Giving up the spotlight is never easy

By Paoloa Subacchi, 13 April 2015

Giving up the spotlight is never easy. The United States, like many aging celebrities, is struggling to share the stage with new faces, especially China. The upcoming meetings of the International Monetary Fund and the World Bank – two institutions dominated by the US and its Western allies – provide an ideal opportunity to change that.

The US must come to terms with the reality that the world has changed. The longer the US remains in a state of denial, the more damage it will do to its interests and its global influence, which remains substantial, if more constrained than before.

Pax Americana RIP

The world no longer adheres to the static Cold War order, with two blocs locked in open but guarded confrontation. **Nor does it work according to the Pax Americana** that dominated in the decade after the Soviet Union's collapse, when the US briefly emerged as the sole superpower.

Today's world is underpinned by a multipolar order, which emerged from the rise of developing economies – most notably China – as major actors in trade and finance. The US – not to mention the other G-7 countries – now must compete and cooperate not only with China, but also with India, Brazil, and others through expanded forums like the G-20.

To this end, the US must show leadership and adaptability. It cannot refuse to support China's efforts to expand its role in global governance. Nor should it issue harsh rebukes to its allies when they do not follow suit, as it did when the United Kingdom announced its intention to join the new China-led Asian Infrastructure Investment Bank.

US stuck in the Bretton Woods system

The US seems to be stuck in the Bretton Woods system, the rules-based order – underpinned by the IMF and the World Bank, with the US dollar at its heart – that emerged after World War II. The Bretton Woods system institutionalized America's geopolitical supremacy, leaving the old imperial power, the UK, to step aside – a step that it took graciously, if a little desperately, given its grave postwar economic situation.

Over the years, however, the Bretton Woods system, with its mix of liberal multilateralism and market-oriented economic policies, has come to symbolize the Anglo-American dominance of the global economy that much of the world now criticizes, especially since the global financial crisis. In particular, the Washington Consensus – the set of free-market principles that influences the policies of the IMF, the World Bank, the US, and the UK – has generated considerable resentment, especially after the Asian financial crisis of the 1990s.

Against this backdrop, it is hardly surprising that China has been using its growing global influence to help engineer a new economic order – one in which the US dollar does not reign supreme. Zhou Xiaochuan, the governor of the People's Bank of China, China's central bank, has repeatedly called for a shift toward an international monetary system that allows for the use of multiple currencies for payments and investment. Such an approach would reduce the risk and impact of liquidity crises, while decoupling the international monetary system from the "economic conditions and sovereign interests of any single country."

Of course, China believes that its own currency, the renminbi, should eventually play a central role in this new monetary system, so that it reflects China's role not only as a leading engine of global economic growth, but also as the world's largest creditor. Indeed, together with the other systemically important economies (the US, the UK, Japan, and the eurozone) China drives trends that, for better or worse, extend far beyond its borders.

China's leadership encourage the use of the renminbi

Since 2009, China's leadership has been pursuing a set of policies that encourage the use of the renminbi in regional trade and reduce its dependence on the dollar in international payments. But expanding the renminbi's role in the international monetary system is just the first step toward institutionalizing a multipolar world order. China has also spearheaded the establishment of new multilateral institutions, with AIIB following on the heels of the New Development Bank, created with other major emerging economies (Brazil, Russia, India, and South Africa).

By taking these steps, **China's leaders have called attention to the inadequacy of the existing international monetary system, and its institutional framework, in today's complex, multipolar world economy.** In particular, China's agenda highlights questions about America's capacity to provide the needed liquidity to support international trade and finance.

The new order that China hopes to build

To be sure, the US is right to wonder whether the new order that China hopes to build will be as open and rules-based as the American-led order – the one that gave China the market access it needed to achieve its spectacular economic rise. But the answer to that question can be found only by engaging China on the issue of reform of global governance – not by denying that change is needed at all.

As the US stubbornly pursues a policy of containment toward China – exemplified in its fight against the AIIB's establishment, its relentless accusations of currency manipulation, and its refusal to ratify IMF reforms that would increase China's influence – it risks losing its ability to shape what comes next. The result could be a world of fragmented blocs – an outcome that would undermine not only global prosperity, but also cooperation on shared challenges.

The Spring Meetings of the IMF and the World Bank offer an important opportunity to signal a new approach toward China. And **there could be no more credible signal than US support for the renminbi's addition to the basket of currencies that the IMF uses to value its international reserve asset, the Special Drawing Right.** America will be in the spotlight once again. But how will it perform?