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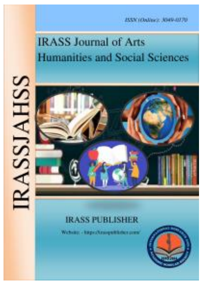

The Rise of China: An Exception to Neoliberal Globalization

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Abstract: This article examines the global economic crises from the late 1970s to the 2008 crisis, explaining the global economic environment created by the United States after the Volcker Shock, which consolidated the hegemonic position of the United States in the international financial and economic system. The objective of the research is to understand China's role in the process of mitigating international crises based on political, economic and institutional adjustments in the country. Based on the responses established by the Chinese governement to control crises in China during this period, it is identified that the Chinese economic growth through institutional and economic reforms were the key to balance economic instabilities in the long-term. Through the crisis containment projects established in China, mainly after the Asian crisis of the 1990s, the defense mechanisms of the Chinese economy remained more elaborate with the arrival of the 2008 crisis, demonstrating the solidity proposed by the Chinese system.

Keywords: China economic crises, United States of America, RMB, International Institutions, Neoliberalism.

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Introduction

Since the progressive international crises of the last quarter of the 20th century, China's development has been characterized by broad control over domestic and foreign investment in sectors essential for greater productive innovation in the country. In contrast to the economic slowdowns of peripheral states, China has managed to avoid the negative effects of the crises through an isolationist policy against external instability, a unique action on the national scene compared to the economic projects of other states. Not only have Chinese economic and institutional reforms been aimed at overcoming international weaknesses, but they have also imposed opposition to Western prerogatives of financialization of the system, which have been linked to international institutions allied with the United States.

China's strategic planning process was mainly carried out through state management. The scaling of Chinese industrial production was limited to the use of opportunities for foreign investment in expanding exports, with the centrality of the State being one of the essential factors for the intensification of China's productive capacity in key areas. Institutional, financial, and economic reforms were essential to increase the positive impacts of the Chinese economy by increasing competitiveness in exports. However, despite the unstable financial situation in Asia in the 1990s, China gained strength by managing a stabilizing effect in the region, in addition to initiating a process of even more robust development of the country's financial institutions to optimize national and international investments.

China's internal reform drive has made the state's economic system more favorable to cooperation with other economies. This is because, with China's entry into the World Trade Organization (WTO) in 2001, the Asian giant implemented a macroeconomic policy plan centered on the financial and production systems to cooperate with the large volume of capital that was expected. However, it was during the 2008 US real estate crisis that the Chinese economy was consolidated as an environment of international financial stability. The consecutive reforms that led to a financial system regulated by state power resulted in an environment for containing crises in China, which was beneficial for both central and peripheral states.

Methodology

Through neo-Marxist theory, derived from International Relations, the approach of Robert Cox, together with his studies of Gramsci's texts on hegemony and counter-hegemony, are used to understand the contexts of dependence that peripheral economies are in with central economies. Given the history-economics of the dollar as a protagonist of international economic rises and crises, this article will benefit from an explanatory research nature throughout the analyses presented. Cox's perspectives are developed based on the institutional opportunities that developing countries can build within a restricted international scenario, given the strong US dominance in the international economic and political scenarios. As China establishes actions contrary to the neoliberal premises of the system at the end of the 20th century, Cox is used to better understand reformist decisions in China and how it contributed to China's development over the decades, while other emerging countries that adopted neoliberal approaches had declines in their economies in the same period.

China in the face of the global crisis and the Washington Consensus

Based on Robert Cox (1981), in the second half of the 20th century, the hegemony of a country would be reflected within a paradigm of interference and alignment with institutions, with the fundamental purpose of creating a sense of stability and institutional validation. Cox (1981, p. 230) highlighted how the Cold War period contributed to international financial institutions benefiting from developing countries. As the global economic crisis weakened these economies, the institutionalized financial system ensured the compliance of peripheral States through a system of standards and, in particular, through loan agreements with pre-defined counterparts (Cox, 1981, p. 230). The institutions also played the role of supervising countries in deficit, this action being an "internationalized policy process presupossed a power structure, one in which central agencies of the US government were in a dominant position (Cox, 1981, p. 231).

Although, at the end of the 1970s, the European countries and Japan together represented a GDP 60% larger than that of the US economy (Hobsbawn, 1995, p. 247), the competitiveness regarding the leading role in the international financial and economic system remained unequal, given the privileges of the dollar and the aggressive maneuvers of the US economic towards other economies. This is because the consequences arising from the consecutive crises were compounded in the vulnerabilities of European companies (Tavares, 2016, p. 28). Due to openings of the European central banks to the entry of credit from the FED, the US gained prominent responsibilities in the exchange rate regulation of Europe, directly affecting Germany[1]. In this way, European states suffered drastically in fiscal, labor, and exchange terms, while England — being an open economy —, anchored through international financial markets, suffered from speculative tendencies and gradual deindustrialization (Tavares, 2016, p. 28).

At the same time, while developed countries were experiencing an industrial slowdown during the period, Deng Xiaoping, President of the People's Republic of China (1978-1990), undertook a reform program in 1978 to address economic stagnation, commonly known as "Reform and Opening Up" or "改革开放" in Mandarin. The program defined rapid economic growth through specific and strategic opening, which included the modernization of China through foreign investments in the country. After 1978, as a result of the Special Economic Zones (SEZs) and Export Processing Zones (EPZs) centered mostly on the coast, the reforms helped the private sector — adhering to Chinese government economic incentives — to increase the country's gross industrial production by 50%, with an average growth of 9% per year throughout the 1980s (Kissinger, 2011, p. 389).

China has implemented several economic reforms, which have shown a transformation in short-, medium-, and long-term strategies for development and state capacity. China's backwardness compared to developed countries, especially in the technological disparity with Japan, highlighted the precariousness of the Chinese industrial sector, as 80% of the Chinese population was still located in rural areas (Jabbour and Gabriele, 2021, p.156). In addition to promoting a better allocation of resources and reconfiguring the international division of labor in China, rural reforms were intended to contribute to industrialization through the expansion of the market economy from the countryside to the city (Jabbour and Gabriele, 2021, p.158). In this way, the emergence of SEZs and Township and Village Enterprises (TVEs) guaranteed the initial expansion of the agricultural sector, through equal cooperation against hunger — a consequence of the Great Leap Forward programs —, to exert competitive pressure from China, increasing the value of the agricultural production in real terms at an average rate of 5.4% per year (Garnaut, Song and Fang, 2018, p. 489).

TVEs, which were companies managed by villages or districts, have become a tool for reorganizing the State's development strategies, given the aim of integrating China into the international system.

> From small local companies with intensive use of labor, they expand their activities to manufacture products with higher added value, capitalized, and gradually begin to work in the entire national market, with some of them, such as the largest produces of refrigerators in China, with 20% of the market, Kelon, in addition to exporting to several Asian countries, has Reasearch and Development laboratories in Japan (Masiero, 2006, p. 432).

Consequently, in the 1980s, through strong investments of Western capitalist countries in Asian countries, the modernization of Japan and China was also linked to investments that reached 75% of the local accumulation of financial capital (Oliveira, 2012, p. 88)

Based on the formulation of SEZs in China, the areas delimited by the government were characterized by being zones to promote the reduction of controls on foreign and domestic transactions and investments. Due to their concentration in coastal regions, the development of foreign trade, aligned with the encouragement of FDI (Foreign Direct Investment), increased the flow of capital in the country, since "the proactive exchange rate policy has been the key component of foreign trade and the productive integration strategy" (Jabbour and Paula, 2020, p. 860). According to Table 1, there is a duality between the gradual growth of Asia's GDP over the years and the slowdown in the GDP of industrialized countries, especially during the Paul Volcker shock in the 1980s.

Table 1 - GDP growth 1971-2008 of developing and industrialized countries and regions

	1971-1980	1981-1990	1991-2000	2001-2008
Undeveloped countries	5,23	4,07	4,93	6,41
Asia	5,31	5,6	5,76	7,26
Africa	4,01	2,22	2,67	5,01
Latin America	5,57	1,34	3,19	3,52
Industrialized countries	3,34	2,38	2,58	1,91
World	3,82	3,09	3,06	4,2

Source: Lima, 2016, p. 16, apud Pinto, 2021, p. 173.

Promoted greater regional integration with external economies, the aim was not limited to merely attracting

[1] The Deutsche Mark (German currency) was increasingly developing into an alternative in centralized monetary transactions, especially in Europe (Frankel, 2023. p. 4).

advantageous foreign investment and technological development, but there was also a process of adapting capitalist factors in the Chinese socialist reform (Wu, 2013, p. 50). However, state management of FDI remained strict, with restrictions on which segments these investments should be applied to. For example, given a relative shift in focus from the industrial sector to other sectors in Hong Kong, the government instituted restrictions on FDI in the residential real estate sector in order to regain attention on industries (Kwok and Chan, 1991, p. 188). Therefore, the advancement of industries in SEZs was a consequence of Chinese regulatory prerogatives in the face of the entry of foreign capital, which held economic privileges and low production costs if they adhered to such regulations. For instance, China was the first country to formulate legislation to govern SEZs at the local level, with the provinces of Guangong and Shenzhen being pioneers in 1980 with a law approved by the National Congress (Zeng, 2019, p. 21).

The SEZs enabled China to have greater contact with the international market, introducing a dynamic use of the advantages attributed to trade. China developed favorable trade relations while protecting and insulating its monetary policy from external imbalances (Jabbour and Gabriele, 2021, p. 214). Despite the country having sovereignty in its internal policy, China's initial economic partners were still susceptible to international economic instabilities, given the new agreements to homogenize economic policies encouraged by the USA.

In 1985, at the same time that the US government was initially devaluing the dollar, the Plaza Agreement was structured to promote a gradual reduction of up to 50% of the initial value of the currency, without, however, a sudden drop in interest rates. This movement not only favored greater competitiveness of the US industry in the foreign market, but also revealed to counter "cooperation" (Serrano, 2004, p. 28). At the same time, at the end of the war between Iran and Iraq, in addition to weakening the geopolitical power of OPEC — which had been dominant since the First Oil Shock —, idle production established a privileged place in US diplomatic pressure (Rutledge, 2003). More broadly, it is analyzed that the US objectives combined the factors of currency appreciation, continued high interest rates and proximity to Saudi Arabia, in order to inhibit the reduction of oil prices and, therefore, make access to the commodity more difficult for other industrialized countries (Mabro, 2000, p. 7).

The concepts of hegemony framed in Gramsci's perspective consist of the "inflation of power" (Arrigh, 2021, p. 160), in which a dominant agent or group has the ability to establish support from subordinate groups regarding hegemonic interests, as if they were for the benefit of the interests of the subordinates. With this, Ranajit Guha (1992, p. 231) analyzes that the emptying of hegemonic power results in pure domination, calling it "dominance without hegemony". Equally observed in the decline of US hegemonic power and in the attempts to retake it in the 1970s and 1980s, the assertive actions of the US in the international economy, to recover financial and monetary relevance, generated a deliberate global recession, reflecting the distortion of the real interests that interconnected central States with the US.

The expansionist movements of US hegemony, according to Cox (2007, p. 118), were reproduced in the evolution of economic and social intuitions in view of a perspective of replication of the formulated models, with this replication being first intended for central countries — which would develop passively for the peripheral economies. This view, although simplistic regarding the dense complexity of the structural transformations of an economic system, identifies that the foundation and preservation of a new world order can be designed based on the compatibility of interests of the majority of other countries with the hegemonic country, to the extent that this majority is composed of other agents of political, economic and military relevance, the so-called developed countries. Thus, in 1989, the US presented international political proposals to reconfigure the practices and positions of countries regarding the internal and external economies, with the aim of repositioning the countries towards the liberal trend and, consequently, returning to the "inflation of power".

In anticipation of US objectives, in March 1989, the IMF implemented the Brady Plan, aimed exclusively at restructuring the external debts of Latin American countries, with the aim of negotiating deadlines, discounts, and demanding adherence to a neoliberal agenda (Leal, 2023, p. 11). Subsequently, in November 1989, the Washington Consensus was proposed internationally, aiming at reforms to redefine the Keynesian[2] economic character to reduce the role of the State (privatization, opening up to foreign capital and reduction of social policies), deregulation of markets (commercial, financial, and productive spheres) and greater participation of States in globalized movements (Araujo and Mattos, 2021, p. 384). In this way, the inclusion of peripheral economies in neoliberalism developed in the understanding that globalization would help overcome national poverty, with market restrictions imposed by governments being the real generators of such a result. However, this thesis was contradicted by Chinese actions to develop domestic industrial capacities during the period (Rodrik, 2011).

[2] The Keynesian doctrine was adopted by developing countries, which was characterized by the economic intervention of the State to prevent economic recession and generate employment stability for the countries. However, Keynesianism, in addition to adopting policies for better working conditions, became a strategy of Western European states to contain the advance of the ideological processes of the USSR, to minimize social and economic inequalities arising from the capitalist system. Within a historical period of economic recovery after the crisis, Keynesianism improved the approach of identifying why economic crises began, while neoclassicals sought mechanisms to boost the economy through deregulation and reduction of State control over private economic practices. In Keynes' analytical perspective, the process of capitalist development is intrinsically linked to the threat of stagnation, even with full market freedom (Keynes, 1992, p. 270). In this sense, based on the perception that the capitalist system has an unstable nature, the "invisible hand" regulating the market would not produce the harmony necessary in the long term for global well-being (Keynes, 1992, p. 11). This reasoning is similar to Marx's understanding of the cyclical crises evident in capitalism, since, as the persistence of unemployment intensifies, Keynes addressed the relationship between savings/income, which could promote an environment of economic stability while high unemployment rates occur (Hunt, 1982, p. 170).

In Table 2, the figures for Latin America stand up due to the approximately 76% contraction in GDP between the 1970s and 1980s. This is because, as these countries adhered to the economic reforms triggered by the Washington Consensus, Latin America faced a drastic reduction in its economic growth. On the other hand, as evidenced by Galbraith (2004), since the 1970s, China has perpetuated state control of capital, so that speculative money does not enter or leave freely, which led to the distancing of Western banks and, consequently, mitigated the economic damage of the subsequent external debt crisis.

The differences in approaches to economic processes compared to China and Latin America establish essential delimitations: decisions based on individual national needs. While Latin American countries deliberately attributed their economic actions to the shock therapies advocated by the Washington Consensus, China maintained its national interests as a priority. Even though China received assistance from the World Bank in developing its internal economic reforms, the unrestricted adoption of economic policies was not a characteristic employed by the country when facing the financial crisis of the 1980s (Arrighi, 2021, p. 361).

Although China opened its economy to FDI in 1980s and 1990s, capital inflows were restricted by government control over private capital outflows — given the preservation of state control over the domestic private sector (Lane and Schmukler, 2007, p. 7). Through China's economic and institutional reforms since 1978, in 1990 the government implemented a massive privatization of small and medium-sized state-owned enterprises (Li, 2011). However, this did not signify China's adherence to Western neoliberal agenda, but rather identified itself as a phase of coexistence between the planning sectors. Based on this context, throughout the late 20th century, China was developing the "crucial elements of the accumulation process (financial system, interest, credit, and exchange), under state control, with other forms of ownership (private and joint ventures)" (Jabbour, 2012, p.102).

The economic crises of the 1980s, in addition to exposing the financial weaknesses and dependencies of countries, created the scenario necessary for the United States to establish itself as a hegemonic force, establishing its interests within the monetary privileges tied to the dollar. Through the global recession, the United States demonstrated an alternative to the prevailing Keynesianism, integrating most economies into a process of financialization, which, in theory, would combat the hegemonic and profitability crisis (Arrighi, 2021, p. 160). It is analyzed that the adoption of neoliberal policies in world economies, fostered by international financial institutions, projected the dependence of peripheral economies on the dollar in the face of rising external debts and agreements through adjustments in domestic economic policies. While the Yen's dominance in the Asian economy was reduced throughout 1980 (Tavares, 2016, p. 31), China was in the process of significant economic reforms for national growth, going against the neoliberal policies guided by the Washington Consensus and, thus, building its influence in Asia.

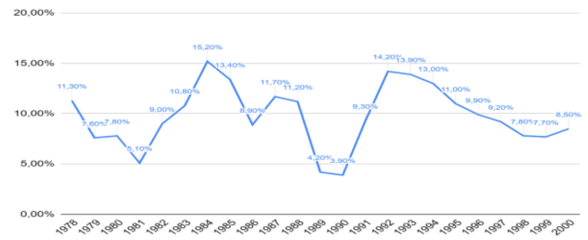
China's rise and slight fall in the 1990s: institutional reforms as a response

Development through planning helped China to establish a gradual market reform, since, in contrast to Soviet reforms, the progressive transition of the market allowed Chinese consumers to have time to adjust their behaviors, with the government providing support for companies (Xie, Kuang, and Li, 2022, p. 7). Given the state's role as a recipient of foreign capital, in 1984 the sum of FDI reached US$1.4 billion, with these investments being more centralized in Guangdong province until 1991 (Jabbour and Gabriele, 2021, p. 156). Between 1978 and 1984, the Chinese state determined that the regulation of the country's financial system would be the responsibility of the People's Bank of China (Jabbour and Gabriele, 2021, p. 150), which was segmented into four other state-owned banks for greater management of essential economic sectors.

As shown in Chart 1, initially in 1978, there was a slowdown in China's GDP from 11.3% to 5.1% in 1981 (The World Bank, 2024). However, the stabilizing process of structural reforms provided significant GDP growth over the next three years, reaching 15.2% in 1984. This scenario, despite being the result of domestic investment in industrial production, is a reflection of the qualitative leap in income generation and distribution, to the point that technological innovations offered China an opening to participate in the flow of goods and capital in the international market (Pinto, 2021, p. 105). It is observed that

> "The share of public property in national wealth has declined from 70 percent in 1978 to 30 percent in 2015. More than 95 percent of the housing stock is now owned by private households, as compared to 50 percent in 1978. Chinese corporations, however, are still predominantly publicly owned: close to 60 percent of Chinese equities belong to the government (with a small but significant rebound since 2009), 30 percent to private Chinese owners, and 10 percent to foreigners." (Piketty, Yang e Zucman, 2019, p. 2471).

Chart 1 - China's GDP growth (1978-2000)



Source: Author's estimates based on World Bank, 2024.

According to Cox (1981, p. 232), "national and industrial cooperative structures can raise protectionist or restrictive obstacles to the adjustments required for adaptation of national economies to the world economy in a hegemonic system". Within an economic scenario consolidated in the financial centrality of the West, Chinese national development after 1978, through investments by the State itself, established new parameters to overcome the adversities imposed on the system. China's strategic planning throughout the 1980s and 1990s not only had an impact on the country's domestic administrative mechanisms, but also on the identification of opportunities to attract foreign investments, which should be managed by the State. Thus, Chinese economic development, based on China's greater integration into the international community, is consolidated through the expansion of production abroad, because "the internationalization of the state is associated with the expansion of international production" (Cox, 1981, p. 233), meaning the inclusion of national production processes on a transnational scale.

It is essential to highlight the impact of the deliberate devaluation of the Yuan on promoting international trade competitiveness since 1981. This method, in addition to exploring a greater attraction of investments, intensified the productive capacity destined for abroad, as there was compensation for the technological gaps in Chinese production (Pinto, 2021, p. 167). An exchange rate favorable to trade competitiveness, combined with the availability of cheap Chinese labor, provided a massive inflow of foreign capital to invest in industrial companies, which grew from 348,400 in 1978 to a little over 10 million in 1994 (Jefferson, 2016, p. 9).

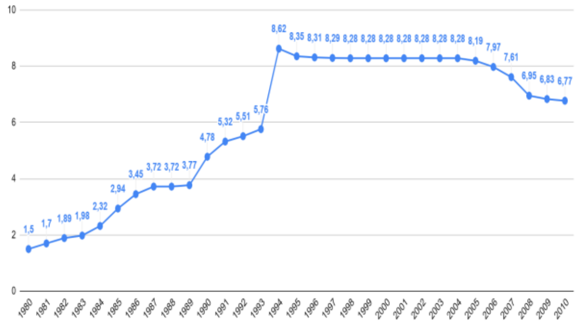
Although China maintained a low interest rate economic policy, in the late 1980s there was the first post-reform crisis, which included an increase in inflation (from 7.2% in 1987 to 18.3% in 1989), strong external restrictions (caused by the accumulation of recurring trade deficits), the decline of socialist economies (USSR and Eastern Europe) and tension from internal disputes between liberals and conservatives (Jabbour and Paula, 2020b, p. 8). As a result, in 1992, while new institutional reforms were implemented in China, a more robust structural development in economic and financial dynamics was analyzed, with economic preservation not being the only limiting factor in the current crisis, given the positive contributions of the reforms in the following crisis. Therefore, with US investments in the "new economies" in the 1990s, the Chinese economy's susceptibility to stock market speculation increased — later identified in the Asian Crisis of 1997 — given the growth of China's FDI from US$4.37 billion in 1991 to US$45.44 billion in 1997 (the World Bank, 2024b).

In 1994, the China Development Bank (CDB) was created to facilitate fiscal and financial policies through countercyclical loans, in addition to financing national development programs (Liang, Yan *apud* Jabbour and Gabriele, 2021, p. 202). As Chinese public development banks managed public finances to perpetuate resources for full employment, it is observed that the main shareholders of the CDB were other institutions and companies in China, which favored the marketing of CDB bonds based on the prerogatives of the People's Bank of China (PBoC) (Jabbour and Gabriele, 2021, p. 202).

According to Jabbour and Paula (2020, p. 860), the Chinese monetary policy of currency devaluation, which began in 1984, peaked in 1994, with a new fixed exchange rate policy (1 US$ = 8.3 RMB) was implemented from 1995 to 2005 when the Yuan became partially convertible. Maintaining the devaluation of the Yuan not only made the Chinese economic environment more stable but also favored a system of predictability of China's economic policies, which contributed to the adhesion of foreign investments in the country. This is because China strengthened its exports by attracting industries from the four main countries of the Association of Southeast Asian Nations (ASEAN), formed by Thailand, the Philippines, Indonesia, and Malaysia. Thus, faced with a weakened international economic scenario, China has become a place of financial security for investors, resulting in an increase in the country's production and export capacity (Medeiros, 2008).

However, in the late 1990s, following the crisis in European financial markets resulting from geopolitical movements in Eastern Europe, growing economic instability influenced the progressive increase in international liquidity (Metri and Tavares, 2020, p. 7). As discussed by Júlia Leal (2023, p. 5), the financial liberalization of emerging peripheral economies would reflect in vulnerabilities to speculative and exchange rate shocks, which occurred in July 1997 to the "Asian Tigers"[3]. Although the contagion effect from Thailand[4] led to the devaluation of currencies of Asian countries, China maintained its fixed exchange rate policy, duly identified in Graph 2, in order to stabilize exchange rate volatility and offer attractive values for its economy (Fishman, 2006, p. 284). As a result, the preservation of the Yuan at a depreciating level allowed the currency to exercise characteristics of an Asian "anchor" in facing the crisis (Leão, 2010, p. 33), and it is a consequence of China's considerable international reserves compared to other Asian economies.

Chart 2 - Chinese exchange rate (Yuan/Dollar) (1980-2010)



Source: Author's estimates based on World Bank, 2024c.

The Chinese strategy consisted of maintaining its regional stability by strengthening domestic demand and investing in new technologies and modernizing infrastructure, as an action to encourage FDI to finance the improvement of the country's productive capacities (Medeiros, 2006, p. 388). Furthermore, according to Gao (2023, p. 231), the non-depreciating action of the Yuan in the face of the crisis contributed to a stabilizing effect in the region. While in 1998 China's economic growth was above 9.0%, the same period was marked by the bifurcation of the current account balance between the countries of the Global North and the rest of the world, configuring the greater importance of the financiers of the US deficit being from East Asia (Arrighi, 2021, p. 201).

Another profound move by the Chinese government was the creation of the Great Western Development Program in 1999, which, according to Jabbour (2006), represented the largest territorial transfer of income in the modern world. The program, in addition to developing the unification of the Chinese economic territory similar to the United States in the 19th century (Oliveira, 2003), was a response to the Asian financial crisis to promote the domestic market. However, in comparison to South Korea, the IMF forced the liberalization of its economy to foreign capital, resulting

[3] The Asian Tigers are the group of territories in East Asia that developed strong economic growth at the end of the 20th century, consisting of Singapore, South Korea, Hong Kong, and Taiwan.

[4] Thailand was the first Asian state to suffer from monetary depreciation through imbalances in bank balance sheets, causing a "contamination" in East Asia, which subsequently affected Japan, Indonesia, and South Korea. This scenario of consecutive economic imbalances was reflected in other Asian countries, due to the flight of foreign capital in the region and the decrease in exports caused by inflation (Pinto, 2021, p.93).

in the control of foreign capital in the country's most important companies and banks. In this way,

> "[...] the major characteristic that distinguishes the Chinese accumulation regime from other central or peripheral economies is its relative autonomy from the financialization process under the hegemony of the dollar. The finance-led accumulation regime, which has been widespread in Latin America and Africa since the beginning of neoliberalism in the 1980s, does not penetrate the Chinese economy to the same extent. This is due to the mainly state-owned financial system, with a large share of the banking system among the so-called "Big Five" state-owned commercial banks (China Bank of Commerce and Industry, Bank of China, Construction Bank, China Agricultural Bank, and Bank of Communications). [...] In addition to commercial banks, long-term financing needs are met by China's three development banks, obviously under the tutelage of the State Council (China Development Bank, China Exim Bank and China Agricultural Development Bank) and by the newly created international development banks under Chinese tutelage (as well as the Asian Infrastructure and Development Bank and the New Development Bank for the BRICS)" (Nogueira, Guimarães and Braga, 2019, p. 455).

The separation of Chinese banks into financial institutions of different segments allowed for greater managerial optimization of the domestic financial market, given the high volume of FDI in financing productive and investment projects in China. As a consequence, the emergence of the Chinese capital market in the 1990s was a reflection of the national economic robustness in the face of the international financial market, which was experiencing instability (Jabbour and Gabriele, 2021, p. 199). In comparison to the same period, while China consolidated its economic credibility, Latin America stood out for establishing liberalizing economic reforms to regain the confidence of foreign investors, given the bankruptcy and privatization of banks, in addition to the skeptical perception of investors regarding the quality of Latin American financial systems (Rojas-Suarez and Weisbrod, 1995, p. 222).

It is analyzed that, although the economic crises occurred due to the vulnerabilities of the Chinese financial and economic system, the process of institutional reforms was a project to mitigate the crises originating from foreign financial structures, but mainly from Western ones. China combats domestic financial imbalances through strategies that are unconvebntional to the traditional and neoliberal economic system. Therefore, due to the negative effects of the crises also on its economic partners, the strengthening of Chinese institutions allows the reduction of economic damage to other emerging peripheral economies with close trade relations with China.

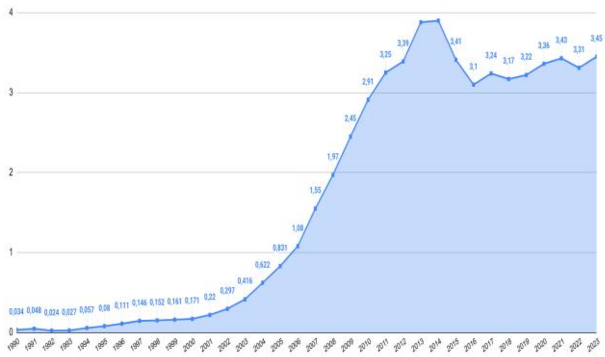
Made in China: Containing global crises that started in the United States

Based on Cox's perspectives (1981, p. 233), China expanded its economy beyond a strategic alignment project, as it expanded its industrial production with the aim of fostering direct investment in the country. According to similar correlations between Hobson and Lenin, Cox (1981, p. 233) develops about the importance of essential resources that enter the State, not in money, but in knowledge, with the capacity to build new technologies being the real recipient of investments in a solid manner. Affinities are observed between the precepts idealized by the author regarding the actions necessary for peripheral economies to overcome the hegemonic system through Chinese projects, given, for example, China's response to combat the Asian crisis by encouraging FDI in the production of technological innovations. Faced with a gradual process of centralization in the supply of global industrial production in China, the State behaves in a manner directed towards the control and development of scientific knowledge. Thus, Cox's understanding that "direct investments seem to suggest a dominance of industrial capital over financial capital" (1981, p. 233) is consolidated.

In this context, China's accession to the World Trade Organization (WTO) in 2001 stands out as a turning point in the country's economic opening. Moreover, the various political, business and economic imbalances at the turn of the century not only resulted in Western measures of greater trade cooperation with China, but also highlighted the need for such support for the economic maintenance of the United States and the European Union (Sukup, 2002, p. 82). However, Chinese trade partnerships were not limited to the central economies, as countries in Asia, Latin America, Africa and the Caribbean strengthened their relations, calling themselves "South-South negotiations", which led to closer, mnutually beneficial relations in the areas of credit, technology and commodities — essential for China's economic and structural growth.

Graph 3 provides an overview of the growth of dollar reserves, especially after China joined the WTO. This scenario is due to the expansion of public import substitution policies, because, combined with investments in the heavy mechanical industry sectors, there was a Chinese economic projection of overcoming the peripheral condition through investments in technological innovations (Jabbour and Gabriele, 2021, p. 149). The constant increase in Chinese reserves results from China's export-oriented nature, which increased from 22.6% to 38.4% of GDP between 2001 and 2007 (Pinto, 2021, p. 135).

Chart 3 - China's total dollar reserves (including gold) in trillions (1990-2023)



Source: Author's estimates based on World Bank, 2024d.

In 2002, the Chinese government founded the State-owned Assets Supervision and Administration Commission to the State Council (SASAC), with the purpose of representing the interests of the central government through the country's 149 main companies. The commission would be responsible for coordinating investments linked to the participating companies, being a segment of the reorganization of the relations between the State and the private sector — through macroeconomic policy planning centralized in the financial and production systems (Jabbour and Paula, 2020b, p. 11). Together with the formation of large public investment banks, the processes of Chinese monetary sovereignty, based on the provision of goods and services to the nation, would be developed in the face of long-term growth with increased economic liquidity, without inflationary tensions (Jabbour and Gabriele, 2021, p. 202).

While the economy of the People's Republic of China was experiencing growth at the beginning of the 21st century, the United States was facing sharp drops in investment rates, mainly in the sectors of productive capacity. In the same year, the US speculative bubble represented the deregulation of capital markets resulting from mega-mergers of corporations and banks, creating an environment of distrust among investors in the US stock market (Metri and Tavares, 2020, p. 13). Losses on global stock markets exceeded US$11.5 trillion, of which US$5.4 trillion were in the US (Farhi and Cintra, 2003, p. 45). Thus, the US established a policy of devaluing the dollar to mitigate the effects of asset deflation, given that the euro still had no weight in the international financial system compared to the dollar — in addition to the Yen having no room for devaluation in Asia to compete in international monetary policy (Metri and Tavares, 2020, p. 15).

The slowdown in the economies of industrialized countries, as observed in Table 1, is not only a trend resulting from the advantages of "Chinese pricing" with companies but from a dismantling of national industries in the world. Companies such as Apple, Dow Chemical, General Electrics, General Motors, Caterpillar, Nike, Procter & Gamble, Coca-Cola, Pepsi Co., McDonald's, and others, established themselves in China through the benefits of a skilled workforce and export logistics (Moreno, 2015, p. 13). Comparatively, "Japan rapidly caught up with the West by licensing technology from companies [...], but China has both licensed technology and used the potential of a huge market to lure foreign investment" (Bradsher, 2004).

The replacement of the fixed parity of the dollar with the Yuan for a flexible system in mid-2005 was a result of the favorable economic environment for China, due to the appreciation of commodities and the expansionist macroeconomic policy (Leal, 2023, p. 16). Even though the Chinese exchange rate fluctuated, government control of the financial system remained constant, given the importance of state regulatory institutions. In other words, the construction of a financial system regulated by state power was reflected in crisis containment projects in China, especially after the Asian crisis of the 1990s, which would protect the domestic economy from speculative crises and maintain its healthy policy space. Consecutively, the early 2000s were marked by the use of the RMB in countries neighboring China in commercial and personal transactions, being the introductory phase of the cross-border circulation of the RMB in the region, given that the process of expanding China's regional economic influence in Southeast Asia generated a real need for the currency in Transactions (Gao, 2023, p. 238).

Since the 2008 US real estate crisis, the market has become distrustful of the financial structures of the international monetary system, as the US macroeconomic planning has been blamed. Not only that, the global financial crisis has led to a series of criticisms from economists encouraging new reforms to the current monetary system, with some of these critics also representing the BRIC[5] countries (Grabel, 2019, p. 47). As a consequence, capital flight was directed to the most stable financial system during the crisis: China.

In the same year, in order to prevent monetary uncontrol in China due to the large flow of dollars, the Central Bank (People's Bank of China) announced the expansion of the role of exchange rates to favor the adjustment of the balance of payments and inflationary stability (Trevisan, 2008). Through the separation of Chinese banks, the country acquired greater optimization of the management of the domestic financial market, which enabled the reorganization of the national financial system to combat the crisis. Even though there was "monetary uncontrol" due to an excess of international liquidity, the Chinese economy stabilized because of the appreciation of the Yuan through the issuance of bonds to remove the currency from circulation (Trevisan, 2008).

Furthermore, a US$586 billion fiscal package was launched by the Chinese government to address the international financial crisis and promote credit lines through large public banks (Jabbour and Gabriele, 2021, p. 203). The availability of public credit intensified the aim of rebalancing the domestic economy, given the effective use of the "shadow banking system"[6] or "shadow banks" (Jabbour and Gabiele, 2021, p. 203). This process of economic advancement through credit lines favored China's avoidance of domestic economic stagnation, as national foreign exchange reserves were used profitably (Gao, 2023, p. 235).

The Chinese economic and financial balance during the 2008 crisis was not unexpected for the Chinese central government, because, through a continuous history of institutional reforms in the country, domestic economic structures have been improved to promote greater emancipation from the negative effects of external crisis. To clarify, since the economic crisis of the late 20th century, China has designated controls and targeted regulations through the supervision of state-owned banks, a unique attitude within the economic system compared to other states. Regulations are strengthened in the face of domestic consumption and trade regulations based on industrial production of an export nature, which define barriers that prevent economic stagnation.

The expansion of the Yuan's role in the Asia monetary system was a turning point in combating the crisis because, by using the Yuan in regional trade transactions and swap operations, China managed to suppress capital flight and mitigate currency depreciation (Leão, 2010, p. 36). This promotion of negotiations via currency swaps with different central banks allowed the provision of funds to trading partners, which positively influenced the imports of Chinese products abroad, contributing to low international liquidity (Torres and Pose, 2018, p. 12). While the dollar appreciated due to the demand for US Treasury bonds, China maintained broad control over capital outflows within the State, which was instituted until the crisis decompression (Zhang, 2009). For example, in December 2008, the People's Bank of China and the Bank of Korea agreed on a swap line worth 180 billion Yuan or 38 billion Won[7] in response to the liquidity-related problems of Korean banks during the period (Gao, 2023, p. 239).

[5] Founded in 2009, BRIC was initially formed by Brazil, Russia, India and China.

[6] "Shadow banking systems" are parallel financial systems that offer credit in an "informal" manner, with operations not carried out by traditional banks, in addition to having little or no regulation.

[7] Official currency of South Korea.

It is analyzed that the process of internationalization of the renminbi (RMB)[8] has been underway since the currency's fixed parity system with the dollar in 1995. Based on this assumption, in line with the 2008 crisis, there has been a movement by States to create an alternative currency to the dollar, as the US economy has been experiencing consecutive instabilities since the early 2000s (Leal, 202, p. 17). According to Jeffrey Frankel (2023, p. 5), for around the last 40 years, there has been an attempt by other currencies to compete with the dollar to obtain the position of the main international currency. However, the author highlights the attenuation of the Euro and the rise of the RMB in the monetary system after 2009.

As developed by Prasad (2016, p. 104), the growth of the RMB as a monetary reserve may be a condition for the stability of the international regional and financial system, depending on the conduct of macroeconomic policies and the Chinese financial market. This is because, as the RMB establishes itself as a safe credit currency, the inclusion of the RMB in the Special Drawing Rights (SDR) basket may bring China closer to internalizing the global repercussions of its economic policies. In fact, the advancement of the RMB and Chinese monetary policies on the international scene occur, in addition to the country's financial integration into central economies, in China's strategic cooperation with emerging countries.

Contrary to what Tavares (1985, p. 14) believed about the low importance of the Southern Cone countries in the US economic and trade growth strategy, the People's Republic of China used its rapprochement with emerging economies to create an environment of resource availability through mutual agreements. In this sense, after the rapid crisis in 2001, Mearsheimer (Kreisler, 2002) thought that a US strategic coalition with Japan, Vietnam, South Korea, India and Russia was necessary to slow down the Chinese economy — through political and military balance. Nevertheless, in addition to the US not consolidating such rapprochements, China developed an even closer institutional process, given the founding of BRIC in 2006 with the inclusion of two of the five countries mentioned. As elaborated by Arrighi (2021, p. 209), the adjustment of the new global economic reality will be through consecutive falls and loss of control by the US government of international economic resources, as the centrality of the US in the global economy diminishes, equally, with the protagonist of the dollar and its monetary privileges.

Conclusion

Given the weaknesses of the domestic monetary policies of the emerging peripheral economies in the 1970s, the actions to respond to financial weaknesses — linked to the increase in interest rates — were limited. In this sense, the strategies for building hegemony of the dollar focused on establishing parameters and providing predictability regarding the role that the currency would play in the global economic system, to the extent that the other developed economies proved vulnerable to US negotiations. However, while most countries faced degrees of subordination to US economic policies, China stood out by depending less on the dollar and by resisting adhering to the prescriptions of international financial institutions in combating the economic slowdown. On the other hand, the peripheral states had to significantly increase their domestic interest rates to prevent capital flight and to contain greater damage from exchange rate volatility, to the extent that the peripheral economies aligned themselves with plans coming from the hegemonic economies.

Given the reasoning presented, it is possible to analyze that, through the constant international economic crises faced by China throughout the end of the 20th century, the Asian giant went through a process of reforms to, in addition to adjusting internal weaknesses, contain subsequent economic crises. The robustness of Chinese economic institutions, especially banks, proposed an economic instability that strengthened China's trade relations with its partners, being a recipient of foreign investments even in periods of international crisis. In this regard, China stands out for not adopting conventional strategies of the neoliberal economic system, since its development process is based on maintaining trade agreements of mutual advantage between the parties, holding banks, and investment funds that are essential for financing interstate projects.

By identifying the development of the Chinese financial and economic system, especially after the Asian Crisis in 1997, it is clear that state investment in technology and combating economic idleness was fundamental to overcoming the crisis. Not only that, there is an understanding that it was during the US real estate crisis of 2008 that China projected its economic prominence by articulating strategies that directed the reception of capital flight to its own economy. In addition to cushioning the monetary imbalance, China increased the participation of the RMB as an alternative to the dollar, which was a decisive factor in favoring regional trade transactions and swap operations, in order to reduce the country's currency depreciation.

Therefore, despite the international economic crises, China has become important in an uncertain scenario with the disparities that the US has with its privileged position compared to other economies in the world, especially the dollarization of the system. China's internal reforms have allowed greater autonomy for both China and its Chinese economic partners, given the country's constant economic stability. Although the internationalization of the RMB is going through a scenario with more obstacles, it is analyzed that the Chinese government is aware of promoting the monetary diversification of the system based on the weaknesses of the system led by the US. This is because China's economic robustness goes beyond the defense of its domestic economy; it is guided by the cyclicality of the international economic crises arising from capitalism. Thus, the 2008 crisis marked a transformation in China's international projection in the face of questions from economies about the real security of the dollar as an international reference currency, introducing a change in China's role as a key player in economic structures at the beginning of the 21st century.

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[8] The Renminbi (RMB) is the official currency of China, with the yuan being the currency's unit of account.

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