The IMF SDR Rights and the Global Currency Markets: Impacts of the Elevation of the Chinese Yuan (Renminbi)

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The elevation the Chinese renminbi (also known as the yuan) to the basket of global currencies making up the International Monetary Fund's special drawing rights (SDRs), in effect making it an international reserve currency, is unlikely to have any major immediate effects. But it does underscore the vast transformation in the foundations of the world economy over the past three decades resulting from the long-term economic decline of the US.

As the Stratfor web site noted in its comment on the decision, it is the first time that the basket of reserve currencies, which had previously comprised the dollar, the British pound, the Japanese yen and the euro, will include the currency of a country not allied with the US.

The post-World War II monetary order, of which the IMF was a part, was grounded on the overwhelming economic dominance of the US. In 1945, Stratfor pointed out, US gross domestic product was estimated to be as high at 50 percent of the world total. This year it will be 22 percent.

While it supported the decision to include the renminbi in the SDR basket, the US did so very much with gritted teeth. The principal reason for its acquiescence was fear that its continued resistance—it played the leading role in having China's 2010 push to be included in the SDR basket turned down—would provoke opposition from other powers. There is already criticism of the US from within the IMF because Congress has refused to ratify a 2010 decision to give China increased voting rights. At present, it has the same vote within the organisation's bodies as Belgium.

This incongruity is a measure of the transformation in the world economy over the past quarter century. Two decades ago, China comprised just 2 percent of global GDP. Since then, its share has increased six-fold and this year will reach 12 percent, as the world's second largest economy. This is one of the most significant transformations in world economic history.

However, its implications and impact on geopolitics cannot be determined by simply extrapolating from what has already taken place and drawing the conclusion that China is set eventually to become the world's economic hegemon, or that it is on the way to becoming an imperialist power, if it is not already.

The rise of China can be understood only if it is placed in its historical and international context. This is completely ignored both by those who maintain that China is going to provide a new base of stability for world capitalism and by various pseudo-left tendencies that claim it is an imperialist power.

The overriding tendency in the historical integration of China into the framework of world capitalism has been the drive by the imperialist powers to dominate and subjugate it.

This started with the Opium Wars initiated by Britain in the mid-19th century. By the end of the 19th century, there was not only a scramble for Africa, but also the carve-up of China, as all the imperialist powers, including the emerging ones—the US, Japan and Germany in particular—sought to establish their own economic zones and spheres of influence. The US announced its emergence on the world scene with the declaration that it sought an “open door” policy in China—in other words, it was not to be excluded from exercising its burgeoning interests.

When that perspective was challenged by Japan in the 1930s, first with the invasion of Manchuria in 1931 and then the attempted conquest of the whole country in 1937, the US set itself on a path of war against its Asian rival, which erupted with the attack on Pearl Harbour in 1941 and concluded with the dropping of two atomic bombs on Japan in August 1945.

However, US plans for domination of the Chinese landmass were thwarted by the Chinese Revolution of 1949, which threw off the yoke of imperialism. But the nationalist policies and program of the Maoist regime, based on the Stalinist dogma of “socialism in one country,” meant that the country’s economic problems could not be resolved, erupting in a series of crises such as the “Great Leap Forward” of the 1950s and the “Cultural Revolution” in the 1960s.

Fearing an eruption of the working class from below, the Maoist regime moved back towards imperialism, beginning with the Nixon-Mao rapprochement at the start the 1970s and leading to the turn to market forces at the end of the decade under Deng Xiaoping. With the bloody suppression of the working class in the events of June 1989 and the subsequent economic opening up of China, the Maoist-Stalinist bureaucracy carried through the restoration of capitalism, making its economy ever more dependent on the shifts and flows of global capital.

The spectacular growth of the Chinese economy over the past quarter century, however, does not mean that China is on the path taken by the existing imperialist powers in an earlier historical period. In the first place, its economic expansion has taken place very differently: it has been a product not of some organic national development, but has flowed above all from its role as the cheap-labour manufacturing platform of the transnational corporations of the major powers.

Consequently, the physiognomy of the Chinese ruling elite—notwithstanding the great wealth of its upper echelons—is very much that of the comprador bourgeoisie that emerged in the earlier period of colonial subjugation, seeking to manoeuvre its way through the powerful currents of the global economy while enhancing its wealth, often by political means and outright corruption.

The concerted push by the regime to have the renminbi recognised as part of the SDR basket displays these characteristics. It is aimed at trying to enhance China’s economic status and give it greater room for manoeuvre by lessening, at least to some extent, the power of the US dollar in determining its connections to the world market.

In that way, the hope of the regime is that it will contribute to what it calls China's "peaceful rise."

Such calculations, however, completely leave out of account the implications of the very changes in the structure of the global economy and geo-political relations that have led to the renminbi's rise.

One hundred years ago, in analysing the significance of World War I as the opening of the imperialist epoch of wars and revolutions, Lenin explained that there could be no permanent peace under capitalism because any equilibrium between the major powers would, by the very nature and dynamic of the capitalist economy, be only temporary.

This was because the capitalist economy developed unevenly. Consequently, the economic conditions that prevailed at one point and formed the basis for stability would immediately start to be disrupted, leading inevitably to the eruption of new wars.

Lenin specifically pointed to the transformation that had led to the emergence of Germany from a "miserable" collection of states and principalities to a major economic power in the space of barely 50 years.

The situation a century ago is not exactly analogous to that of today. China, unlike Germany in the first decade of the last century, is not an imperialist power. But Lenin's analysis has contemporary relevance nonetheless. The economic rise of China has completely disrupted the post-war economic order and the equilibrium established between the major imperialist powers following the 30 years of conflagration—two world wars and many smaller conflicts—from 1914 to 1945.

The elevation of the Chinese currency must be seen within this context. Rather than providing a new foundation for stability and order, it is an expression of the deepening instability and disorder that increasingly characterise the global economy, flowing from the erosion of the foundations on which it was based—unchallenged US economic hegemony.

Faced with this situation, the US is not planning to fade away peacefully into the background, but is seeking to counter its economic decline by military means. This is the meaning of its ever-increasing bellicosity towards Russia and its pivot to Asia, aimed at the subjugation of China. However, this drive brings it into conflict with its old imperialist rivals, which likewise see their future as bound up with the exploitation of the resources and labour of the Eurasian landmass, and whose interests do not necessarily coincide with those of the US.

From this perspective, the elevation of the renminbi is an expression of shifts in the tectonic plates of the world economy that are fueling geopolitical tensions and creating the conditions for the eruption of a third world war—a catastrophe that can be prevented only by the unification of the working class on the program of world socialist revolution.

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