The Implementation of China Peaceful Rise in The IMF Reform

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Abstract: China’s Peaceful Rise is a policy orientation established back in the Hu Jintao administration in 2003. This concept was created to gain interest through peaceful and non-confrontational means. The IMF's reform is one of the major agendas in IMF, containing the IMF's attempt to reform itself in two rounds: a major reform of the quotas by changing the composition of the quotas themselves and the voting rights of its members, and by changing the position of the government structures within the IMF itself. On October 14th 2014, the IMF Reform faced a problem in the United States. The USA, the only country that has the veto ability, blocked the outcome of the IMF Reform. Because of this rejection, European constituents put forward a confrontational effort by not involving the USA in the reforms. Regarding this background, this research study has tried to explain the application of CPR in the IMF Reform. From the research results, it was found that the application of CPR in the IMF Reform was done by overcoming the US allegations against its currency manipulation policy (RMB) and gaining a legitimate role in the context of the IMF Reform. In addressing the allegations of RMB manipulation, China demonstrated a commitment to the IMF Reform by signalling China's expenditures in the IMF Reform and showing there to have been direct monitoring of the IMF on RMB through multilateral surveillance and SDR monitoring. Second, China gained legitimacy concerning its demands by utilising G-20, BRICS and its executive directors who served as voices, suppressors and framers of the IMF Reform. In addition, China also visited the United States as part of an agreement to ratify the IMF reforms.

1 INTRODUCTION

In 2003, President Hu Jintao's government released a white paper which explained the direction of his policy on a peace named “China’s Peaceful Rise” (CPR). CPR is a policy designed to re-show China's identity in an era of peace and prosperity, which seeks to offer changes through peaceful and non-confrontational means. It was intended to avoid the aggressive label inherent in a country with rapid economic development which is often coupled with a revision of the existing order.

After the implementation of CFR, China had a relatively high GDP growth rate. In 1984, China's GDP had the highest growth amount of 15.14 percent and China's GDP in 1993 had a growth rate of 14.2 percent (World Bank, tt). China's GDP rank increased from ten in 1978 to six in 2003 and continued to increase over the following years. China defines CPR as “China should develop itself through upholding world peace and contributing to world peace through its own development; it should achieve development through its own efforts and by carrying out reforms and innovation. At the same time, China should learn from other countries. It should seek mutual benefits and common development with other countries in keeping with the trend of economic globalisation, and it should work together with other countries (Ministry, 2007).

The relationship of CPR and international organisations is linked through China's government to the IMF. President Hu Jintao also has the "big idea" of creating a peaceful and prosperous condition through the use of a "peaceful development" approach in reaching his interests. As expressed through Xiaochuan, the Governor of the Central Bank of China, in 2006 the G20 forum stated the following: "If we (China) do not choose to follow fair rules in international organisations, then the situation becomes chaotic and inefficient" (Dorn, 2006).
2006). This statement was a response to the involvement of China in the IMF Reforms that began to be discussed in 2006. This reform is an important reform for China, because China is the single most disadvantaged country ranked 6th with a quota of 2.98 percent. China's economic performance was ranked 3rd with a quota of 6.39 percent after the United States and Japan during the IMF's Reform (IMF, tt). Concerning the implementation of CPR, it was a challenge to show the nature of China's compliance, coordination and their status as a responsible stakeholder to international organisations and to China itself. It was a great opportunity to internationalise the renminbi, to expand its financial influence and to become a major player in IMF decisions by having the right to vote a separate executive. The IMF's revisions contain the IMF's attempts to reform itself in two rounds. The first round of reforms was operationalised in two attempts. The first was with the addition of the total quota value of 188 member states, making it USD $659 Billion up from the previous of USD $329 Billion. In the second round, the reforms were carried out by abolishing the direct appointment function of the IMF Executive Director. This was conducted by five largest shareholder countries in the IMF and through the shareholder's position on the basis of the change (IMF, tt).

Like the WTO accession, China was tested for its commitment and statements to the non-confrontational approach of CPR, among others. This is because China was accused by the United States. In the interview with therealnews.com, they said: “The law is clear. If China is manipulating its currency, then you're supposed to designate them. Other than the fact that that would make them really mad, and they are cheating less, why haven't you carried out an existing law in designating China as a currency manipulator?” (Desvarieux, 2014)

This challenge strengthened when the United States became the only country that could determine the progress of the Reformation by having a de facto veto. The 3rd Article of Agreement in the 2nd paragraph states that "An eighty-five percent majority of the total voting power shall be required for any change in quotas" (IMF, tt). While the United States had 17.46 percent of the vote, the United States did not ratify the outcome of the IMF Reform until there was an emergence of non-confrontational reactions from various members of the IMF, including Japan. Japan wanted a reformed design without including the US as an anchor of this decision (Ariffin, 2004). This decision referred to an interim solution or an interim step. As expressed by Taro Aso, Japan's representative at the IMF: “On strengthening the IMF’s financial resources, the 2010 Reforms are the one and only existing package that was agreed upon by all member countries, and its realisation is critical... Japan firmly believes that it is critical that the quota shares of members under the “interim solution” should be implemented within the vicinity of the final results of the 2010 Reforms” (Aso, 2013)

Despite the confrontational situation, IMF's reaction was finally inaugurated on 26th January 2016, with the results of the reform as planned and approved by the United States on 18th December 2015. With the implementation of the IMF Reform, it becomes to know how China got through the confrontational situations and helped the IMF reform succeed despite the fact that CPR is still being implemented. While China itself has its own complexities when regulating its economy as China has one currency, with two different values for the onshore renminbi and offshore renminbi due to its semi-open policy, China is also often accused of manipulating currency values to increase the competitive level of trade. In addition to this, up until 2014, China had never released any of its economic data including interest rates, inflation and capital development and lastly, China also has control of foreign and local companies within its territory.

2 RESULTS AND DISCUSSION

2.1 Role-Bargaining Theory

In discussing the problems encountered before, the authors have adopted the theories offered by Kai He and Stephen Walker in their research titled "Role Bargaining Strategies for China Peaceful Rise". It describes China's accession to the WTO. If the IMF accuses China of being a country that manipulates the value of its currency, then the WTO of Tiongkok can be accused of frequent dumping. Based on the similarity of this context, the author adopted the theory of role bargaining as a lens through which to see the application of CPR in the IMF reform. In international relations, the theory of rational bargaining suggests that a bargain between countries is a determination of war and peace (Tingley, 2013). In theory, it explains the two barriers that affect the success of bargaining in overcoming problems of information and commitment. Information problems are defined as the circumstances where there is
asymmetric information in the process of bargaining between several countries (Tingley, 2013). The commitment issue occurs because the country makes a dubious promise that is to be kept in a certain period of time caused by the overtime changes of the initial incentive (He & Walker, 2005). Furthermore, the rational bargaining theory suggests two strategies to overcome the problem of cost signalling and self-restraint. The cost signalling strategy shows that the actor incurs costs related to the desired proposal that is put forward to the other actors, especially when it is to a superior country given its position in an international system (Sulivan, 2014). In self-restraint, the actors invite agencies to monitor the issues and release the results to the international community (He and Walker, 2005).

Meanwhile, role theory initially shows that everyone plays a particular role in society and the society functions as a network of individual roles. Role theory further focuses on the convergence or different conceptions of the role of the agents against the expectations of the role of other agents. This is as well as the demands of the system. When analysing an actor and the role that they want to achieve, there are three factors to note (Drezner, 2010). First, the agent (Chinese) needs to define its new role through its own conception, which is what China wants to do in the international community. Secondly, there is China's expected role according to other agencies (other countries). Third, is the 'role demands' system from the international community to China. When it comes to making credible demands and legitimising them, role theory provides two role-diversification and alter-casting strategies. The role-diversification strategy is the strategy used to vary the actors according to their role inside and outside of international organisations in order to gain better acceptance opportunities from other countries (He and Walker, 2005). The second strategy is alter-casting. It can be used by rising powers to make real and legitimised role demands (He and Walker, 2005). Alter-casting shows the weak actors in the international system.

2.2 The Implementation of Role-Bargaining Theory in the IMF Reform

There are two costly sacrifices that are being pursued by China during the IMF reforms. The first aimed to assist the IMF in helping the member countries during the 2008 crisis and the second is related to the costs incurred while carrying out China's economic reforms. The IMF estimated that US and European banks lost more than $1 trillion in assets from bad loans between January 2007 and September 2009. The loss is estimated to be $2.8 trillion between 2007 and 2010. US bank losses were estimated to be $1 trillion and European bank losses reached $1.6 trillion; The IMF estimated that in 2009, US banks lost about 60% of their total cash reserves and British and Euro-area banks lost about 40% (Reuters.com, tt). Upon this occurrence, in April 2009 at the G-20 Summit in Pittsburgh, the UK G-20 leaders committed to increasing the Fund's basic resources of USD $500 billion to help countries hit by the crisis. After the outcome of the first meeting, the IMF issued bonds for sale to member countries. China became the first buyer of the bond by purchasing the equivalent of $50 billion (New York Times, 2009). In making this decision, China chose to announce it together with the BRICS countries (Brazil, Russia China, South Africa) in the G-20 forum in 2009, and stated that they will donate funds to the IMF through a mechanism that allows for the temporary purchase of IMF bonds. BRICS raised the IMF capital by adding US $150 billion through bond purchases, with China giving the biggest amount of USD $50 billion. Other countries each bought US $25 billion. China also took the unusual step of paying for the IMF bonds with payments of 341.2 billion yuan instead of dollars, as used for most trades and other foreign transactions (Glosny, 2010).

In the domestic realm, China helped to reform its market as a way to adapt to the economic system offered by the IMF. Starting from 2005, Wen Jiabao, in his meeting with the US delegation, stated his intention to reform the renminbi currency. On July 21st 2007, the People's Bank of China, the central bank of China, announced that the Chinese currency, RMB, would trade at a rate of 8.1 per US dollar. Renminbi anchors on USD, diverted to a basket of foreign currency managed on the basis of supply and demand (China Embassy.org, tt). In May 2007, China expanded the daily trading band of renminbi against the dollar to 0.5 percent from 0.3 percent (Qing and Magnowski, 2012). In July 2008, China's central bank effectively pegged the renminbi against the dollar at 6.83 to help its economic rise through the worst global financial crisis. In July 2009, China took a step towards internationalising the renminbi by launching a pilot program that allowed selected Chinese regions to pay imports and exports with the renminbi. In June 2010, China continued the reform of the renminbi exchange rate and increased its currency flexibility, which effectively permeated the two-year anchorage against the dollar imposed
during the global financial crisis. In February 2012, the renminbi reached a record high of 6.2884 per dollar. In March 2012, China increased its efforts to internationalise the renminbi by allowing all companies in the country to pay their imports and exports in renminbi; In April 2012, China expanded its trading band for the renminbi against the dollar to 1 percent up from 0.5 percent (Qing and Magnowski, 2012). Due to the reforms in the renminbi currency, China cannot manage its finances at a low value without IMF approval. This is related to the IV article agreement. The value of the renminbi itself experienced a natural appreciation of about 25 percent to the dollar (brookings.edu, tt). The value of the appreciation continued into 2014. Between 2008 and 2011, China's trade surplus fell by almost half from $298 billion to $155 billion. The IMF, in 2015, declared its currency to be "fairly valued" and in that year, the IMF no longer accepted there as being problems between the US and China. This was announced on the official website of the IMF. In addition to a reduction in the trade surplus, China also spent USD $94 billion in reserves to keep its currency in August 2015, and its total reserves fell by about USD $400 billion from year-on-year usage and peaked a year ago (reuters.com, tt).

China strongly opposed the surveillance decision in 2006, as stated by the Governor of PBoC in an inter-IMF committee meeting stating that “in strengthening surveillance, the Fund should be realistic and not overestimate the role of exchange rates. Biased advice would damage the Fund’s role in safeguarding global economic and financial stability”. In 2012, China experienced a drastic change in attitude toward its oversight function. At the IMF Annual Meeting in 2012, Yi Gang, the alternate IMF Governor Council for China, accepted both bilateral and multilateral surveillance which was then called integrated surveillance through its statement as follows: “We welcome the adoption of the Integrated Surveillance Decision by the IMF, as a step in a positive direction to enhancing the effectiveness of Fund surveillance through the better integration of bilateral and multilateral surveillance, together with a broadened focus on macroeconomic policies” (Qu, tt)

The second monitor was invited by the Chinese government directly in order to apply renminbi as SDR basket currency. In 2006 at the IMF spring meeting, the Governor of the People’s Bank of China, Zhou Xiaochuan, remarked on the need for reforms in the currency reserve of SDR. At the IMF in March 2015, Li Keqianag asked the IMF to put the renminbi into the basket of SDR as follows: “China hoped to, through the SDR, play an active role in international cooperation to maintain financial stability and promote the further opening of China’s capital market and financial area. China will push forward financial reform for the real economy and the prevention of risk. China will develop private, small and medium banks to provide better support for small businesses.” (Gang, 2012)

To be a contributor of the renminbi currency in the SDR basket, China needs to meet two general criteria: 1) the exported currency being proposed must be the currency with the greatest export value, and 2) it must be free-usable, i.e. there is the use of the currency widely in international transactions and in foreign exchange trading by other countries in the international currency market through the assessment of the Executive Board as well as the IMF board (IMF, tt). In the first criterion, China has become an active country in international trade. The IMF’s board of directors and executive directors noted that the ranking of the largest exporters remained unchanged since the last review in 2005. China has recorded an increase in world trade, such as imported product figures from ASEAN member countries of 33.1 percent, Japan by 27.3 percent, India by 80 percent, the EU by 28 percent and the US by 31.8 percent and an overall increase in world trade between 7.7 percent and 10.5 percent (IMF, 2010). The second criterion is still encountering problems. In 2010, the Executive Board undertook an SDR assessment and concluded that four currencies (U.S. dollars, euros, yen, and pounds) remain the currencies in the SDR basket. At that time, Chinese yuan was not considered to be used freely and needed to reform the policy. Over 5 years, China has become a country monitored in the context of both fiscal and monetary policy, by the IMF, specifically to meet the criteria of having a free usable currency.

During China’s monitoring, there were at least 7 successful financial reforms and capital controls executed in China (IMF, tt). The first increase of the “kliirk” bank quotas for offshore exchanges was in accordance with the value of the onshore interest rate. Secondly, the corporate cross-border cash pooling arrangement was expanded. The third was when the Chinese authorities also recapitalised the data based on the liquidity of their currencies by introducing an average amount for the reserves in each bank operating in China. The fourth was on September 23rd, 2015. PBoC approved the issuance of RMB securities by foreign financial institutions in the inter-bank bond market of China. Fifth, a cross-
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border inter-bank payment system was launched in October 2015. The new system provides an efficient platform to clarify and finalise cross-border RMB payments, and ultimately, also provides access to offshore transactions. Furthermore, PBoC liberalises the overall domestic interest rate. The full liberalisation was announced on October 23rd, 2015 and resumed in August, with a ceiling of the one-year time deposit interest rate removed later in June. Major banks were allowed to issue negotiable deposit certificates to household agencies and non-financial corporations with a 'market price' and annual target quotas. Finally, there was the opening of access for reserve managers and their agents to domestic fixed income and foreign exchange (FX) markets, now fully implemented. Separately, Chinese authorities have also made important strides in data acquisition and disclosure. While not a formal criterion for currency inclusion in SDR baskets, the currency publishers generally meet the high data transparency standards. The Chinese Authority in 2015 took several steps forward in this area, including (i) announcing their subscription to the IMF’s Special Data Dissemination Standard; (ii) issuing quarterly real levels of real GDP for the first time; (iii) following the monitors in the trade of goods and services and currency trading by COFER, which is the Currency Composition of Official Foreign Exchange Reserves reports (for the first time including the composition of currencies). They are committed to improving; (iv) reporting data for the first time to BIS on any international banking liabilities, and also confirming their intention to join the international banking statistics in December 2015 (IMF, tt).

There are two methods of applying role diversification in the IMF reform. The first is the implementation of the internal structure of the IMF and second, is the external application of the IMF reform. Implementation in the internal structure of the IMF is done through the utilisation of the Chair of the Executive Director and external managerial candidates through BRICS and G-20 in 2011. China has one executive director’s seat, allowing them to choose the equivalent of one-seat states. After his visit to Beijing, Lagarde listened to China’s wishes in his nomination. Lagarde, in Beijing, the last tour of his world tour, sought support for his IMF’s candidacy. He said that he supported the decision to increase China’s voting rights in the IMF from 3.65 percent up to 6.4 percent, and he also said that the organisation would help Beijing to internationalise the yuan currency (chinadaily.com, tt). After speaking with Chinese Vice Premier Wang Qishan and central bank chief Zhou Xiaochuan at the meeting, Lagarde signalled that there was room for further reforms at the IMF to provide greater economic levels.

Following the election, Lagarde appointed two Chinese deputies, Zhu Min and Zhang Tao, and took Lin Jianhai on as general secretary. Not only that, Lagarde actively pressed the US for the ratification of the results of the IMF reform as follows: “The 2010 governance and quota reform is an absolute must. It has to be implemented and everybody knows that it is currently stuck before the US Congress. Now this should not have happened. [The reform] was due in 2012, and it was overdue in 2014. I strongly hope that under President [Barack] Obama’s leadership, with the right understanding of the parties involved.” (Giles, 2014)

In relation to the external actors, China also used its role as a G-20 member country and BRICS to fight for IMF reform. In July 2015, during the seventh BRICS Summit, Chinese President Xi Jinping issued a statement that BRICS members should keep pushing with events for the realisation of the IMF reforms. One way of doing this is by increasing the representation and unity of both BRICS members and developing countries. In addition to BRICS members, China also approved and encouraged G-20 members to support the IMF’s reform discourse. China's active role in stimulating the IMF’s reform discourse in the G20 can be seen in the 7th G20 Summit of 2005 in Xianghe. At the same time, President Hu Jintao also called for respecting and understanding different development models in different countries at the forum. Furthermore, in 2010, the Governor of the People's Bank of China, Zhou Xiaochuan, at the G20 Summit in Seoul, also publicly stated that the outcome of the IMF reform will not only benefit China, but also developing countries which have been under-represented while undergoing significant economic development at a global level. From these meetings, the G20 members agreed, in some respects, on improving the governance structure of the IMF. First, should be the transfer at least 5% of the votes from over-represented countries to under-represented countries (Kirton, 2016). Second, the next general quota review should be sped up. Third, would be the disconnection of the election of the IMF regional executive director. Fourth, would be putting forward sound and quota reforms.

There were two applications of Chinese altering in the IMF Reform using different platforms. The first is at the annual and spring meetings and the second is at the bilateral US and Chinese
negotiations. At the annual meeting and in spring 2006, China advised on the implementation of a medium term strategy that was the forerunner of the IMF Reform to help legitimise the IMF that failed to overcome the crisis from 1997 at the 2007 annual meeting. China suggested a quota calculation with a PPP indicator (Purchasing Power Parity), linking it as a solution representing emerging countries that constituted 80% of IMF members in 2008. China advised on adding a 5.4% quota, adding to the representation of poor countries and the seat of the executive director for Africa (IMFC, 2008). In 2009, China again gave advice, this time with the suggestion of the implementation of the merit-based system. This refers to the position of the managing director from the beginning of the formation of IMF when it was occupied by the Europeans. In 2010, China called on member countries and developed IMF Reforms that benefit all parties. This refers to the 2008 crisis that hit the countries of Europe and the US. With the IMF reforms, Tionkok, along with other developing countries, can help developed countries to restore their economic markets while for developing countries, the IMF reforms allow them to get a bigger vote for decisions undertaken by the IMF. For IMF itself, its legitimacy can be better backed. In 2011, China also put forward a similar invitation for the solution of the crisis as being the IMF Reform. In 2012, with a call to help a country still affected by the crisis in 2014, China invited the US to ratify the legitimacy and credibility of the IMF (IMF, tt).

Two months before the US ratification decision relating to IMF reforms on 18th December 2015, President Xi Jinping paid a visit to the United States to discuss matters relating to the relationship between the two countries. Both countries agreed to ensure that there was an inclusive, robust and ever-increasing international economic architecture to address current and future challenges. As for the IMF-related reforms, China and the U.S. committed to strengthening their cooperation at the IMF and to continue improving the IMF quota and governance structure (usa.chinadaily.com, 2015). China and the United States were committed to strengthening their cooperation at the IMF and continued to improve the IMF quota structure and governance. The US is committed to implementing the IMF 2010 quotas and government reforms as soon as possible and also seek to reaffirm that quota distributions should continue to shift to emerging markets involving dynamic and developing countries to better reflect the relative weight of IMF members in the world economy. In addition, the US welcomed China's commitment to releasing their economic data following the IMF Special Data Dissemination Standard (SDDS) at the end of the year and further welcomed China's efforts to continue to improve transparency.

3 CONCLUSION

From the above descriptions, the authors conclude that there have been at least eight attempts by China to assist in generating IMF reforms through four efforts to adjust the IMF requirements and four negotiation efforts outlined through the role of bargaining theory. First is by changing the attitude of the IMF monitors, second is by inviting the IMF monitors directly, the third helps the IMF to provide funds for the crisis-affected countries of 2008, the fourth matches money and capital markets in a free-usable and wide-usable form, the fifth is by choosing Christine Lagarde as the managing director and helping to pressure the US, the sixth is by letting the voice of the IMF reform be heard within BRICS and G20, the seventh is by emphasising on the mutual benefits at the IMF's annual and spring meetings and last, is by negotiating directly with the US. After all of these efforts have been made by China for them to get the legitimacy of its position as the third largest IMF shareholder country validated. This is evidenced by the recognition of the US and IMF concerning the negotiations being undertaken by China.

REFERENCES


