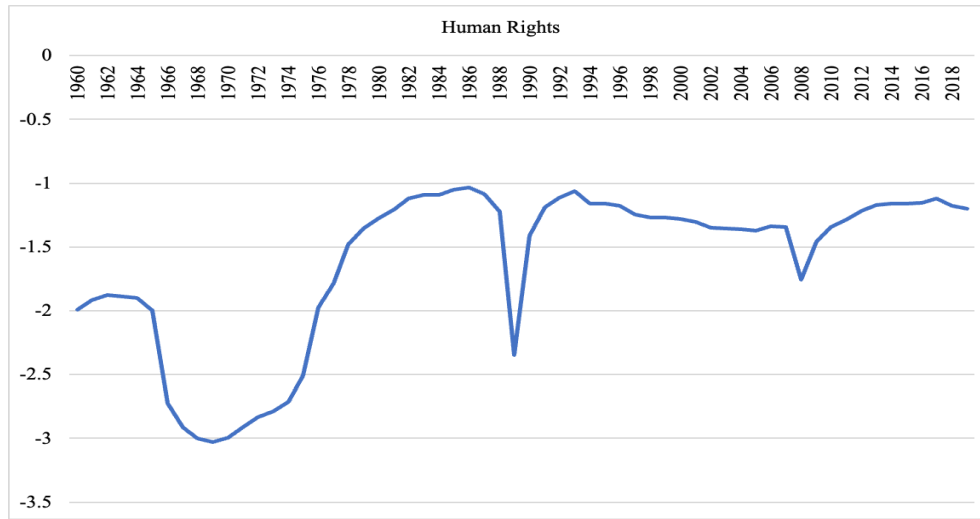


Figure 1. Human Rights Index

Source: Harvard Data Verse.

Regarding the democracy index, this dataset provides information on political regimes, using data from Coppedge et al. (2022), V-Dem [Country-Year/Country-Date] Dataset v12" Varieties of Democracy (V-Dem) Project (Fig. 2). The variable denotes the best estimate of the extent of suffrage, the freedom and fairness of elections, freedoms of association and expression, individual and minority rights, equality before the law, and executive constraints.

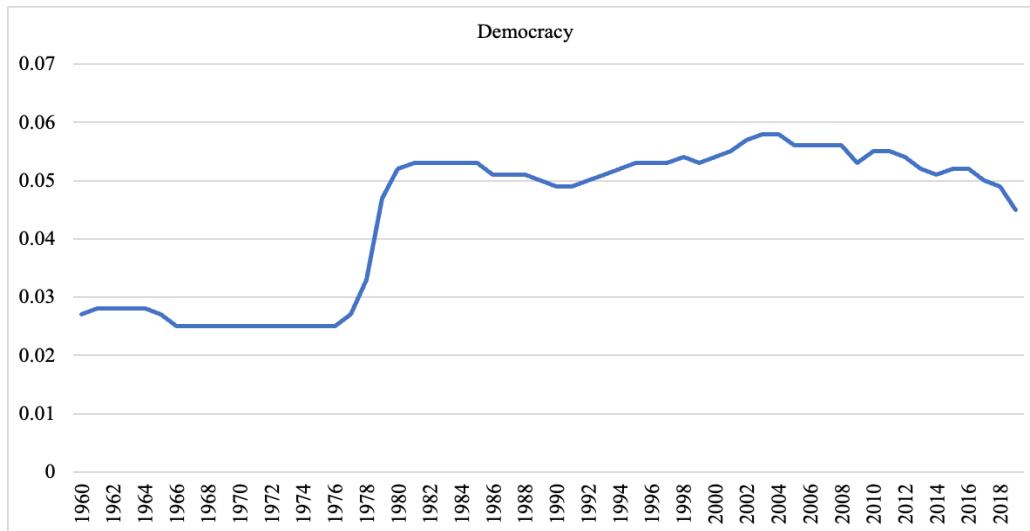


Figure 2. Democracy Index

Source: Variety of Democracy.

Concerning the exports of goods and services, exports of goods and services represent the value of all goods and other market services provided to the rest of the world. They include the value of merchandise, freight, insurance, transport, travel, royalties, license fees, and other services, such as communication, construction, financial information, business, personal, and government services (Fig. 3). It was obtained from World Bank¹².

¹² <https://data.worldbank.org/indicator/NE.EXP.GNFS.ZS?locations=CN>.

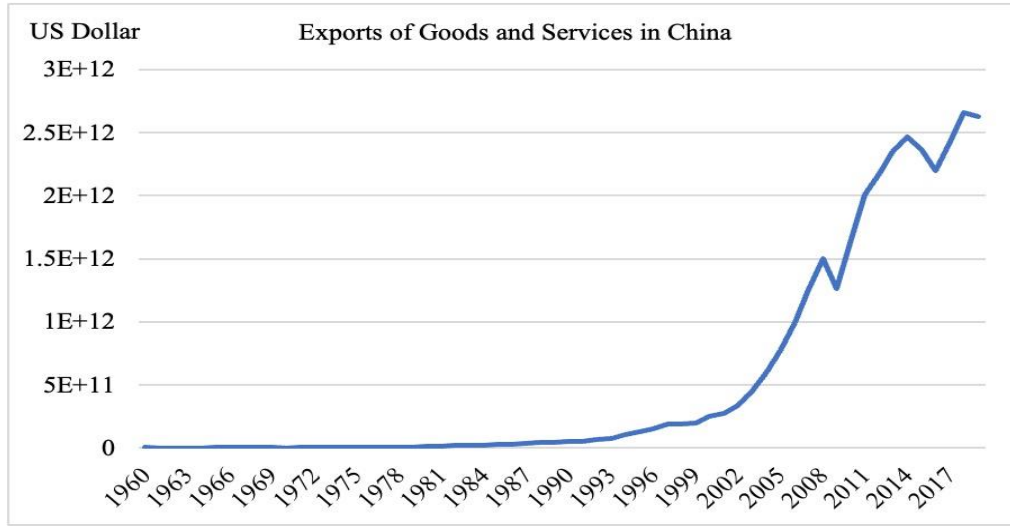


Figure 3. Export of Goods and Services in China

Source: World Bank.

The yearly data x_i were sampled from 1961 to 2019. x_1 is the national sovereignty index; x_2 is democracy index; x_3 is exports of goods and services, measured in 2019 US dollar in China. For example, $x_{1,1961}$ stands for the national sovereignty index in 1961. It normalizes all data within these time series to have maximum value 1.

3. Methodology

A length of vector (the sphere's radius) is defined as

$$a_n = |x_n| = \sqrt{x_{1,n}^2 + x_{2,n}^2 + x_{3,n}^2} \quad (1)$$

$$a_n \in \mathbb{C}.$$

a_n is human rights index; x_2 is democracy index; x_3 is exports of goods and services in percentages of GDP. n denotes the year, from 1969 to 2019.

In a vector space, the dot product gives a way to multiply to vectors to produce a scalar. The dot product of two vectors $a_n = x_n = (x_{1,n}, x_{2,n}, x_{3,n})$, $a_{n+1} = x_{n+1} = (x_{1,n+1}, x_{2,n+1}, x_{3,n+1}) \in \mathbb{R}^3$, which was defined as

$$x_n \cdot x_{n+1} = (x_{1,n}, x_{2,n}, x_{3,n}) \cdot (x_{1,n+1}, x_{2,n+1}, x_{3,n+1}) = x_{1,n} \cdot x_{1,n+1} + x_{2,n} \cdot x_{2,n+1} + x_{3,n} \cdot x_{3,n+1} \quad (2)$$

This formula implies, using basic geometry, that, alternatively, it can be written as

$$x_n \cdot x_{n+1} = |x_n| |x_{n+1}| \cos \theta \quad (3)$$

where $|x_n|$ and $|x_{n+1}|$ are the length of x_n and x_{n+1} respectively, and θ (any of the two) angle between these two vectors. The length of vector was calculated using the usual Pythagoras theorem as

$$|x_n| = \sqrt{x_{1,n}^2 + x_{2,n}^2 + x_{3,n}^2} \quad (4)$$

$$|x_{n+1}| = \sqrt{x_{1,n+1}^2 + x_{2,n+1}^2 + x_{3,n+1}^2} \quad (5)$$

4. Empirical Result

Fig. 4 results in each length of a vector each year: $|x_{1,n}|$. When the length of vectors was more than 2, China experienced historical events such as the Great Proletarian Cultural Revolution in 1966, the death of Mao Zedong

in 1976, and the choice of Chinese President Xi Jinping¹³ as general secretary of the Communist Party in 2012. Thereby, the radius of 2 is estimated as a reasonable mathematical number.

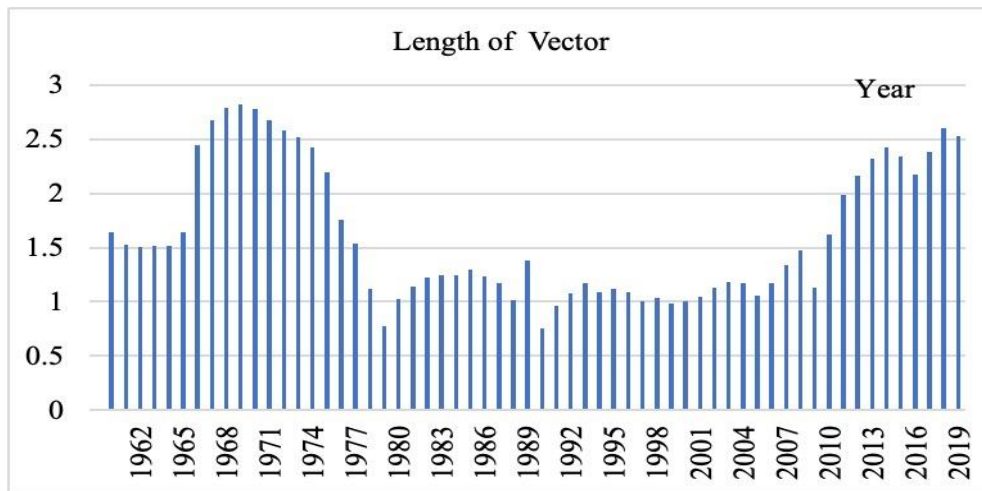


Figure 4. Length of Vector

Source: compiled by authors.

From Equation 3: $x_n \cdot x_{n+1} = |x_n||x_{n+1}| \cos \theta$, each angle each year: θ as well as each length of a vector each year changed from a positive angle (a negative angle) to a negative angle (a positive angle) at Chinese historical pivot points such as Great Proletarian Cultural Revolution by Mao Zedong, China's Communist leader in 1966, death of Mao Zedong on 9 September 9, 1976, at the age 82, and choosing Xi Jinping as general secretary of the Communist Party in 2012.

Regarding pivotal historical points of Chinese policy, this empirical analysis shows 1966, 1976, and 2012. However, the Tiananmen Square incident in 1989 is also a crucial pivotal historical incident in terms of human rights. Jeopardized human rights has not been improved¹⁴. Factually, Chinese policy moved to toward a direction to a stronger centralization of political power for President Xi¹⁵ -- as a symbolic of a stronger centralization for President Xi, his pre-eminent status has been widely understood by invoking the term "leadership core" since 2016 -- and the CCP.

5. Discussion: Rising Global Economic Power by China

Weber (2019) contends that the Chinese experimentalist approach gradually shifts the Chinese market on the margins of an old system to construct a new economic system integrated into global capitalism. Indeed, China achieved heterogeneous marketization, predetermined by Chinese exceptionalism –incorporated economic planning through industrial policies and strategic five year plans while China is deeply integrated into global capitalism. Due to heterogeneous marketization, it is possible to formulate a challenge against the established global order. Bergsten (2022) describes how China poses the first real challenge to leadership on the economic foundation.

¹³ In March 2013, Xi Started first five-year term as president of China. 2013-2014: China begins reclaiming land in the South China Sea to build islands. In 2017, China launched a harsh crackdown on the Uyghur and other predominantly Muslim ethnic groups in the Xinjiang region. Also, the party enshrines his ideology is known as “Xi Jinping Thought.” with starting his second five-year term as leader. In March 2018, China’s legislature abolishes a two-term limit on the presidency. In 2019, massive protests demanding greater democracy paralyze Hong Kong. In 2022, China refrains from criticizing Russia’s aggression. Additionally, Xi started a third five-year term as Communist Party leader with breaking that is constrained leaders to two terms.

¹⁴ The White House (2022) reported that Beijing is accountable for abuses – genocide, and crimes against humanity in Xinjiang, human rights violations in Tibet, and dismantling Hong Kong’s autonomy and freedoms.

¹⁵ Shirk (2022) described that “I have focused on the cult of personality that President Xi Jinping has developed because it is one of the central features of strongman rule.”

A locus of Chinese heterogeneous economic power could develop an odd diplomatic policy and military rival to the US. Brands and Beckley (2022) conclude that “China’s economic power and military might have skyrocketed since the Cold War, fueling Xi’s seemingly limitless ambitious.” China would therefore change a stronger centralization of political power and decision-making to tight communism.

Their economic sovereignty – their future impacts by economic power – shifted in the architecture of global governance. According to Saich (2022), “Xi shares the founders’ view that what is needed is a construction of a new, more favorable global order.” “Given that China has been a major beneficiary of the current global order, it does not reject in its entry; still, the CCP’s mission is to restructure the global order to reflect better China’s core interests and priorities.” “As leaders of two major countries, we need to play the leadership role, set the right course for the China – US relationship and put it on an upward trajectory,” President Xi said¹⁶. Dalio (2021) argues the China has become a rival power to the United States in most ways and is becoming strong in most ways at a faster rate. However, a power transfer from the US to China will not occur.

Chinese economic sovereignty in the world is caused by the 2008 Global Financial Crisis (GFC). Not only do Chinese policymakers discuss abolishing “economic insulation¹⁷, but they also argued that China’s political and economic system outperforms more outperforming than the US. Blanchette (2020) showed their new strategy to United States – for many intellectuals and members of the CCP elite, the GFC finally and fully exposed the inherent weaknesses in the US – led global economic order, and the resulting governance vacuum could only be filled by a rising and increasingly powerful China under the leadership of the CCP¹⁸. Accordingly, China pushes an economic globalization for Chinese version rather than a globalization¹⁹.

China expands a global economic integration and national sovereignty. Their future strategy is the "Golden Straitjacket," which makes a country push forward trade liberalization and national sovereignty while democracy is constrained. Not only does the future policy strategy obviously have a wrong direction, but it also could lead to conflicts and systemic disruptions.

A new kind of harmony power as “managed strategic competition” for trade policy will play an important role to reduce escalating into more open conflicts against a global system, global order, and global rule. Increasing globalization and fair-trade policies will eventually force China to confront environmental issues and move toward a more democratic system. As China continues to grow and environmental issues occupy more public attention, groups like the Paris Club will exert pressure not to purchase Chinese goods that don’t meet global environmental standards. China – and the Chinese consumer – will be loath to relinquish the individual and national benefits of integrated international economies.

6. Conclusion

In summary, China experienced pivotal political events such as The Great Proletarian Cultural Revolution in 1966, the death of Mao Zedong in 1976, and choosing Chinese President Xi Jinping as General Secretary of the Communist Party in 2012. These important events correspond to a sphere’s radius of more than 2. Accordingly, a future Chinese political strategy will continue to lead to the “Golden Straitjacket,” which makes a country push forward trade liberalization and national sovereignty – i.e., democracy is constrained. It implies a stronger centralization of political power and decision-making for President Xi and the CCP.

¹⁶Xi Jinping: Put China-U.S. relationship on the right course and bring it back to the track of healthy and stable growth (2022.11.4) https://www.fmprc.gov.cn/eng/zxxx_662805/202211/t20221114_10974580.html

¹⁷China introduced the largest stimulus package in the world in late 2008, and the Chinese economy recovered by 8.7% in 2009 and by 10.4% in 2010.

¹⁸李志永, “中国‘奋发有为’外交的根源, 性质与挑战: 自主性外交理论的视角,” siis.org.cn/UploadFiles/file/20180312/201802006%20%20李志永.pdf.

¹⁹ According to the Peterson Institute for international Economics, Globalization is the word used to describe the growing interdependence of the world’s economies, cultures, and populations, brought about by cross-border trade in goods and services, technology, and flows of investment, people, and information. <https://www.piie.com/microsites/globalization/what-is-globalization>

An emerging Chinese power attempts to have a constructive global leadership in their self-interest against the global rule. Chinese national sovereignty prevents Chinese people from protecting human rights and pushing for an invasion of freedom and democracy. To nudge China toward cooperative resolution with the West, and toward democracy, Chinese policymakers should have a confluence of a global economic growth and democracy. Hopefully, China will ultimately try to find a coexistence with Western countries.

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