China's key position in the world economy is increasingly obvious. A slew of indicators, from car usage and steel output to population size, shows that China cannot be ignored. Yet, writes Jeffrey E. Garten, Dean of the Yale School of Management, China will not be attending the upcoming Group of Eight summit in Georgia. Americans and others should wake up to China's importance for even their daily lives, Garten argues. China's significant purchases of American Treasury bonds influences mortgage rates and stock prices in the US, its low-wage workers drive down global prices and increase demand for Chinese goods, and Chinese commodity importation is spurring renewed economic growth in Latin American nations. These facts and many more are indicators of growing Chinese influence in the world, and the G8 summit ought to better reflect this new reality. Garten goes on to suggest that future political clout wielded by China and other populous, economically expanding nations like Brazil and India could eventually alter global structures like the World Trade Organization. He also argues that the "slow-as-she-goes" authoritarian structure of the Chinese economy might provide a lesson for the United States, whose "disciple" countries suffered in the Asian economic crisis of the late 1990s while China took few losses. As "the propelling force behind the long-awaited Pacific century," Garten concludes, inviting China to join the G-8 would grant it the recognition it deserves as a modernizing, expanding, and increasingly important member of the global community – YaleGlobal

China: The Missing Member at the G-8 Table

The Group of Eight should expand to include a key player in the global economy

Jeffrey E. Garten
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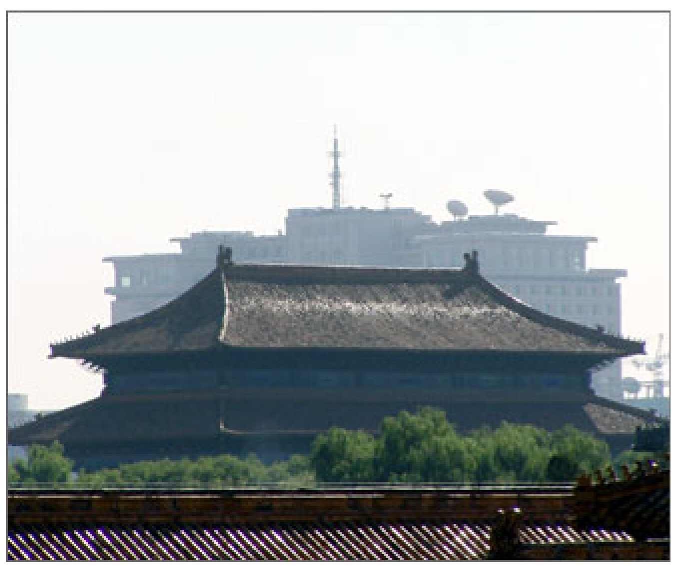
NEW HAVEN: When the Group of Eight industrial nations meets in Sea Island, Georgia on June 8, they will wrestle with the usual agenda of global trade, finance, and poverty. They will also tackle newer problems of sky high oil prices and the mess in Iraq. What will be startling about the group's deliberations, however, is which countries won't be around the decision-making table. Exhibit A is China, without which the world's big economic issues can no longer be effectively addressed.


A 'New China' has arisen. When will the G-8 take notice? (Photo: Nayan Chanda)

China has become far more important to the global economy than most other G-8 members such as Italy, Canada and even France. Over the past twenty years, it has been growing faster – 9-10 percent per year – than any major economy. It is now the fourth largest trading nation, and in this decade alone it will surpass Germany to become the world's third largest economy (behind the US and Japan.) It produces 20 times more steel than the European Union; it is the second largest importer of petroleum; it is mounting the largest building program of new nuclear power plants in the world; it has the world's third largest car market; it consumes about 40% of all the world's cement.

China has become a major player in international finance. It receives more direct foreign investment than any nation but the US. It possesses more foreign exchange reserves than any country besides Japan. Beijing has become a critical creditor to Uncle Sam, holding hundreds of billions of dollars of U.S. government securities. How it uses this leverage ought to be of major concern to Washington and Wall Street, and to anyone – such as home owners, car purchasers, or average investors – who is affected by interest rates or the value of the dollar.

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Next to the US, China has more impact on global supply and demand than any other country. Indeed, China is becoming as central to global manufacturing as Saudi Arabia is to oil. Want to know why prices of everything from steel to copper are up? Look at soaring demand from Chinese companies and consumers. Want to know why manufacturers from GE to Hitachi are having difficulty raising prices? Look at how efficient and low-paid Chinese workers are keeping production costs down.

China is crucial to economic growth throughout all of booming Asia and the propelling force behind the long-awaited Pacific century that is finally emerging. Last year it accounted for a third of the growth of South Korean and Japanese exports to all destinations around the world and two-thirds of the growth of Taiwan's exports. It is now weaving a China-centric web of trade arrangements throughout the region, leading to a potential Asian economic bloc that could de facto exclude the US and the EU.

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It's not just Asia where China is responsible for an extraordinary burst of economic dynamism. Latin America is another case, where commodity prices in countries such as Brazil and Argentina are soaring on the back of Chinese demand. A recent trade delegation from Brazil reinforced the importance of China to the hemisphere. Led by the Brazilian president, it included more than 300 Brazilian business leaders.

Hard as it is for Americans to fathom, the Chinese economic model could also become an attractive alternative to the free market fundamentalism that the U.S. is so fond of trying to push onto other countries. It hasn't gone unnoticed in Asia that the more highly controlled Chinese economic system survived the late-1990s financial crisis in the region while U.S. disciples such as Thailand and South Korea imploded. Nor has it gone unnoticed that the democracies in countries like the Philippines and Indonesia have not produced sound economic policies, or that democracies such as India have extreme difficulty staying on a steady economic course. When countries as diverse as Iran and Uzbekistan wrestle with how to move up the economic ladder, they may well find the authoritarian, slow-as-she-goes approach to modernization that Beijing pursues as more relevant than the deregulatory policies of Uncle Sam.

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China's ties to other emerging markets such as Brazil and India may also alter the course of global politics. A political bloc of big developing countries could have enormous influence in the World Trade Organization, for example. There is a good chance that such a group will emerge, and under Chinese leadership.

There is also the looming problem of surplus Chinese labor – hundreds of millions of young, energetic workers who will be entering the world market in the years ahead. This phenomenon will change the face of global production and trade, and create massive dislocations in the West. Millions of American workers will have to make wrenching adjustments, but given our flexible markets I believe it will happen – painfully but ultimately successfully. Europe, with its overregulated systems and inflexible ageing populations, will have a much harder time, and may turn deeply protectionist. No one can know how these labor problems will play out, but what is certain is that close collaboration between the US, the EU, and Beijing on global trade policies would be highly beneficial.

China also has great vulnerabilities, as its current overheated state shows. Were its growth to slow precipitously – as it very well might -- the rest of the world would have to work with Beijing to contain the global fallout. Indeed, a big global economic problem may be brewing right now as both the US and China prepare to raise interest rates, potentially cooling growth not just in their own economies but around the world.

Sometime in the next decade, the US and China will emerge as the two managing partners in the global economy.

Given all this, it is ludicrous for China to be on the periphery of the insider's club. There is no major global economic issue that will not involve the Middle Kingdom or require its cooperation.

But getting China into the G-8 won't be easy. Several European countries may object to a new member that is stronger and more influential. Japan may resent bringing in an Asian rival. China itself may not want the responsibility, preferring to be seen as a poor developing country that needs help from others as opposed to assuming the responsibilities of its own power. But these hurdles should not stop Washington from trying.

In the 1980s, there was an expectation among global leaders that economic power would be shared among the US, the EU and Japan. This trilateral framework never materialized because Europe and Japan proved far too weak. In the 1990s, a new management model emerged: a super strong US would alone be the maestro and backbone of the whole system. But America can't forever hold the global economy on its shoulders, as our soaring deficits and sinking currency show.

My guess is that sometime in the next decade, the US and China will emerge as the two managing partners in the global economy. As host of the G-8 summit, Washington has the chance to start the transition. It should seize it.

Jeffrey E. Garten is dean of the Yale School of Management.