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The Soft Uprising: China and Russia's attempt to break out of the global financial system

Мягкое восстание: попытка Китая и России вырваться из мировой финансовой системы

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Abstract

This paper sheds the light on the ongoing conflict between the two global powerhouses, the United States, and the Sino-Russian agreement, and how the latter is challenging the US economic hegemony by attempting to change the world's financial system. To better discuss this struggle, this paper will review the historical development of the financial system, its risks and challenges, the position of Russia and China in the current system, their motivations for the breaking out, and then decide whether this breakout is possible under the current circumstances. In order to do that, this study examines the Russian-American relationship, and the Chinese-American relationship to understand the differences and how each country functions toward the other. This paper will rely on neutral studies in an attempt to explain the reasons of this uprising. In addition, this study shows that either China, or Russia alone can challenge the United States hegemony, in fact, the Chinese economic power depend on the Russian political influence and vice versa. In the current moment, the Russian-Chinese alliance is not able to break out from the American hegemony as long as the dollar is still used as the global currency.

Аннотация

Эта статья проливает свет на продолжающийся конфликт между двумя мировыми державами, США и китайско-российским соглашением, и на то, как последний бросает вызов экономической гегемонии США, пытаясь изменить мировую финансовую систему. Чтобы лучше обсудить эту борьбу, в этой статье будет рассмотрено историческое развитие финансовой системы, ее риски и проблемы, положение России и Китая в нынешней системе, их мотивация для прорыва, а затем решено, возможен ли этот прорыв в рамках текущие обстоятельства. Для этого в этом исследовании рассматриваются российско-американские отношения и китайско-американские отношения, чтобы понять различия и то, как каждая страна функционирует по отношению к другой. Эта статья будет опираться на нейтральные исследования в попытке объяснить причины этого восстания. Кроме того, это исследование показывает, что либо Китай, либо Россия могут бросить вызов гегемонии США, на самом деле, китайская экономическая мощь зависит от политического влияния России и наоборот. В настоящий момент российско-китайский альянс не сможет вырваться из американской гегемонии, пока доллар все еще используется в качестве мировой валюты.

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Key Words: USA, China, Russia, financial system, hegemony.

Ключевые слова: США, Китай, Россия, финансовая система, гегемония.

Introduction

The most distinctive characteristic of our modern world is the ideological, political and economic conflict that exists and has multiple encounters between East and West. This conflict has become a comprehensive and penetrating clash, which has become part of the daily life and ordinary thinking of all human beings. This conflict derives its importance from two angles: It is the source of most of the international, regional and local crises in the world. On the other hand, the importance of this conflict stems from the fact that it includes the wealthiest and most powerful countries in the world. In the face of renewed and multiple threats to global financial stability coupled with increasing uncertainty and growing loss of international cooperation, there is discussion of breaking the mantle of the global financial system in many countries, particularly China and Russia.

In the light of the foregoing conflicts, it's possible to present the historical development of the global financial system and clarify the most important features of this attempt of breaking out and the most important reasons behind it. As well as monitoring the movements that took place on the ground, through the following sections: Historical development of the global financial system, the current global financial system (challenges and dangers), Russia and China's position on the current financial system, monitoring the breaking out attempt.

Methodology

The article will use qualitative methodology and the gathering of primary sources from scientific articles in order to examine the current financial system and its challenges, this article will examine scientific articles that examine the historical development of the current financial system. Then we will examine articles that discussed the challenges the current financial system is facing. To examine the Chinese and Russian position, the article will rely on Chinese and Russian authors who are expert in China and Russia's policies.

The article relied on well-known scholars such as Giovanni Andornino, Matthew Anderson, William Callahan, Christopher Layne, and David Shlapak who analyzed the American Chinese

relationship deeply and gave their insights. The article also relied on Chinese scholars who have a wide knowledge on China's financial system and foreign policy such as, Siu-Han Chan, Tianru Guan, Zheng Song, Wei Xiong, Denghua Zhang, and Yongjin Zhang.

The article will first examine the historical development of the global financial system in order to understand under which conditions it was created and who mostly benefited from. Then we are going to examine the challenges and risk of the current global financial system to realize how China and Russia are challenging the American financial hegemony. Also, to better understand how both emerging countries are contesting the US, the article examines China's and Russia's position on the current financial system and later discusses the motivations on why they are softly uprising against the American financial hegemony. And lastly, the article will discuss whether the breakout from the current hegemony is possible under the current situation.

Results and discussion

The global financial system is the framework that controls worldwide legal agreements, institutions and formal and informal economic activities that facilitate both international flows of capital for investment and trade finance. The system has evolved considerably since its emergence in the late 19th century during the first wave of Economic globalization, which consisted of the establishment of central banks, multilateral treaties and intergovernmental organizations aimed at improving transparency, regulation and the effectiveness of international markets (Wong & Fong, 2011).

With a deep scrutinize of the current global financial system it can be noticed that its economic policies have been largely in favor of a certain pole, the United States of America, this been the case since the Bretton Woods Convention 1944. The participating countries agreed to fix the value of their currencies in a narrow margin against the dollar and a similar price of gold when needed. The dollar has gained a premium position as a global currency, reflecting the change in the global economy from

Europe's dominance to the United States. The countries have been prevented from devaluing their currencies to benefit their foreign trade and were allowed only to reduce their currencies by less than 10%. The system has been laid down in basic regulations aimed at stabilizing exchange rates in member countries' currencies by linking them to the gold-dollar exchange rate and helping the countries subjected to this system to provide liquidity to meet the temporary imbalances in their balance of payments (Dudley, 2011).

The global financial system has faced instability in prices which helped to increase inflation after detaching the dollar from the gold standard; this decision was taken by President Nixon in 1971. It's a must to point to the strategy behind this detaching, and it can be summarized by Henry Kissinger national security adviser, and later the Foreign Minister, in saying "who controls the food dominates the peoples, the one who controls the energy controls the continents and the one controlling the money controls the world." The dollar turned into a paper currency based on a decision to adopt a means of payment (Lawrence, Hanouz, & Doherty, 2012).

This financial system has made the United States as the world's leading economic power, but it is now in the process of corrosion and perhaps the final fall, as it can no longer cope with the economic, trade and technical competition represented by Japan which is a US ally in global economic policies, and other countries such as China and Germany. In addition, other forces have emerged in an alliance against the American economic hegemony, such as the Chinese and Russian alliance which represents harbingers of the East-West conflict (Bordo, 2000).

The global economy system continues to suffer from many problems and crises caused by the global financial crisis in 2008 and its negative repercussions; thus have caused negative effect on all life facilities, especially the banking sector, which has suffered large setbacks and losses. Many banking institutions have adopted new plans and decisions, or canceled some of its branches and lay off its employees and other measures to ensure its survival and continuity and provide the necessary liquidity to finance its activities. In the period after the global financial crisis coincided, four unprecedented disturbances adversely affected the world financial system: Climate change, migration, correspondent banking and cybercrime (Timmis, 2018). These four disturbances have created unprecedented and unforeseen pressures on the

global financial markets, which will be briefly review as follows:

The first challenge of the global financial system led by the United States is the issue of climate change. The world has witnessed sharp divisions and exchanges of views on this issue, especially by the United States. The extent to which the financial sector is resilient to the risks of climate change, the financial sector's effectiveness in allocating the necessary financial resources is a challenge facing the global financial system. Lack of commitment to the conscious use of fossil fuels and the absence of carbon tax hinder the market from diverting the necessary financial resources to a green economy (Birdsall, 2016).

The second challenge is the issue of migration, which has become widespread over the past decade, whether as a result of conflicts, or internal wars. According to the World Bank, around 65 million people are forcibly displaced. Of course, migration, resettlement or relocation affects the place of delivering aid to those who need it; nonetheless, more importantly, the settlement of the migrants, both temporary and long-term, have establish new financial relationships, which can be for simple transactions such as receiving assistance through cards payment (as a substitute for cash assistance) or to send money transfers, or may be more complex, such as getting a loan or start business activities (Feyen, 2015).

The third challenge is the withdrawal from correspondent banking. As the global banking sector tightens rules and regulations, a large number of banks withdraw from correspondent banking and close some unsustainable lines of business. This phenomenon has had a significant impact in some areas on small and medium enterprises (SME), and money transfer companies that deal mainly with remittances (IMF, 2018).

The fourth challenge is the escalation of e-war, which has become a significant threat to the national and international financial markets. The increasing risks of electronic security, parallel to the spread of the Internet and information technology. Financial technology has changed the face of the financial sector by increasing the access of individuals and SMEs to services after they were suffering from the neglect of their former financial system. However, it raised many questions, including concerns about electronic security, technological progress that drives financial technology forward, and facing the same electronic Risks related to electronic security (Danielsson, 2013).

China is the second economy in the world and derives its strength from its ability to move the global economy along with its ability to cope with crises as in the period 2007-2009. Since 2010, China has been the world's largest exporter and second largest importer of commercial goods, and the fifth largest exporter and third largest importer of commercial services. In addition, China is the second largest foreign direct investment provider after the United States. The main driver of the currency war is the huge bilateral deficit that makes China the largest creditor of the United States. After a long and growing trade and investment relationship between the two countries, conflicts arose at the level of currency war and the level of restriction of trade between them. The US fears that the dollar is weakening as China's export power rises. This trend has grown in the wake of the global financial crisis that broke out in mid-2007 and peaked in 2008 and 2009. China has played a leading and vital role in mitigating the crisis (Song & Xiong, 2018).

If China's relationship with the United States is primarily an economic war, it is different with regard to Russia's relationship with the United States, which appears to be primarily political and ideological. From bipolarity to unilateralism in the light of the Soviet Union's retreat and disintegration, Russia went into deep slump for nearly three decades. Russia has recently found itself in the alliance with China as a growing global economic power where Russia suffers from the fragility of its economy. Russia ranks 12th in the world in terms of GDP, the sixth largest in terms of purchasing power, and has the largest gas reserves in the world. Russia has known since the end of the socialist system a period of transition from the central planned economy to a free market economy. The Russian economy is currently ahead of the early 1990s, and Russia is one of the fastest-growing markets in the current period. It is making profits as a result of high oil and natural gas prices. Russia produces heavy machinery and electrical equipment. The main chemical products are chemical fibers, mineral fertilizers, Petrochemical products and industrial resins (BOFIT, 2018).

On the economic level, China's image is clearer than Russia's desire to get out of the current financial system and seek to form a new system; and because economic power has to have a political force that balances and supports it, China-Russia cooperation is a safe haven for both states against the United States. As the confrontation escalates to levels that cannot be

ignored, the current conflict has rekindled the risk of confrontation such as that between the United States and the Soviet Union in the last century, and will undoubtedly be more complex in our time which goes to the mysterious intentions so far of main third actor, namely China (Anderson, 2012).

It went on to discuss the question of the formation of a new global financial system for several years and no results have been achieved so far. America can still convince the world to work on the old system and keep it as long as possible, but this system does not fit the interests of countries such as Russia and China. This means that it is in the interest of America only, because it is the lending countries through buying bonds and thus supports the US economy. Recently, the dollar is being printed beyond the limits of reason, and this is not only paper money, even electronic accounting records. The dollar is not supported by anything, hence, inflation in this case is inevitable, the high prices of products purchased in dollars and the decline in bond prices, who will continue in this longer will lose more and even the lowest losses should go out quickly and this is what many countries are doing where they buy other real assets (Shlapak, 2018). In light of the above, we can highlight a number of motives in both China and Russia that make it strive to get out of the current financial system and form a new system, including the following: The pursuit of self-seeking and playing a bigger economic role led by China and the political leadership of Russia, especially for the first whose economic indicators show the presence of a superpower that can outrun the United States and its quest to lead the world in the next few years. China and Russia are seeking to reshape the global financial system with the aim of rebalancing interests and re-polarizing bilateralism, but in a new fashion (Layne, 2018). The existence of a weak system of international currencies and the desire of China and Russia to return to the gold exchange system, especially with the decline of the dollar, which began to lose its status as an international reserve currency, America can finance itself by printing more. At the same time, the Chinese Yuan has been listed as an international currency, meaning its now in competition with the dollar (Zhang, 2016).

In the wake of the Second World War and with the importance of oil, the United States and its European partners dominated the oil and gas wells, especially in the Gulf region. Despite the announcement of former US President Barack Obama's policy of "going east," to transfer the power weight of America to Asia, nevertheless,

the United States cannot leave the Middle East oil to China to dominate (Chan, 2018).

The trade dispute between China and the United States of America has intensified as the trade dispute between US President Donald Trump and the People's Republic of China intensified recently. Trump issued instructions to US trade officials to study the imposition of additional customs duties on Chinese goods worth \$ 100 billion. The World Trade Organization against the plan of Washington to impose customs duties on exports imported by the United States from China. In retaliation, China imposed an additional customs duty of up to 25 percent on 128 US products. The escalation has raised questions about the fate of relations between the world's two biggest economic powers as they approach a full-blown trade war (Andornino, 2017).

Taking advantage of the current US economic slowdown and exploiting the accumulation of foreign debt has already noted that China is the largest creditor, and therefore the opportunity for the Sino-Russian alliance exert economic pressure on the United States to excerpt the leadership of the world (Zhang D. , 2019).

China and Russia have continued their cooperation and constant efforts to change the global financial system in both its monetary and banking aspects. The following are some of the highlights of this breakout.

Russia has joined the Shanghai Organization, which includes China, Uzbekistan, Kazakhstan, Kyrgyzstan, Tajikistan, India and Pakistan, and has played an important role in the Eurasian region in solving border problems, combating terrorism and transnational crimes in various fields.

The BRICS Group, which includes China, Russia, India, Brazil and South Africa, is working to create a kind of international balance and direct influence in the world's economic and political system, representing 27% of world GDP, more than a quarter of the world's GDP. These countries are seeking to create a credit rating agency, set up a cash reserve fund and establish a 100 billion USD development bank that has already started since July 2015.

An agreement was signed for an Asian Investment Bank between China and 50 countries with a capital of US \$ 10 billion, which was launched in December 2015. The bank is involved in the financing the infrastructure works in Asia, with the United States and Japan

objecting to the possibility that this bank to serve China's geopolitical and economic interests (Guan, 2018).

The Chinese Yuan was included as a major component of the Special Drawing Rights (SDR) hence became a major currency in September 2015 and was effectively implemented in October 2016. This gives an indication of China's growing economic strength, which is the largest trading power in the world. That the United States has abused the position of the dollar as a reserve currency and sought its gains only without regard to other countries (Callahan, 2018).

A noticeable growth of the Sino-Russian cooperation and the agreement of both sides to re-linking gold, bilateral cooperation, and making deals in the Chinese Yuan and the Russian Ruble in the banks markets and exchange institutions which blocks the dollar from equation. In addition to the cooperation between Moscow and Beijing through the world's longest economic corridor to be completed in 2019, the China-Russia agreement and cooperation in many areas helps them develop their own selves and abandon the global polarized system. And even helps in the formation of polarity to enable them to make decisions and influence the developments and events of the world (Cha, 2018).

China's one belt and one road initiative, which reflects a significant political and economic development of China's transition from adjustment to the global economic system to the idea of reforming the system, reflects China's growing position and its position in saving the world from the 2008 crisis. A network of trade and infrastructure links the continents of Asia, Africa and Europe along the trade routes of the ancient Silk Road, achieving common gains for all countries along the Belt and Road Initiative, and the initiative is the key to solving the slow recovery problems of the world, as well as the global economy (Hannan & Firth, 2015).

Conclusions

The article discussed the historical development of the global financial system and the risks it faces today. This financial system made the United States a world super power however currently it's on the verge of collapsing and giving an increasing role to China and Russia to contend the American financial hegemony. The article stated and examined four new challenges that emerged after the financial crisis which are

climate change, migration, correspondent banking and cybercrime. We discussed how China and Russia are rising economically and that the relationship between China and the US differs from relationship between Russia and the US.

The discussion of getting out of the global financial system or laying down new rules for the current system or even reshaping it in terms of the creation of new forces is not new, but the new is the presence of effective forces on the ground that can change the rules of the game and attract several parties. The idea of breaking out of the international financial system, both banking and monetary, is partially fulfilled. It is embodied in the form of rapid and growing steps that represent the withdrawal of the rug from under the current leadership, which abused this leadership and directed it towards its individual interests only.

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