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# The International Economic System in the Historical Process and China's Role

**Summary:** The history of the construction and development of the international economic system can be traced back to the establishment of the Bretton Woods system at the end of World War II. After more than 70 years, the international economic system in different economic fields such as trade, finance and investment, as well as at the global and regional levels, has been continuously built, reformed and evolved, forming a scene of variety of current international economic system. During this period, China's role in the international economic system has also experienced gradual changes, and has generally undergone a transformation from a bystander to a part trying to fit in, then to a participant, and finally a leader. The evolution of China's role is not only the cause of the institutional changes in the international economic system, but also the outcome. They are complementary and closely related to each other. In the development of the international economic system, China has gradually moved from the periphery to the center, which is both an opportunity and a challenge for China.

**Keywords:** International economic system; institutional change; institutional strategy; China's Role

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The international economic system is an important platform for China to conduct economic diplomacy and participate in global economic governance. Since the end of World War II, the construction of the international system has primarily been focused on the economic sector. The establishment of the World Bank, the International Monetary Fund (IMF) and the General Agreement on Tariffs and Trade (GATT) officially kicked off the historical process

of the construction of the international economic system and laid foundation for institutional changes thereafter. As the international economic system continues to develop, the role that China plays in has also been changing. This is not only a strategic choice that China has made based on its judgment of its own power and international situation, but also an objective requirement and necessary condition for the changing international economic system.

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## Rise of the International Economic System and China's By-standing Role

From the end of World War II to the 1970s, it was the period when international economic system was taking shape. During this period, China did not have a strong initiative to get involved in the institutional construction and mainly played the role of a “bystander”.

The Bretton Woods System established by the end of World War II was the first global economic system in the real sense. It identified capital liberalization, foreign exchange liberalization and trade liberalization as the principles for post-war global economic governance. Supported by the World Bank and the IMF, and supplemented by the GATT, this system played an important role in maintaining the post-war global financial and trade order. During this period, the US, with its unparalleled strength, became the core of entire international economic system and maintained absolute dominance in the aspects of system-building and rule-making. The most typical example was the dollar-centered “double pegged” principle (i.e., dollar is pegged to gold and the currencies of other nations are pegged to dollar) based on the Bretton Woods System and the fixed exchange rate system. In contrast, China “was busy restoring its domestic development” during this period, and its self-reliant and state-planning economic development model spared it the urgent need to get engaged in international economic system building and global economic governance. Meanwhile, due to the influence of the “Cold War”,

most countries were classified into the clearly-defined and mutually-opposed Eastern Camp and Western Camp. The room for China's participation in international economic system was extremely small and its economic diplomacy was limited to establishing mutual-help economic relations with socialist countries in Eastern Europe and providing economic aid to developing countries in Asia and Africa. The ideological difference highlighted by the cold war also triggered a repulsive mood in China against the US-dominated international system.

Therefore, over the three decades from the 1940s to the 1970s, China did not have a strong initiative to participate in international economic institutions and stayed adrift from them as a bystander. Only until the 1970s to 1980s when the tense international situation was alleviated and after identifying the importance of the institutions for its external economic development did China start to take the initiative to resume its legal seats in these institutions through diplomatic efforts.

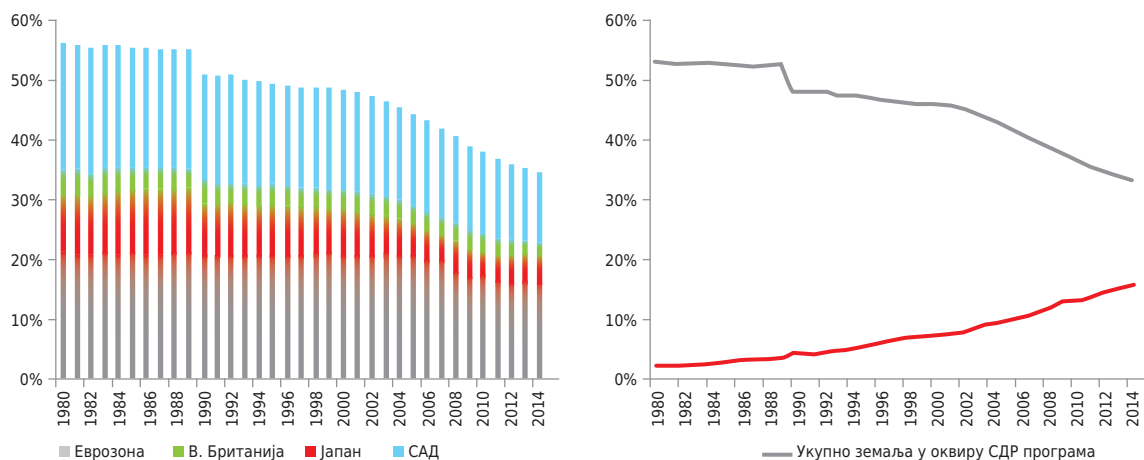
## Development of the International Economic System and China's Integrating Role

Since the end of the 1970s, as the IMF, the World Bank and the GATT continued to mature, and new international economic institutions at regional level sprang up, China started to reveal great enthusiasm in participating in international economic systems, and took the initiative to integrate into the existing international systems, starting to apply or reapplying for joining international economic organizations of all kinds.

The year 1980 was a turning point for China. In that year, China successively resumed its seats in the IMF, the World Bank and their subordinating agencies, kicking off a new chapter in its financial diplomacy. As shown in figure 1, The IMF adopted a resolution to increase China's SDR shares from 550 million to 1.2 billion upon China's re-accession; from 1981, the World Bank also started to provide loans to China, and gradually advanced cooperation with China on infrastructure and talent cultivation. Afterwards, China's participation in economic diplomacy under the international economic system framework grew day by day in terms of both width

and depth. For example, in the financial sector, China's participation in the international system started to extend from global level to regional level. In 1986, China became a member state of the Asia Development Bank (ADB) and was elected as board member state and acquired an independent board member seat during the re-election of the ADB the next year. In the trade sector, China officially submitted its application to re-enter the GATT and started a prolonged negotiation for re-accession to the GATT and the subsequent accession to the World Trade Organization. In addition, China also broke away with the limits of its past economic

Графикон 1: Важност СДР економије у свету постепено опада, у поређењу са кинеском, која расте



Извор података: Wind

58 | diplomacy and started the construction of bilateral economic mechanisms. Against the backdrop that the US fully relaxed its technology control to China in the 1980s and its technological export and transfer to China increased sharply, the Joint Commission on Commerce and Trade was established in 1983. This system was one of the earliest diplomatic mechanisms for dialogue in the economic and trade sector between the two countries, and became an effective model for China to follow in its subsequent bilateral institutional construction with the US. As China was limited in economic strength and wasn't yet familiar with international economic rules, its participation in the international economic system was mainly about "regulating itself and trying to integrate". After a series of economic diplomacy activities, though, China further knew about the operation rules of various international economic systems, and preliminarily developed the awareness and ability to wield institutional strategies in economic diplomacy.

In the 1990s, China sought to integrate into the existing international economic system in a more resolute and active way. It took the initiative to study the existing international economic rules and started to integrate into the international division of labor. On the one hand, China participated in international economic systems at regional level. In 1991, China joined the Asia Pacific Economic Cooperation (APEC) upon invitation and participated in its summit for the first time in 1993, kicking off its international economic cooperation at all levels under the APEC framework. The APEC then became an important platform for China to conduct economic diplomacy in the Asia Pacific

Region. In 1997, the ASEAN-China, Japan, ROK (10+3) Cooperation Mechanism came into being against the backdrop of economic globalization and the post financial crisis era. China actively participated in the dialogues and other activities under this mechanism and pushed the mechanism towards maturity and perfection. On the other hand, China successfully entered the WTO through negotiation. Starting from the 1990s, China spent 13 years in the negotiation on re-accession to the GATT and accession to the WTO, and the most major negotiation was with the United States. Finally, China officially became a member state of the WTO in November, 2001, kicking off a new era for China's participation in the international economic system. The "accession-to-WTO" negotiation was an invaluable opportunity for China to study and adapt to international rules on trade. It also helped China form the basic positions and principles of free trade it had adhered to thereafter on the international stage. In general, the key word for China's participation in the international economic system during this period was "study", that is, to keep studying the rules for fully integrating into the international economic system. This has laid a solid foundation for China's further participation in the making of international economic rules.

### Expansion of International Economic System and China's Participatory Role

In the 2000s, marked by its accession to the WTO, China started to become an official member of the international economic system and an active

participant on the stage of international economic diplomacy. The position of participating in international economic system construction and global economic governance has risen in China's overall diplomacy. On the one hand, China became more familiar with the game rules of international economy, raised its participation level in the international economic system, and improved its ability to use the international economic system strategy. On the other hand, the expectation of the rest of the world about China playing a constructive role in building the international economic system was also on the rise. During this period, China's integrating role in the international economic system gradually changed to innovating and participatory roles.

First, China actively participated in the construction of international economic systems at global level. As the largest developing country in the world, the ever-rising international position required China to quickly shift from "the state of adaptation" to "the state of active participation" after joining the WTO, so as to push for the creation of more fair and more reasonable rules and regulations in the international economic system. At the Doha round negotiation, China revealed an image of a resolute guard and practitioner of the multilateral trade system. In global financial governance, after the international financial crisis broke out in 2008, China actively pushed the G20 Ministerial Meeting to be upgraded to the G20 Summit and played a constructive role in the process.

Second, China pushed for the construction of free trade areas (FTA) at regional level, and actively pushed for the construction of a financial order in

the East Asia region. In 2000, China for the first time proposed the conception of China-ASEAN Free Trade Area (CAFTA); in 2010, this FTA was officially established and is now the third largest FTA in the world, and the largest FTA made up with developing countries. In the negotiation and preparation process for the FTA, China's role was irreplaceable. The most notable example was its strong support to the ASEAN countries after they were severely hit by the Asian Financial Crisis, which enabled the ASEAN countries to develop confidence in regional cooperation thereafter, and greatly sped up the construction process of the CAFTA. In addition, from 2003 to 2004, China proposed the conception of constructing a free trade area in East Asia at many occasions during a series of summits of East Asia. This was an important driver for the decision to implement the "Regional Comprehensive Economic Partnership" at the 19th Summit of the ASEAN in 2011. This free trade agreement is also the most notable regional-level international economic mechanism in East Asia and even in the Asia Pacific Region.

In the area of regional financial system construction, China actively participated in the Chiang Mai Initiative under the "10+3" Mechanism. This agreement on the establishment of a regional currency exchange network has substantially promoted the formation of regional financial assistance mechanisms and become the most important institutional achievement in the financial and monetary sector of East Asia and even the entire Asia. Taking regional cooperation as the starting point, along with the strengthening of economic strength and the accumulation of

financial management experience, China gradually surpassed the participatory role in the international economic system and began to exert more economic leadership that matched with its strength.

## Changes in the International Economic System and China's Leading Role

60 | With the 2008 international financial crisis and China becoming the world's second largest economy in 2010 as the symbol, China has become one of the leaders in international economic diplomacy. Affected by the financial crisis and the debt crisis, the traditional leadership of the United States and the European Union has been weakened. Due to its huge economic volume and the impact on the world economy, China became one of the three leaders alongside the US and Europe in the international economic and diplomatic arena. This leadership position grew more notable after 2013, and was mainly manifested by the increasingly prominent role of China in the construction of international economic institutions.

First, leading the creation of new systems and reform of the old ones. In recent years, the willingness of the United States and other Western powers to construct international systems has declined. China has taken the initiative to assume responsibility of promoting global economic governance and has actively led the creation of many international economic mechanisms. In its neighboring regions, China has proposed regional economic cooperation initiatives such as the “China-Pakistan Economic Corridor”, the “Bangladesh-China-India-Myanmar Economic Corridor” and the Lancang-Mekong

Cooperation. Since its establishment in 2016, the Lancang-Mekong Cooperation has developed into one of the most influential and effective sub-regional economic cooperation mechanisms on the Central South Peninsula and even in Southeast Asia in a short period of time. At the global or Asia-Pacific level, China advocated the establishment of international financial institutions such as the New Development Bank, the SCO Inter-bank Association and the Asian Infrastructure Investment Bank, which have shaken the monopoly position of existing international financial organizations such as the IMF, the World Bank and the ADB in global and regional financial governance. Another major achievement of China's establishment of new systems was the holding of the “Belt and Road Forum” and the decision of turning it into a permanent international conference mechanism. The success and continuous development of the forum marked the Belt and Road Initiative as a new model of global economic governance, which has been recognized, supported and joined by more and more countries in the world.

In addition, China has also played an active role in promoting the reform of the existing international economic system. In the reform of the International Monetary Fund, China joined forces with other emerging market countries and developing countries to urge the IMF executive board to increase the shares and voting rights of these countries. At the same time, through various means such as diplomatic negotiations, the IMF board of directors also agreed to expand the SDR currency basket by including the RMB. In promoting the reform of the World Bank, China has striven for more rights for emerging market



countries and developing countries as well as countries in transition. On the more complicated issue of reforming the WTO, China adheres to the principle that reform-related decisions must be made based on consensus, holds fast to the traditional WTO attitude of "ownership neutrality", and asserts the core position of development. All these are in line with the principles of most developing countries or countries in transition. In terms of dispute settlement, it advocates breaking the deadlock in the selection of Appellate Body members as soon as possible, and providing necessary clarifications to and restrictions on the authority of the Appellate Body, which is in line with the ideas of most WTO member states except for the US. Based on the above position, China submitted the "China's Proposal on WTO Reform" to the World Trade Organization, and conducted active communication and joint operations with WTO members such as the European Union. In general, however, due to the serious differences in the positions of member states, the WTO reform is still in a deadlock.

Second, taking the initiative to launch issues on the platforms of the international economic system. On the eve of the G20 Summit in London in 2009, Zhou Xiaochuan, then Governor of the People's Bank of China, proposed to create a "above-sovereignty international reserve currency" to replace the current "single international reserve currency" and proposed that special drawing rights should be promoted as an international currency and that the reform of the international financial system should be actively promoted. At the G20 Summit in Hangzhou in 2016, China officially proposed the "China Program" for global economic

governance. In the economic diplomacy with the US, China raised the issues of "foreign exchange asset security" and "protectionism in investment" in the US. The introduction of these reforms and cooperation initiatives marks the beginning that China has become an issue leader in the international economic system.

Third, actively sending talents to international economic organizations. In the field of trade, China's former Permanent Representative to the WTO, Yi Xiaozhun, became the first Deputy Director-General of the World Trade Organization from China. In the financial field, Chinese economist Justin Yifu Lin was appointed as Senior Vice President and Chief Economist of the World Bank, which was the first time that a person from developing countries had taken up this important position; Zhu Min, Deputy Governor of the People's Bank of China, became the first Chinese to be the Vice President of the IMF. In the agricultural sector, Qu Dongyu, former Vice Minister of the Ministry of Agriculture and Rural Affairs of China, was elected as the Director-General of the Food and Agriculture Organization of the United Nations (FAO) in 2019, becoming the first Chinese Director-General of the FAO. Chinese faces have appeared in several important international economic organizations, breaking the monopoly of European and American countries on the leadership of major international economic organizations. This change also meets with the recognition and expectation of the international community that China should play a leading role in the international economic system.

Fourth, participating in and leading the formulation of international economic rules. China's principle of "common but differentiated



View of Guangzhou city in Guangdong province

responsibilities" in environmental and climate diplomacy has been recognized by many countries in the world and has become an important principle in international climate negotiations. After the outbreak of the international financial crisis in 2008, China proposed to strengthen supervision of the financial sector and oppose to American-style laissez-faire freedom. This proposal later became the common base tone in the field of international financial governance. In addition, the numerous international economic systems that China has led to the creation, such as the New Development Bank, the AIIB, and the Belt and Road Forum, also manifest innovation in the international rules. These mechanisms have, in effect, broken the current global financial and economic governance pattern dominated by the west, and established a new set of international financial and economic

rules led by emerging market countries represented by China, and formed the current situation in which two systems of rules coexist.

Judging from its historical development trends, the changes in the international economic system are getting increasingly diversified and complicated, and will continue to play an irreplaceable role in the future construction of the global economic order. In the evolution of the international economic system, China's role has gradually moved from the edge to the center. For China, this is both an opportunity and a challenge. The former is represented by its rising influence and voice in global economic governance. The latter is mainly reflected in the fact that the international responsibility of China and the strategic competition pressure from other major countries on China are both on the rise.