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Explaining China's Behavior in Keystone International Financial Institutions: Learning, Adaptation and Reshaping?

Abstract:

Over the last three decades, China's participation in the International Bank for Reconstruction and Development (the World Bank) and the IMF has gone through three stages of: initial participation; steady development; and partnership. Over this time China has definitely become more engaged in the international financial institutions; become a great player in international affairs, and changed its role from recipient to contributor; from receiving technical assistance to sharing experience; from borrowing loans to being co-lender;. Why China has changed its attitude and behavior towards the World Bank and the IMF and will China effectively influence reconstruction of the international financial system? This paper explores to answer these questions from the perspective of three international relations theories of: structural realism, neoliberal institutionalism, and constructivism. There will be three hypotheses tested in the process, which cover the whole process of China's engagement in the international financial institution over more than 30 years. There will be two case studies conducted to this end, the first of which regards China's protest against the 2007 IMF surveillance. The second case is about voting-power reform of the IMF and the World Bank, which attracted attention around the globe. The overview of China's engagement in the two organizations and the two cases shall fully test the three hypotheses. This paper argues that in the initial period, neoliberal institutionalism can better explain the interaction between China and the World Bank, and the IMF. In the last century, China's proactive behavior can be better explained from structural realist and constructivist positions, focusing on China's rising economic power, and redefined identity and interest. Nonetheless China will remain within the system, and will not attempt to overthrow it. In the meantime, China will probably contribute to constructing other institutions to push for the reform of international financial institutions more effectively.

Keywords: China, international financial institutions, reform, voting power, decision-making.

Introduction

Since its opening up in 1978 China began to engage more in international organizations. In 1980, China joined the International Bank for Reconstruction and Development (the World Bank) and the International Monetary Fund (the IMF), two vital international organizations within international financial system, one of which is to provide loans to developing countries while the other is to stabilize the global financial situation by the means of surveillance. China began to learn and adapt to the international norms, receive technical assistance, and launch programs, which demonstrated that China was no longer that self-reliant as before. Nonetheless at that time, because of its limited level of development, China was more of a recipient, beneficiary, and observer in most international organizations.

Over the past three decades, China's economy has been developing with an unprecedented speed, especially in the 21st century. In 2010 China became the world's second largest economy, overtaking Japan. It overtook Germany as the largest exporter in 2009. China is also the world's biggest holder of foreign reserves. Even during the global financial crisis between 2007 and 2009, China still kept the GDP growth at 9.1% and 10.3% in 2009 and 2010 respectively. As the main contributor to the world GDP growth China has definitely become a driving force for the global economy. Some major powers invited China to contribute more and play a greater role in global economic governance. With its rising influence, China has been more active and playing a greater role in regional and international affairs. Moreover, its action in international system attracts more attentions nowadays.

I . Literature Review

The earliest book on China and the international financial institutions is the "China's Participation in the IMF, the World Bank, and GATT: Toward a Global Economic Order" written by Harold K. Jacobson and Michel Oksenberg in 1990. They analyzed mainly the period between China's accession into the two

institutions until 1989. The authors divided the process of interaction between China and the IMF, and the World Bank into three stages: initial participation; mutual adjustment; and mature partnership.¹

For The World Bank, there are scholars doing research on different periods of China's participation in the organization. The earliest one is the abovementioned book by Harold K. Jacobson and Michel Oksenberg in 1990. In 2007 Pieter Bottelier, published a paper on how the partnership was built between China and the World Bank between 1980 and mid-1990s, which argued that "Bank-supported projects served as vehicles for technical assistance and institution building".² Then, Gregory Chin elaborated upon the two-way socialization between China and the World Bank. He figured out that the process of China's "internalizing the international norms and rules of the global institution" is "the process of learning and being socialized". He also argued that China has also been substantially influencing the Bank by advancing alternative rules and norms.

As concerns the IMF, several scholars analyzed China's participation from different perspectives. Bo Qu finds that from the domestic system perspective the domestic reform had great influence on China's attitude and behavior in the IMF. When the advice, or policy, is compatible with China's domestic need, or reform orientation, China would accept the advice, or policy.³ If not, then China would not accept the recommendation, or norm.

Other Chinese scholars have been mainly focusing on the reform of international financial order and the IMF. Most of them analyze the reform's influence on China, and strategies, or paths, China should choose in this process. There are also researches on China's involvement in global finance and the world economy. Gerald Chan presented a comprehensive research on

¹ Harold K. Jacobson and Michel Oksenberg, *China's Participation in the IMF, the World Bank, and GATT: Toward a Global Economic Order* (Ann Arbor: University of Michigan Press, 1990), 107.

² Pieter Bottelier, "China and the World Bank: How A Partnership Was Built", *Journal of Contemporary China*, 16(2007), 239-258.

³ Bo Qu, "Dynamic Engagement: China's Preference to the international Monetary Cooperation", University of Princeton, 2010, https://www.princeton.edu/~pcglobal/conferences/GLF/qu_glf.pdf.

the China involvement in global economic governance from the perspective of finance and trade in his co-authored book of “China Engages Global Governance”. He concluded that it is in China’s interest to support the international economic institutions, but China’s influences is still limited, and it will not take the lead.⁴

The researches on China’s participation in the World Bank and the IMF have been mainly focusing on the changes to the international financial system and the Chinese domestic system; and their mutual influence, mostly observed from the perspective of finance. They have not used different international relations’ theories to explore and analyze the process from the perspective of global governance, which is what this paper is intended to contribute to.

II. Theoretical Framework and Research Methods

2.1. Research Question

China assumed its seat in the International Monetary Fund and the World Bank in 1980, engaging in the keystone international financial institutions which provide coherence and stability to the international monetary and financial system. During these three decades, China’s role and behavior have changed substantially. This process can be divided into different stages. Undergoing transformation from beneficiary to contributor, China has gained more voice and weight in the international organizations. Actually, China has undertaken to increase its say and sway in the international financial institution.

The attitude of China to these institutions has changed. Why did it happen? Why has China become more proactive in the World Bank and the IMF in last ten years? This paper attempts to answer those questions from the perspective of three international theories. It will use structural realism, neoliberal

⁴ Gerald Chan, Pak K. Lee and Lai-Ha Chan, *China Engages Global Governance* (New York: Routledge, 2012), 59-78.

institutionalism and social constructivism to analyze the reasons behind the behavior. This paper will conclude by analyzing the opportunities and challenges China is facing nowadays.

2.2 Hypotheses

Hypothesis 1:

(Structural Realism) China changed its attitude and behavior in the World Bank, and the IMF, because of its rising economic power and its desire to to set another system.

From the structural realist perspective, China's attitude and behavior are determined by the international system structure. The distribution of economics power changes, so the economic structure should change accordingly. As the Chinese economic potential is increasing, China wants to secure its national interest in today's world economy. Nonetheless, its influence in the IMF and the World Bank remains limited. Consequently, China wants to set another system.

Hypothesis 2:

(Neoliberal institutionalism) Changes in China's attitude and behavior arise from China's acceptance and conformation to the rules, and the fact that its interest is in line with the system. China is learning and adapting to the system, and behaving within the system.

China has adapted to the international regimes and been socialized by the international organizations. The institutions provide China with the platform and opportunities to cooperate with other states to achieve its goals. According to the neoliberal institutionalism, in the international environment China look for the opportunity to cooperate with other states through the institutions and those institutions have the ability to accommodate, and adapt to, the rising China. As a consequence China becomes more active in cooperation with other

countries and behaves within the institutions, instead of attempting to overthrow them.

Hypothesis 3:

(Constructivism) China changed its attitude to the World Bank and the IMF because, on the one hand, Chinese government's perception of the international financial institutions has changed, and, on the other hand, China's identity in today's world has changed and its national interest has been redefined. As a consequence, China wants to modify and reshape the system.

As Beijing government entered in the World Bank and the IMF, these institutions took impact on China's perception and recognition over the years. Moreover, with the development of its economy, China's identity has changed from beneficiary to contributor, along with changes in its diplomatic strategy. Moreover, in the 21st century China wants to be a "responsible great power" and gain other states' trust. According to social constructivism, China's behavior is shaped by its perception of its identity and interest. Thus, with the identity and interest changed, China's behavior changes and becomes more proactive in these organizations.

2.3 Research Methodology

The findings of this paper are based on documentary research, and case studies.

Documentary research is a research method in social science which uses documents and other outside sources to support the argument. The documents include the following categories: official documents, public records, biographies, and the media. In this paper, the documents concerning China's participation in the two institutions are mainly the working papers published on the World Bank and the IMF official websites and the Chinese foreign policy documents like "China Foreign Affairs" (National Library). There are also reports from the media and papers from databases. Analyzing the working papers on China in the IMF and the World Bank helps to identify changes in China's attitude toward

the two institutions and the specific issues. The process of the reform of the World Bank and the IMF is also concluded on the basis of the working papers on relevant series of meetings. Moreover, academic papers written from different perspectives contribute a lot to why China has been changing its attitude and behavior through participation in the two organizations over the years.

Beside document research, this paper will benefit from two case studies. The first one is to explore why China was against the new IMF surveillance scheme. It will be a good case to analyze China's say and influence in decision-making process. The second case is the reform of the World Bank and the IMF concerning mainly changes in quota and voting powers. This case is intended to discuss how the international financial system reacts to the global economic power shift. It will show what will be China's position after the reform, and how can China influence the international financial system. These two cases will test the three abovementioned hypotheses from the point of view of three different theories..

III. China's Participation in the World Bank and the IMF

3.1. Overview of China's participation

The World Bank and the IMF has made a great contribution to China's development through providing loans, know-how, and international development cooperation. China, in turn, has helped the Bank and the IMF to implement better their poverty-reduction and development aims through financial support, experience-sharing, and active participation in the Bank's reform.

The whole process of China's participation in the World Bank and the IMF can be divided into three periods: initial cooperation stage (1980s); steady development stage (1990s); and mature partnership stage (21st century).

At the initial cooperation stage (1980s), the key issue was the use of loans to support the base construction of key projects, such as infrastructure. At the steady development stage (1990s), cooperation focus gradually shifted from

loans to policy research, and system innovation, as the core content of knowledge-based cooperation; At the partner stage (21st century), focus has been to help China accomplish balanced regional development and build a resource-conserving and environment-friendly society.

3.2. 1980-1990: The Initial Cooperation Stage

In the initial period of China's participation in the World Bank and the IMF, China and the two institutions adapted to each other: China learned the international norms with the institutions while the two institutions supplied technical assistance and made effort to adapt to China. China gained not only financial and technical assistance, but also the advice, or suggestion, concerning the economic development. Despite the fact that the two institutions had not been the source of the reforms, or policy initiatives, they provided nonetheless China with a new perspective on the reform progress and with more information concerning the world.

Besides, the proposition from the World Bank and the IMF was in accordance with China's domestic development. The leaders and officials agreed on the main issues which were crucial for China's growth at that time. The engagement of the World Bank and the IMF was more like cooperation and dialogue rather than enforcement and demand. Moreover, by participation in the two institutions, China changed its opinion about the World Bank and the IMF as instruments of western imperialism aimed at building the new international economic order. By gaining more international know-how and experience, China believed that the two institutions would help it to develop. Hence, China wanted to participate in the organizations and cooperate with them.

3.3 1990-2000: The Steady Development Stage

The relationship between China and the World Bank was changing rapidly, and became deep and broad. With the Bank's program in China being so large, the government developed project units all over China at different

administrative levels, from central one to county one. At that time, there was about 125 project in total supported by the Bank.

The macroeconomic policy and institutional reform in early 1990s was very imperative for the whole process of China's reform seen from today's perspective. In 1990s, the World Bank supported China mainly with consultation and technical assistance. Moreover, by doing this, the World Bank has become deeply engaged into the policy-making and framework-building, which is of great significance for China's macroeconomic development. The Dalian conference in June 1993 was a key event in this respect. After the conference, top leaders of the Chinese Communist Party (the CCP) agreed on "the nature of the inflation problem and a program on macroeconomic stabilization aimed at a gradual reduction of the economic overheating."⁵ This program had eventually succeeded in achieving the goal of 'soft landing' of China's economy in 1996. It was the first time when the World Bank relied on indirect policy instruments to implement macroeconomic plan.

In this period China and two institutions entered the steady development stage. The cooperation was mainly about technical assistance, economic-policy consultations and institution-building. This way China received the advice from the specialists who were doing long-term research on China for the World Bank and the IMF. Meanwhile, the specialists had opportunity to learn more about China's economy and had direct communication with Chinese officials from relevant departments. This cooperation played a very positive role in China's making of macroeconomic policies. In 1993, China has become the largest borrower from the World Bank, and one of the largest recipients of technical assistance. In late 1990s, the programs and loans have been scaled down due to China's fast development. China's economy developed well and the partnership between China and two institutions became steady and mature.

3.4. The 21th Century: The Partnership Stage

⁵ Bottelier, "China and the World Bank", 255.

In the 21st century China has become contributor to the IMF and the World Bank in terms of providing funds to the global South and sharing experience with other countries. Even though China still receives loans from the World Bank, it China has made contributions to the international development aid (IDA) and begun to offer loans to other developing countries. On one hand, China is helping the World Bank to achieve the goal of poverty reduction; while on the other hand China is posing a challenge to the World Bank's position in providing loans, which demonstrates a weakening of international hegemony, and loosening of exogenous constraints. China has signed country partnership strategy with the World Bank, and other global finance programs, which demonstrate China's determination to remain partner with the World Bank in coping with international financial crisis. In management, Lin Yifu was appointed the Chief Economist and vice-president of the Bank in 2008, which showed that the World Bank has been welcoming China's more active participation and paying more attention to China and other developing countries.

During the international financial crisis China became the first country to purchase the IMF's notes worth about 50 billion USD to help fund-raising for the member countries. Afterwards China in cooperation with other BRICS countries determined to participate in capital increase of the IMF, which was instrumental for the Fund in order to cope with the crisis. Zhu Min was appointed deputy governor in the IMF in 2011, which showed that the Fund has been willing to give more say and focus to emerging markets and developing economies, and also acknowledged China's contribution..

Table 1: Total Loans t from the World Bank to China in 1981-2013 (Unit: Billion USD)

Year	Hard Loan (IBRD)	Soft Loan (IDA)	Total Loan	Project Num.
1981	100.00	100.00	200.00	1
1982	0	60.00	60.00	1
1983	463.10	150.40	613.50	6
1984	616.00	423.50	1039.50	10
1985	659.60	442.30	1101.90	12

1986	687.00	450.00	1137.00	11
1987	867.40	556.20	1423.60	11
1988	1053.70	636.90	1693.60	14
1989	833.40	515.00	1348.40	12
1990	0	590.00	590.00	5
1981-1990	5280.20	3924.3	9207.5	83
1991	601.50	977.80	1579.30	10
1992	1577.70	948.60	2526.30	16
1993	2155.00	1017.00	3172.00	18
1994	2145.00	925.00	3070.00	14
1995	2369.50	630.00	2999.50	16
1996	2050.00	480.00	2530.00	15
1997	2490.00	325.00	2815.00	11
1998	2323.00	293.40	2616.40	16
1999	1674.40	422.60	2097.00	19
2000	1672.50	0	1672.50	8
1991-2000	19058.60	6019.40	25078.00	143
2001	787.50	0	787.50	8
2002	562.90	0	562.90	5
2003	1145.00	0	1145.00	6
2004	1218.27	0	1218.27	9
2005	1377.00	0	1377.00	9
2006	1474.33	0	1474.33	11
2007	1041.00	0	1041.00	10
2008	1733.40	0	1733.40	12
2009	2140.00	0	2140.00	13
2010	1774.00	0	1174.00	18
2001-2010	12653.40	0	12653.40	101
2011	1480.00	0	1480.00	19
2012	1160.00	0	1160.00	17
2013	2060.00	0	2060.00	17
Total	43136.65	9946.71	53083.36	380

Source: The World Bank website

IV. Case Studies.

4.1. Case Study I: China against the 2007 IMF Surveillance Scheme

On 15 June 2007, the IMF's Board of Governors approved a new Decision on Bilateral Surveillance over Members' Policies, substituting the 1977 Decision on Surveillance over Exchange Rate Policies. The new Decision added the principle that "a member should avoid exchange rate policies that

result in external instability regardless of their purpose.”⁶ According to the new Decision, this new principle “focuses on the outcome of the policies at issue, rather than their intent”. That means that if a member state’s exchange-rate policies cause external instability, notwithstanding whether it was their true intent or not, , such state will be in breach of the the 2007 Decision. The new Decision focused on a country’s balance of payments in order to decide by the IMF if a country uses its exchange rate to boost its exports⁷.

The 2007 Decision puts more pressure on, and lowers the position of, the member states with fixed foreign exchange-rate policies, especially the emerging-market countries. When encountering trade-imbalance problems, they will have to face more pressure to adjust their exchange rate, whereas the Decision has little impact on the countries with floating exchange-rate, such as highly developed countries. Due to the fact that their exchange rates are decided by the market, the other group has more autonomy. At the executive meeting, the new Decision did not achieve all the members’ approval. China explicitly objected to the new surveillance scheme, while Iran abstained, and Egypt held reservations about the reform. However, the United States strongly backed up the new Decision..

Developing countries as well as some experts regarded this as demonstration of the US strategy to make the IMF more involved in controlling member states’ exchange-rate policies by determining whether a state is manipulating its exchange-rate. This might have been perceived as a convenient way for the US to deal with the trade surplus of China by claiming that the RMB is undervalued, and consequently needs to appreciate. Since the voting power still lays in the hands of a small number of high-developed countries (with the United States alone holding more than 17% of voting rights), the 2007 Surveillance Decision was passed.

For Western countries, foreign exchange control is their tool of the

⁶ “IMF executive board adopts new decision.”

⁷ “IMF executive board adopts new decision.”

implementation of their foreign economic policies. For developing countries, foreign exchange control is a defensive measure to prevent the invasion of monopoly capital, and to safeguard national economic interests. For the countries who are in favor of the new surveillance scheme, they mainly want to allow the RMB exchange rate to fluctuate, and appreciate, and thereby let the to restrict Chinese exports. At the same time, the USD trade commodities will become relatively cheaper in comparison to the RMB, thereby expanding the United States, or other developed countries', exports to China. This overviews the fact, however, that the problem of US export is not the RMB exchange rate but the structure of US domestic economy.

China strongly opposed the 2007 Decision and openly criticized the manner in which the IMF adopted it by openly neglecting the reservations and opposition from developing countries. China claimed that the IMF was under the US pressure for to appreciate the RMB . Chinese member of the IMF Board of Governors Ge Huayong said publicly that it would weaken the Fund's supervisory role and reputation, if the Fund would insist on the policy without securing its wide acceptance. Moreover, h said that it is quite unfair to put more pressure on the emerging markets while putting little impact on the developed countries. The People's Bank of China (the PBOC) also criticized the 2007 Decision on its website⁸..

Even after the passing of the 2007 Surveillance Decision, China has not stopped its objection. In 2008 at the International Monetary and Financial Committee (the IMFC) annual meeting, the PBOC Deputy Governor Yi Gang pointed out that the IMF should take experience and lessons from financial crisis and suggestion from member states to improve its surveillance mechanisms. He argued that to achieve the goal of building an orderly and stable international financial system by the means of adapting to the new global economic and financial environment, the 2007 Decision ought to be reviewed and amended as

⁸ "IMF adopted the Decision on Bilateral Surveillance over Member's Policies with China's Reservation", 20 June.

soon as possible.⁹ In 2009, China announced that: “We call for a timely thorough review of the 2007 Decision in order to avoid a recurrence of past mistakes”¹⁰. Actually, China worries that the 2007 Decision is targeted specifically at China due to its exchange rate and trade surplus.

After the crisis, China has argued more for the new surveillance framework. At the IMF Spring Meeting in 2010, the PBOC Governor Zhou Xiaochuan stated that the current global financial crisis is mainly due to the inappropriate financial sector in developed countries. He also figured out that the Fund should resolve the surveillance problems and amend the 2007 Decision as soon as possible. He said “What is most important at present, it is to strengthen surveillance of the fiscal policies of developed countries”.¹¹

4.2. Case Study I: Analysis

4.2.1. Realism

From the realist point of view, the international institutions are dominated by the great power which created them which consequently has more say in them than other actors. With most voting power vested in the US and Western developed countries, the IMF reflect mainly those developed countries’ interests. Western countries want to use institutions to maximize their interest. From neorealist point of view, countries are more interested in a relative gain rather than in an absolute gain. So the US and other developed countries with flexible exchange rates probably approve the decision enabling the IMF to control more easily other member states’ exchange-rate policies in order to solve their own imbalance problems easily. The 2007 Decision is more focused on the outcome rather than the intention. So if a state’s exchange-rate policy causes external instability, it will be held responsible by the IMF no

⁹ IMF, Statement by Yi Gang at the 18th Meeting of the IMFC in 2008, accessed 10 May 2014, <http://www.imf.org/External/AM/2008/imfc/statement/eng/chn.pdf>.

¹⁰ IMF, Statement by Yi Gang at the 20th Meeting of the IMFC in 2009, accessed 10 May 2014, <http://www.imf.org/External/AM/2009/imfc/statement/eng/chn.pdf>.

¹¹ IMF, Statement by Zhou Xiaochuan at the 21th Meeting of the IMFC in 2010, accessed 10 May 2014, <http://www.imf.org/External/spring/2010/imfc/statement/eng/chn.pdf>.

matter if it is was its true intention. Consequently the IMF will more easily make a country in question to change its exchange-rate policy, which is not good for this member state's economic development, especially in case of developing countries. China will definitely defend its national interests and reject the 2007 Decision which harms its domestic economic development.

4.2.2. Liberalism

From the liberal point of view domestic actors and structure have a strong impact on the interest of the state and the identity of its foreign policy. China was against the 2007 Decision mainly because the surveillance scheme thus established is unfavorable for China's domestic economic development. China has a fixed exchange-rate policy which makes it hard to them to adjust exchange rate when facing imbalance of trade. Nonetheless the 2007 Decision will put more pressure on the developing countries with fixed exchange rate.

China becomes more active participant in international financial institutions in order to meet the needs of its domestic economic development. Marketization of China's domestic economy pushed it further toward adopting international norms. On one hand, China will actively participate in the international financial institutions to promote cooperation with other member states. On the other hand, China will selectively accept rules which are good for its development and refuse to accept rules which are not beneficial to its development. This case shows that China wants to be more involved in the decision-making influencing the world economy due to its importance for China's domestic economic development. Nonetheless, its influence remains limited due to limited voting power.

4.3. Case Study II: Voting Power Reform

With the shift of global economic power from the West towards the emerging-market economies the IMF has to face the pressure to change its governance and voting structure by extending the share of emerging economies in decision-making powers.

In 2006, at the IMF annual meeting in Singapore the Board of Governors and the IMF member states agreed on the particular quota increase to the benefit of four “most underrepresented countries”, namely: China, Mexico, South Korea, and Turkey. This move was called the first step to the realignment. China’s voting share increased from 2.9% to 3.7%. .

In 2008, when the international financial crisis raged globally, the international community strengthened their responses. At the same time, emerging-market economies became more important as the engines of the world economy. In this context, the reform of the IMF became more urgent. At the G20 summit in the UK in March 2009, China with other BRICS countries – Brazil, Russia and India, proposed that the IMF should increase the voting share assigned to emerging economies. With the aggravation of the crisis, China became more outspoken in the fund, pushing the reform process.

At the 2009 IMFC annual meeting, China proposed that the IMF should transfer at least 5% quota shares to the developing countries and emerging-market members, which aim have already been set by the G20. Moreover, the PBOC Governor Zhou Xiaochuan at the 2010 IMF spring meeting said that: “Quota adjustment and reform is not a zero-sum game. A Fund with a more reasonable governance structure will be able to protect better global economic and financial stability, which will benefit all member countries.”¹²

At the G20 meeting in 2010 member countries reached an agreement on transferring more than 6% of quota shares to dynamic emerging markets and developing countries, and to under-represented countries, at the expense of overrepresented European countries and oil-producing countries, without affecting the least developed countries. Moreover, European nations were to give up two seats on executive board to the benefit of emerging-market countries.

¹² IMF, Statement by Zhou Xiaochuan at the 21th Meeting of the IMFC in 2010, accessed 10 May 2014. <http://www.imf.org/External/spring/2010/imfc/statement/eng/chn.pdf>.

Once the reforms will be implemented, the four BRICS countries - as the leading emerging markets - will get 9.76% quota shares and 9.6% voting rights, becoming some of the IMF's top 10 shareholders. After the reform this group will be constituted by: the US, Japan, the BRICS countries, France, Germany, Italy and the UK.¹³ China will become third largest shareholders, after the US and Japan, with its voting share increasing to 6.1%. China is willing to make more financial contribution to the IMF in order to get more voting rights and say, and it also calls for the reform of the selection procedure of the IMF's Managing Director.

Table 2: Quota and Voting Shares of 10 Largest Members

(In percent)

Rank	Pre-Singapore			Post 2 nd Round			Proposed		
	Country	Quota Shares	Voting Shares	Country	Quota Shares	Voting Shares	Country	Quota Shares	Voting Shares
1	US	17.38	17.02	US	17.67	16.73	US	17.43	16.48
2	Japan	6.23	6.11	Japan	6.56	6.23	Japan	6.47	6.14
3	Germany	2.09	5.97	Germany	6.11	5.80	China	6.39	6.07
4	France	5.02	4.93	France	4.50	4.29	Germany	5.59	5.31
5	UK	5.02	4.93	UK	4.50	4.29	France	4.23	4.02
6	Italy	3.30	3.24	China	4.00	3.81	UK	4.23	4.02
7	Saudi Arabia	3.27	3.21	Italy	3.31	3.15	Italy	3.16	3.02
8	Canada	2.98	2.93	Saudi Arabia	2.93	2.80	India	2.75	2.63
9	China	2.98	2.93	Canada	2.67	2.55	Russia	2.71	2.59
10	Russia	2.78	2.73	Russia	2.49	2.39	Brazil	2.32	2.22

Source: The IMF website (Quota Reform Paper)

Similarity to the IMF, the World Bank has also been facing a legitimacy crisis. In 2002, the Monterrey Consensus was made at the United Nations International Conference on Financing for Development to call for a more fair

¹³ IMF, "Quota and voting shares before and after implementation of reforms agreed in 2008 and 2010", accessed 15 May 2014, http://www.imf.org/external/np/sec/pr/2011/pdfs/quota_tbl.pdf.

representation of developing countries in international financial institutions.¹⁴ The reform began to gain substantial progress in consequence of the 2007 global financial crisis. China was invited to contribute more to the Bank in order to improve its capacity to lend and liquidity. China was willing to do in exchange for the increase in its voting power and a greater say in the decision-making process of the Bank.

At the April 2010 World Bank Spring meeting, member states reached an agreement on increasing the capital of IBRD by 86.2 billion USD, as well as rising the voting shares of developing countries and decreasing the ones of Japan and some European countries. China has gained the voting-power increase from 2.8% to 4.4%,¹⁵ which ranked it the third largest shareholder after the US and Japan. Furthermore, the developing countries hoped to have introduced a system which would automatically change the voting rights in accordance with the changes of relative economic power among the developing and the developed countries. Some scholars argue that China should be given more voting power as the second largest shareholder, since China's economy has surpassed Japan's as the second-largest economy in the global economy.

Table 4: Voting Powers of Countries at the World Bank

Country	United States	Japan	China	Germany	France	Britain	India	Russia	Saudi Arabia	Italy
Before	15.85%	7.62%	2.77%	4.35%	4.17%	4.17%	2.77%	2.77%	2.77%	2.71%
After	15.85%	6.84%	4.42%	4.00%	3.75%	3.75%	2.91%	2.77%	2.77%	2.64%
Change	0	- 0.78%	+1.65%	- 0.35%	- 0.42%	-0.42%	+0.14%	0	0	- 0.07%

Source: The World Bank

The reform of the World Bank's Executive Board must be accepted and approved by the 85% of total voting power. By January 2014, the 15th General

¹⁴ UN 2003.

¹⁵ World Bank, 2010.

Review of Quotas was not completed as scheduled, so the 2010 quota and governance reform has not yet become effective. According to the latest data, by April 23, 2014, it has been accepted by 145 member countries with 76.97% of total voting power. For the quota increase, it has been consented to by the 160 members with 79.43% of total quota.¹⁶ But it has not been approved yet by more than 85%.

At the 29th meeting of International Monetary and Financial Committee in April 2014, Chinese-government official Yi Gang stated that the “Failure to implement the 2010 reforms will hamper the Fund’s effectiveness, legitimacy, and credibility, as well as its capacity to respond to crisis.” China backs up the IMFC to make the appeal to the United States in order to approve and carry out the Board Reform and the 14th Review as soon as possible. Thereto, as Yi Gang stated, China would definitely uphold the completion of the 15th Review of Quota by January 2015 in order to implement the 2010 reforms, in order to make the IMF effective and strong, which is needed to help the international monetary system to take actions against the market turbulences. He also stated that China upholds the IMF as one of the important contributors to the international financial safety.¹⁷ The IMF said they will “remain fully committed to pursuing the implementation of the governance that have been agreed to make the fund an even more effective and representative institution.”¹⁸

4.4. Case Study II: Analysis

4.4.1. Realism

China’s ability to play a significant role in global governance depends very much on its phenomenal economic rise and its increasing mesh with the global economy. In 2010, China has become the world’s second largest

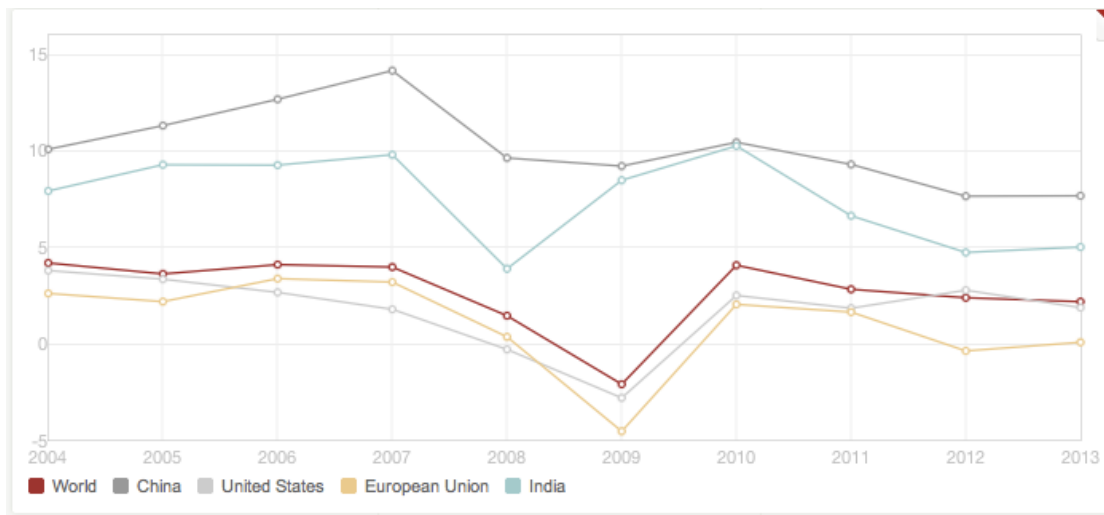
¹⁶ IMF, “Acceptances of the Proposed Amendment of the Articles of Agreement on Reform of the Executive Board and Consents to 2010 Quota Increase”, accessed 16 May, 2014, <http://www.imf.org/external/np/sec/misc/consents.htm#a1>.

¹⁷ IMF, Statement by Yi Gang at the 29th Meeting of the IMFC in 2014, accessed 10 May 2014, <http://www.imf.org/External/spring/2014/imfc/statement/eng/chn.pdf>.

¹⁸ IMF Factsheet, “How the IMF Make Decision”, accessed 10 May 2014, <http://www.imf.org/external/np/exr/facts/govern.htm>.

economy, overtaking Japan. It has overtaken Germany as the largest exporter in 2009. It is the world's biggest holder of foreign reserves. China supplanted the U.S. and Japan as, respectively, the world's largest automobile market and the biggest producer in 2009.

Figure 3: GDP growth (annual%) 2004-2013



Source: The World Bank,

<http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG/countries/IW-CN-US-EU-IN?display=graph>

With economic power changes, global economy architecture has changed and undergone a great transformation. China with its rising economy stands at the center of this transformation. Moreover, especially after the global financial crisis, the world needs the engine of economic growth, which China, with its continued, relatively strong economic growth and pragmatic economic policy can play. China's attitude and behavior is determined by the structure of international financial system. Moreover, its position in the structure influences its foreign policy. China wants to gain more say in the World Bank and the IMF according to its high position in today's world economy and to protect its

economic interests. Hence, China wants to reform the economic system mainly controlled by the US before.

4.4.2. Liberalism

China's great economic development has definitely made pressures on developed countries to reform the institutions to accommodate China and other emerging powers. Furthermore, China becomes more active in international financial institution to meet its need for domestic economic development. China is accepting the international norms and rules to meet its own reform needs, which is the basis for the further pro-market reform. The opening to international economic institutions has assisted the government in implementing reform initiative throughout many aspects within China. Based on the domestic need for economic development, China wants to be more involved in the decision-making on influencing world economy, which is of great importance for China's domestic economy. China's interest is in line with the system, so China will still remain within the system.

4.4.3. Constructivism

China is not satisfied with the economic order led by the US, so it wants to push for the reform of the World Bank and the IMF to gain more say in decision-making and rule-setting.

Due to its new international position, China has collaborated with Brazil, Russia, India and South Africa within the emerging-market grouping known as BRICS. The BRICS countries have agreed on the reform of the World Bank, the IMF, and global economy. They wanted more voting power in the World Bank and the IMF to reflect the emerging market countries' interest. Moreover, China also deepened the relationship with other Asian countries in last few years. China wants to play a more important role among Asian countries, and developing countries in general. As a consequence within the I G20, which emphasised more the role of new emerging markets and developing countries, China behaves much more actively in order to gain more say. Moreover, after

the economic crisis China has strengthened the cooperation with the World Bank to play a more positive role in helping the developing countries to deal with its consequences.

From the constructivist point of view, by more involvement in the regional and other multilateral groupings and organizations, China wants to enhance its profile in the international system and improve the relationship with these groupings and countries; and on the other hand it wants to reduce the suspicions of neighboring countries and other great powers, especially the United States. So in order to keep good relationship with the BRICS and represent developing countries' interests, China wants more say in the World Bank and the IMF.¹⁹

V. Conclusions

5.1. General Conclusions

Over the last three decades China's participation in the World Bank and the IMF has undergone through three stages: initial participation, steady development, and mature partnership. China has definitely become more engaged in the international financial institutions and become a great player in international affairs. Why China has changed its attitude and behavior towards the World Bank and the IMF, and will China reconstruct the international financial system? This paper sought for the answers from three international relations theories to test the three hypotheses by analyzing the whole process of China's engagement over the last 30 years .

In case of the initial participation and the steady development stages, neoliberal institutionalism can better explain China's interaction with the two organizations. At these two stages China mainly learned and adapted to the international norms, and adopted those rules gradually. China gained not only financial and technical assistance, but also the advice concerning the economic

¹⁹ "China wants say in World Bank choice", *Financial Times*, accessed by May 20th, 2014, <http://www.ft.com/cms/s/0/805a0ce2-58af-11e1-b9c6-00144feabdc0.html#axzz2NRoOx4WR>.

development. Moreover, the two organizations provided platform and opportunities to China to achieve its interest. China has had an absolute gain from the institutions. So China becomes more active in the World Bank and the IMF, and will behave within the system. At the partnership stage, structural realism can better explain China's changed behavior reflecting its changed role in the global economy as a rising economic power. China gained ability to be co-donor with the World Bank, and to contribute more to the IMF, e.g. by buying bonds and increasing the IMF capital. Consequently China wants to participate more actively in two organizations to serve better its national interest. Meanwhile, constructivism can better explain the China's behavior from the point of view of its identity and strategy in the new century. With the development of its economy, China's identity has changed from beneficiary to contributor along with its changes of diplomatic strategy. China needs and should become more active to be a "responsible great power" and "global power".

Case Study I presents China against the 2007 surveillance scheme, and it shows China saying "no" to the IMF policy. The 2007 surveillance was not beneficial to China and other developing countries with fixed exchange rate. Moreover, China also suspected that the IMF was under the US to appreciate the RMB. Nonetheless the IMF still passed the 2007 surveillance scheme. China has not withdrew the objection to the 2007 Decision. This case shows that China's influence in decision-making is very and it has no ability to reconstruct the system. The system is still dominated by the US. From the neoliberal institutionalist position, China wants to be more involved in the decision-making influencing world economy, which is of great importance to its domestic economic development.

Case study II shows that China wants eagerly to gain more voting power in the World Bank and the IMF. Moreover, with the global economic shift, the two organizations have to accept the governance reform to meet the needs of new global economic and financial environment, especially after the financial

crisis. In this case structural realism and constructivism are more useful. From the point of view of structural realism, China naturally wants to gain more say and push for voting power reform to reflect its rising economic position and serve its national interest better. Nonetheless, the US still holds the largest share of voting power and have the veto power. The reform proposal cannot be approved without the US. So China's influence in the system is still limited. To reflect China's national interest and its rising power, China wants to build an alternative system which it could influence more. This proves the Hypothesis 1 right. From the neoliberal institutionalist perspective China has an absolute gain from the institutions, so it will keep cooperating with them. The governance reform of the World Bank and the IMF reflects the fact that the institutions also have the ability to accommodate and adapt to the rising China. So China will still learn and adapt to the system, remain in the system, and improve it. Hence the Hypothesis 2 is true. From the point of view of structuralism, China makes more effort to play its "responsible great power" and "global power" role in today's world, so it is natural for China to want more say and push for the reform. So the Hypothesis 3 is true.

In the 21st there still exists the vacuum. Constructivism explains that it is because of the contradiction of China's identity. China wants to be a responsible power and other countries want China to play a greater role in global affairs. Nonetheless, China is still a developing country and undergoes critical economic and political transformation, with many challenges from within and abroad. China is rising, but its influence on decision-making in international institutions is still limited. China has the willingness to do more as a global power, but its ability in terms of global governance, especially in international financial institutions, is very limited, and needs much improvement. It is because the IMF and the World Bank are still dominated by Western countries, especially the United States. China will not and cannot challenge the United States' dominance so soon. China calls for the reform of the global economic governance system but it does not mean to overthrow the

system. At this stage, overthrowing is not feasible and not really in line with the global economy.

5.2. BRICS setting up NDB and CRA

Meanwhile, the BRIC countries have begun to actively explore the establishment of their own development banks and financial safety net to supplement the existing system. During the G20 summit in St. Petersburg in 2013 the leaders of the BRICS countries collectively announced that they will establish new development bank (NDB) with an initial capital of 50 billion USD and the initial 100 billion USD contingency reserve arrangements (CRA). Moreover, at the 6th BRICS Summit on July 15th, 2014, the leaders announced the creation of the New Development Bank and Contingency Reserve Arrangements.

BRICS development bank is carried out to finance for infrastructure development and sustainable development projects in emerging market countries and developing countries. Its aim is to complement the existing multilateral and regional financial institutions to promote global growth and development, and to help developing countries to respond to bottlenecks and challenges they face due to the lack of long-term financing and foreign direct investment.

Research shows that in 2010-2020, only an annual average of infrastructure investment needs of developing countries in the Asia Pacific region will reach 776 billion USD, including 747 billion USD in domestic demand. Meanwhile, the highest infrastructure investment of the World Bank was in 2010 with a total investment of only 23 billion USD, which is quite inadequate. From this point of view, if the BRICS development bank will manage to effectively mobilize financial support in emerging economies to support infrastructure investments in developing countries, its significance as the supplement to the World Bank will be self-evident..

The main objective of the BRICS emergency reserve arrangements is to help BRICS countries to cope with short-term liquidity pressures and provide them with mutual support, to further strengthen financial stability and defense, to complement existing international arrangements on foreign exchange reserves, and to strengthen the global financial safety. In comparison to the IMF as a global financial safety net, the BRICS foreign exchange reserve will have significant advantages in the regional, local and loan flexibility.

5.3. Reshaping the system

China is already one of the major players in the global economic governance, its economic interests are closely bound to the existing international economic system. Even though China's economic power has increased greatly, China has no intention to overthrow the existing international economic governance system. With the rise of China's position in the world, it wants to take more responsibility, as well as power, to be "a responsible great power" and "global power". As in the BRICS Group and the G20, China has become more active. Setting up the BRICS New Development Bank and the Contingency Reserve Arrangements is likely to set up another system, but it is supplementing the existing international financial system. Due to its limited influence in the World Bank and the IMF, China as "global power wants to build alternative system ", including in international financial area. By this means China with other BRICS countries wants to push for the reform of the World Bank and the IMF. and moving the system towards multipolarity,.

Based on the existing basic structure of the traditional international economic organizations, Chinese government will take pragmatic approach and make a fair, efficient, inclusive and orderly as the fundamental starting point to incrementally improve the international economic governance system to adapt to the global situation and make a difference. In this process, China will behave more in the system and promote its reform to better reflect developing countries and emerging markets' interests.

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