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A Reform-Minded Status Quo Power?
China, the G20, and Changes in the International Monetary System

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一个希望改革的现状大国?
中国、二十国集团与国际货币体系变革

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Abstract

This paper analyzes the case of China in the G20 process and examines China’s position and policies on relevant issues, including the international monetary system (IMS) reform, reform of the IFIs, international financial regulation, the future of the dollar, and internationalization of the Renminbi. My findings demonstrate that China has actively participated in the G20’s deliberations and actions, put forward its suggestions, sought expanded share and voting power in the IFIs in correspondence with its rising status, and promoted the internationalization of the Renminbi. While having accepted and observed the current international rules of the game, China seeks changes for greater institutional power and for better global governance. I come to the conclusion that China is a status quo power which at the same time is hoping for constructive changes in the existing international order, and is thus a reform-minded status quo power.

摘要

本文分析中国与二十国集团（G20）进程的互动关系，考察了中国在相关问题上的立场和政策，这包括国际货币体系改革、国际金融机构改革、国际金融监管、美元的未来以及人民币国际化。我的研究发现表明，中国积极参与了 G20 的各种审议和行动，提出自己的建议，寻求扩大其在国际货币基金组织和世界银行中与其总体地位相称的更大份额和投票权，推进人民币国际化。在接受和遵守现存国际游戏规则的同时，中国为了获得更多制度性权力和更好的全球治理而寻求变革。本文得出的结论是，中国是一个现状大国而同时希望现存国际秩序发生建设性变革，因而是一个希望改革的现状大国。
Is China a revisionist power in world politics? And, what kind of world is today’s China hoping to see or pursuing? What kind of power will China be in the future? Those are profound and controversial questions that have attracted much attention. Realist international relations theorists usually would predict that the basic pressures of the international system will force the United States and China into conflict. They argue that a rising China is revisionist at both the regional and global levels and is thus challenging the existing world order.\(^1\) According to John Mearsheimer, all major powers inevitably seek global hegemony, and China is no different. On that basis he predicts an inevitable clash between the United States, the established power and global hegemon, and China, the rising global power and aspirant hegemon.\(^2\) Mearsheimer’s assessment of China is more a deduction from his theory of “offensive realism” rather than solidly based on empirical research, and is seen as being “disconnected from reality and history.”\(^3\)

There is another school of thought which is exemplified in the work by Robert J. Art, Christopher Layne, and Charles Glaser and is more sophisticated. For Art, on the one hand, “China will do what all great powers do: not simply react to its international environment, but instead act to shape that environment in ways that are conducive to its national interests.”\(^4\) On the other hand, “great-power status does not doom a state to be aggressively expansionist and warlike, especially in the modern era, when the generation of wealth has been severed from territorial conquest and when nuclear weapons make great-power war problematic. China’s growing power will not inevitably bring a hot or even a cold war with the United States. After all, power is not destiny.”\(^5\) The state of great powers’ future depends on how successful they will handle and manage conflicts that will arise between them. Similarly, Christopher Layne believes that while China’s rise will cause geopolitical turmoil, “a Sino-American war is not inevitable. Whether such a conflict occurs will hinge more on

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5. Ibid., p. 390
Washington’s strategic choices than on Beijing’s.”\(^6\) For Charles Glaser, realism, when properly understood, offers grounds for optimism in this case, so long as Washington can avoid exaggerating the risks posed by China’s growing power.\(^7\) During the Cold War, “[t]hose who feared that the United States could not extend its deterrent to Western Europe believed that the Soviet Union was a highly revisionist state bent on radically overturning the status quo and willing to run enormous risks in the process. There is virtually no evidence suggesting that China has such ambitious goals.”\(^8\)

Studies more based on empirical analysis have also raised doubts and find that evidence points to a different assessment.\(^9\) Alastair Iain Johnston explores the degree to which China’s leaders are pursuing status quo or revisionist foreign policies and concludes that it is hard to conclude that China is a clearly revisionist state operating outside, or barely inside, the boundaries of a so-called international community. In forty-odd years China moved from being a revolutionary revisionist state to a more status quo-oriented one.\(^10\) Feng Huiyun’s study uses the public statements of the four top Chinese leaders, Mao Zedong, Deng Xiaoping, Jiang Zemin, and Hu Jintao, successively, to analyze their belief systems and belief changes under different situations. The results of her statistical analysis refute claims that Chinese leaders share revisionist beliefs. Analyses of the leaders’ operational code beliefs, other than those of Mao, show that they are not offensive realists.\(^11\)

A similar conclusion has been reached with emphasis on the constraints on China’s action. Evan S. Medeiros argues that, “China, in sum, is not trying to tear down or radically revise the current constellation of global rules, norms, and institutions on economic and security affairs”.\(^12\) In the meantime, China’s role as an agenda- and rule-setter will only become a more prominent feature of its diplomacy in the future. To date, however, China’s actual record in the shaping of international rules and institutions has been limited and

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\(^8\) Ibid., 85.


\(^10\) Johnston, p. 49.

\(^11\) Feng, p. 334.

As China’s capabilities grow,” he further argues, “the internal constraint and external restraints on a revisionist turn in China’s foreign and defense policies remain substantial, and some of them will increase.”13 By examining China’s joining in the different security institutions, Johnston’s Social States argues that China has been socialized in those institutions to become more cooperative in those security institutions. His conclusions in fact point to the direction of China as a status quo power.14 China’s compliance with and observing the rules of the game in the World Trade Organization (WTO) in the past decade are perhaps another example.

This paper explores China’s approaches to the international system from the lens of the relationship between China and the G20 and how that is related to the reform of the international monetary system (IMS). The findings lead to my conclusion that China is basically a status quo power but at the same time is reformed-minded, wishing for constructive changes it perceives. In general, China is satisfied with its status in the international system, while is hoping for improved world political and economic governance through participation in the international institutions such as the G20 and by playing a proactive role in them.

**Between Status Quo and Reform**

Different people give different answers to the question whether China is an advocate of the status quo, a modest reformer, or an anti-status quo reformer. To respond to the question we need a working definition. After having discussed the limited analysis to date that Hans Morgenthau, Robert Gilpin and others have conducted on “status quo” and found no satisfactory answers, Johnston made a contribution by having developed a set of indicators to assess whether an actor is a status quo seeker. Those five indicators move from the least challenging to the most challenging to the status quo, and they are further grouped into two sets. 15 The first set is especially illuminating, which include degree of participation, acceptance of the norms of the community, and desire for change when possible, for the case

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13 Ibid, 255-256.
15 Alastair Iain Johnston, “Is China a Status Quo Power?”
of China in the G20.

For Barry Buzan, peaceful rise is possible in international society. This involves a two-way process in which the rising power accommodates itself to rules and structures of international society, while at the same time other powers accommodate some changes in those rules and structures by way of adjusting to the new disposition of power and status.\(^{16}\) This is to say, peaceful rise does not exclude involvement of rule change, so long as this is made not through force or coercion, but rather through mutual accommodation. A.F.K. Organski and Jacek Kugler defined status quo states as those that have participated in designing the “rules of the game” and stand to benefit from these rules. For them, only rising states that want to change the rules as the power distribution changes are non-status quo powers.\(^{17}\) The question is what “rules of the game” refer to? What if a declining power is seeking rules of game change? How about Japan with regard to the issue of permanent membership of UN Security Council? While a declining Japan seeks change, is it a non-status quo state?

It seems too narrow to define a status quo power as a rising power that whole-heartedly accepts the existing rules without any aspiration for rule change. We can hardly find historical examples. History may stand on the side that all rising powers seek rule change one way or another. The real question is in what way a rising power seeks rule change. Fundamentally different from Germany and Japan between the First and Second World War, during which they attempted to overthrow the status quo by way of annexation and invasion, and eventually by waging an all-out war, China’s behaviors in the recent decades suggest that today’s China first learns the rules of game and apply them, at the same time seeks rule change where it finds unfair and unreasonable, through accommodation, negotiation, and consensus-building.

Basically, a status quo state accepts the existing rules of the game and it does not seek to change them since generally it is satisfied with the current situation. It wishes to maintain the existing order, and a rigid status quo state even uses the resources it possesses to oppose


changes so as to defend the current rules. On the contrary, an anti-status quo state is strongly de-satisfied with the existing rules, explicit or implicit, and seeks to overthrow them as the guiding norms for state behaviors. A reform-minded status quo state sits in between. Overall, such a state is satisfied with the current situation and accepts the existing rules. In the meantime, it holds that there are shortcomings in the present order and hopes those things to be improved for a better order. However, it seeks changes on the basis of the present rules of the game that it has accepted and endorsed. A reform-minded status state wants to make the desirable changes in an incremental rather than radical or revolutionary way, likely over a long time span. This often requires it to work with other actors to build consensus in terms of approach. In this sense, it is often much more multilateralism-oriented rather than resorting to unilateral actions.

Earlier on, China was faced with an emerging question whether it should pursue a membership or accept an invitation to join the G8. As China was rising economically as well as politically in the world, such a possibility was repeatedly raised around the turn of the century, mostly in an informal way, in the form of discussing whether G8 should be turned into G9 by bringing China in (or into G10 by further adding India). In this context, internal meetings were held within the Chinese government bodies to deliberate this issue and a conclusion was reached, i.e., China should not seek to join G8 or accept such an invitation due to two overriding reasons. The first had much to do with China’s self-identification as a developing country. For Beijing, such a membership would not be perceived positively in the developing world, since this would likely be seen as a major move to join the group of Western powers, and thus a fundamental change of self-identity as well as changes of long-held position and policies. China’s key foreign policy principle of “developing countries are the basis” would be affected, and this would be too high a price to pay for Beijing. Second, no matter whether it was G8 or G9, such a grouping would anyhow be dominated by the Western powers. Being a junior partner could by no means be acceptable for China. Furthermore, “[f]rom a Chinese point of view, eventual membership is also far from certain as the Chinese government tends to emphasize the UN as the legitimate engine of global

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19 Interview with a government official, 2 March, 2011.
governance.”20 After all, China did not want the UN’s authority to be undermined.

On the part of G8, while non-Western powers were emerging and the world was changing profoundly, G8 was appearing to lose momentum and risked loss of significance. Bringing in major developing powers and making them dialogue partners gradually became a necessity. Starting from the June 2003 Evian Summit France hosted,21 G8 regularly held dialogues with five major developing countries, i.e. China, India, Brazil, South Africa, and Mexico. This formula made the +5 appeared collectively as a group of which China was a part. In this case, China did not have to worry about being singled out and it could also take advantage of this opportunity to conduct its emerging power diplomacy. However, for Beijing, particularly the Ministry of Foreign Affairs, since the dialogues always occurred in places where the G8 summits were held, dialogue arrangements, agenda setting, and outcome design were all controlled by the G8, whereas the developing powers largely had to accept them. In this sense, the two groups were not equal.

In fall 2008, the global financial crisis, triggered by the sub-prime mortgage crisis in the United States, broke out and quickly spread to other parts of the world. Itself part of the problem or even the origin, the West encountered the most serious crisis since the Great Depression of the 1930s, and clearly, the G8 was not capable to cope with a crisis of such a magnitude. The world now faced dramatic shifts in global power distribution and pressing global challenges. International institutions established after the Second World War seemed fragile and lacked legitimacy in responding to these challenges. Far-reaching reforms appeared necessary for creating architecture of legitimate global institutions that would be representative, relevant, and effective. Against this backdrop, the elevated G20 stepped onto the center stage of global economics and politics.

In this paper, I use five issues that have been raised in the G20 process as the five indicators to examine how China has responded to them and what policies it has adopted, so

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21 Amazingly, in his address at Evian on 1 June 2003, President Hu Jintao of China already stated: “At present, it is particularly necessary to underscore the need for reform and improvement of the international financial system, with a view to enhancing its capacity to prevent and manage financial crisis.” See “Promote All-Round Cooperation for Common Development,” Address by President Hu Jintao of the People’s Republic of China at Informal Summit at Evian, in Ministry of Foreign Affairs, China’s Foreign Affairs 2004. Beijing: World Affairs Press, May 2004, 477-479.
as to assess whether a particular actor, i.e., China, is a status quo power, a modest reformer, or a radical reformer. The five issues are, respectively, reform of the international monetary system in general; reform of international financial institutions, particularly the IMF and World Bank; international financial regulation; the future of the dollar; and the internationalization of the Renminbi, China’s currency.

G20’s Ascent and China’s Participation

Initially, the G20 mechanism came into being after the 1997-98 Asian financial crises, primarily as a gathering of finance ministers and central bank governors to discuss and, if possible, coordinate their international economic policies. As such, by including major developing countries as well as developed ones, the G20 forum created a perspective for the future shape of global governance. Since G20’s inauguration in 1999, China has sent its finance minister and governor of the People’s Bank of China, its central bank, to all the meetings of the G20 and its participation within this forum has so far been described as active.22

By 2008 when Lehman Brothers collapsed and the crisis was deepening and spreading, G20, which includes both major developed and developing economies, became a readily available tool for taking collective actions to fight against the global crisis. Initiated by the United States, the first ever G20 summit took place in Washington in November 2008. President Hu Jintao of China attended the summit and gave a speech in which he laid out a in a comprehensive way China’s fundamental position and proposals with regards to fighting the massive crisis and reforming the international financial system (IFS). The speech is an important document for understanding Chinese policies, according to which reform of the IFS should aim at establishing a new international financial order that is fair, just, inclusive and orderly and fostering an institutional environment conducive to sound global economic development. It also came up with four major proposals regarding reform in line with the principles of comprehensiveness, balance, gradualism, and pragmatism.

First, it needs to be a comprehensive reform. A general design is necessary which should not only focus on improving the IFS, monetary system and international financial rules and

22 Hugo Dobson, pp. 197-8.
procedures, but also take into account the development stages and characteristics of different economies. Second, it needs to be a balanced reform based on overall consideration, seeks a balance among the interests of all parties and builds a decision-making and management mechanism with wider and more effective participation. Third, it needs to be an incremental reform that seeks gradual progress and should proceed in a phased manner, starting with the easier issues, and achieve the final objectives of reform through sustained efforts under the precondition of maintaining stability of the international financial market. Fourth, it needs to be a pragmatic reform, one that stresses practical results. All reform measures should contribute to the international financial stability, the global economic growth, and the welfare of people in all countries.  

Moreover, China proposed four reform measures, including advancing reform of the international financial organizations and increasing the representation and say of the developing countries in them, as well as improving the international currency system and steadily promoting the diversity of the international monetary system. From the beginning of the G20 summits, China underscored that when coping with the financial crisis, the international community should pay particular attention to the damage of the crisis has brought to the developing countries. China proposed three measures to be taken, namely, helping developing countries maintain financial stability and economic growth; sustaining and increasing assistance to developing countries; and maintaining economic and financial stability in those countries.  

Between the Washington and London summits, stabilizing the world economy and preventing it from further slipping into chaos were inevitably the G20’s top priority, while reforming the international monetary system and strengthening the financial surveillance system were put high on the agenda. China was positive. Two explorative essays by Vice Premier Wang Qishan and the Central Bank Governor Zhou Xiaochuan respectively, right before the London Summit, were suggestive. Wang called for the G20 “looking beyond the needs of the top 20,” believing the developing world should have a stronger say in how the

24 Ibid.
international financial system (IFS) is run. To reform the IFS, G20 should focus on readjusting the governance structure of international financial institutions and increasing the representation and voice of developing countries. The London Summit should set a clear goal, timetable and roadmap for such reform.25

From the outset, China emphasized the need to help the developing countries. According to Vice Finance Minister Li Yong, there are three key areas the G20 should help developing countries to cope with the crisis: First, G20 should take care of the issue of development financing and advance the international poverty reduction process. The international community needs to reduce the crisis’ negative impact upon the development issue to the minimum, strengthen capacity-building of the development institutions, ensure development resources, and make sure that the implementation of the Millennium Development Goals is unaffected. Developed countries should realize sooner rather than later their committed goal of official development assistance reaching 0.7% of the national income. They should not reduce the assistance they offer to the developing world due to the crisis, and should continue to write off debts developing countries owe them, open up their market, and transfer technology to jointly promote global poverty reduction and development.

Second, build the capacity of multilateral development banks such as the World Bank to better help the developing countries to deal with the crisis. Those institutions should keep to and perform well their missions of reducing poverty and sustainable development, enhance capital adequacy, increase anti-cycle capability, and, through simplifying loan conditionality and developing highly practical aid tools, help those countries in need to meet the challenges such as capital outflow and impediments to trade financing. Third, continue to deepen international economic and trade cooperation and oppose trade protectionism. The rise of protectionism would seriously weaken the trend toward global economic recovery, obstruct the process of poverty reduction and sustainable development. Countries should work together to limit the negative impact of the financial crisis on international trade, and maintain its healthy and stable development.26 Those laid out China’s fundamental

25 Wang Qishan, “G20 must look beyond the needs of the top 20,” The Times March 27, 2009. See http://timesonline.co.uk/tol/comment/columnists/guest_contribut.
26 “The Ministry of Foreign Affairs held briefing to introduce President Hu Jintao’s forthcoming participation in the second G20 Summit,” see Renmin ribao (People’s Daily) March 24, 2009, p. 3.
propositions and they have been there since.

The Five Key Issues

Reform of the international monetary system

The issue of the international monetary system reform is not new. As early as in February 1965, a harbinger, French president Charles de Gaulle began an open attack by arguing that the “dollar system” provided the United States with an “exorbitant privilege.” The time had come, de Galle said, to establish the international system “on an unquestionable basis that does not bear the stamp of any one country in particular….”27 Ever since the collapse of the Bretton Woods system in 1973, as Paul Volcker, Chairman of the U.S. Federal Reserve from 1979 to 1987, put it, “Again and again the question was posed: Can we have a stable system without a dominant country that is itself extraordinarily stable? And was the United States any longer stable to play that role?”28

In the 1970s, the Committee of Twenty was formed. It was in essence a meeting between the Deputies of the Group of Ten, the principal industrialized countries, and Deputies from developing countries representing nine constituencies, with Australia being the 20th. The agreed proposals of the Committee of Twenty were embodied in its report An Outline of Reform. But this was shelved because the deterioration of the international outlook brought about by the oil crisis made the main countries unwilling to enter into new commitments.29

In the late 1980s, an international commission, whose members included then Uruguay Minister of Foreign Affairs Enrique Iglesias, former President of the World Bank Robert McNamara, and Former Foreign Minister of Japan Saburo Okita, produced a report that called for world economic summits.30 In it they proposed the creation of a World Economic Council based upon a constituency system. The Council would provide a vehicle through which further institutional reform could be negotiated and would also provide a political

30 “World Economic Summits: The Role of Representative in the Governance of the World Economy”.
mechanism through which oversight could be exercised over a set of reformed global institutions. Meanwhile, the group admitted that this initiative for an institution as such was premature.

Those are just a few examples of the previous proposals or efforts that did not materialize. The outbreak of the global crisis in 2008 simply provided fresh momentum to the long-standing issue of reforming the global monetary system. Questions raised include: Is the current system unstable? Is it inefficient? And what role did the US dollar-dominated system play in the crisis?

For many years, China stayed outside of the system until it joined the IMF and World Bank in 1979, and during the next two decades, China’s task was to get used to the rules of the game and to utilize the resources available, particularly from the World Bank, to serve its modernization drive. The Bank’s story in China was an exceptionally successful one. Since then crises have served as watersheds. The 1997-98 Asian financial crises exposed the deficiencies of the West-dominated rescue system. The IMF proved incapable to effectively help countries hit by the crises, if not worsened the situations, as the Indonesian case well demonstrated. Despite this fact, time was not ripe and reform of the system did not appear in Beijing’s mind until the world entered the twenty-first century.

In fact, Zhou Xiaochuan’s famous March 2009 article was not the first time China expressed its views on reforming the international monetary system. For example, during an international conference held in Shanghai in June 2004, an official from the Ministry of Finance, Mr. Li Guanghui, argued that the reform of the international monetary system has three levels. First, at the national level, the international reserve currency-issuing countries bear a special responsibility for global economic stability. They should take into consideration the external impact of their own macro-economic policies, and, through appropriate macro policy coordination, they should maintain the relative stability of exchange rate between the major reserve currencies. The logic here is clear and reasonable, but there exists a fundamental paradox. The status of a sovereign state’s currency as an international reserve currency is built upon the economic and political records of that state which always wants to maintain its primacy. It would be extremely difficult for the reserve currency state to

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31 Ibid., p. 30.
sacrifice its own economic objectives in order to shoulder the responsibility of regulating global currency supply.

Second, at the global level, a currency supply adjustment mechanism needs to be established to supplement the inadequacy of international payment. In order to reform the IMF and make it perform well in terms of regulating currency supply and stabilizing the international monetary system, two efforts need to be made. One is to expand the scope of the Special Drawing Rights (SDR) issuing and use, and turn it into an important supplemental means of currency reserve and payment. Two is to separate the IMF’s two functions of stabilizing international monetary system and promoting economic structural adjustment and to put the former as the top priority.

Third, at the regional level, monetary cooperation needs to be strengthened. Through mutually providing international revenue and expenditure liquidity support, exchange rate coordination, and even a single currency, countries can work together to reduce the risk of exchange rate shock and eventually to make a regional common currency a major international reserve currency.\(^{32}\)

It can be seen that the elements of Zhou’s article of 2009 had already been put forward well before the crisis, which demonstrates that the views are long held in the Chinese government. The outbreak of the global financial crisis simply provided Beijing with an opportunity to publicize the proposals and, because of the crisis, has drawn much attention from around the world.

For Zhou, the crisis again called for creative reform of the existing international monetary system towards an international reserve currency with a stable value, rule-based issuance and manageable supply, so as to achieve the objective of safeguarding global economic and financial stability. That international reserve currency has to be disconnected from any individual nation and be able to remain stable in the long run, thus removing the inherent deficiencies caused by using credit-based national currencies. Special consideration should be given to giving the Special Drawing Rights (SDR) a greater role by broadening the scope of using the SDR, setting up a settlement system between the SDR and other currencies,

and promoting the use of the SDR in international trade, commodities pricing, investment and corporate book-keeping.\textsuperscript{33}

Zhou’s paper expressed the views of a central bank governor and first appeared on the central bank’s website, not Renmin ribao (People’s Daily), often the outlet of more formal policy papers or resolutions. It might be a trial balloon, as it could be understood as an expression of personal views. Nevertheless, they quickly became influential largely because of the combination of the background of crisis and China’s rising status. The paper aroused enormous responses from the outside world.

However, the Ministry of Foreign Affairs did not want China to be seen as a state that was aspiring to radically change the current system and thus was a revisionist state. Around the 2009 G8+G5 dialogue in Italy, Russia once again echoed Zhou’s proposal and reiterated its suggestion to discuss the issue of inventing a supra-sovereignty international reserve currency. While responding to the questions raised by the media, Vice Foreign Minister He Yafei emphasized that to create a supra-sovereignty international reserve currency was an on-going issue under discussion in the academic circle, and this was not the position of the Chinese government.\textsuperscript{34} Mr. He’s clarifications highlighted the ever present question of viability, and revealed that China’s foreign affairs authorities carefully wanted to soothe the outside anxiety and to attempt to lower the temperature.

\textit{Reform of the International Financial Institutions (IFIs)}

“A half century after its founding, it is clear that the IMF has failed in its mission.”\textsuperscript{35} Also, for many years, both IMF and the World Bank have governance structure severely skewed toward the interests of developed countries. Since G20 has been elevated to the summit level, calls have been made that a more representative group of 20 leading economies should take ultimate authority over the IMF to give the organization greater political clout in resolving global crises.\textsuperscript{36} Hence reform of the IFIs has become one of the themes for the G20.


\textsuperscript{34} Xinhua News Agency, Rome, Italy, 5 July 2009.


\textsuperscript{36} “Reform blueprint gives G20 authority over IMF,” \textit{Financial Times}, February 9, 2011, p. 4.
Almost at the same time as the Zhou paper’s appearing, Vice Premier Wang Qishan of China published an essay in *The Times* in London. Wang came up with the following views. First, China supports increasing IMF resources on the basis of ensuring safety and reasonable returns. The IMF should mobilize resources through the quota-based system as well as voluntary contributions, striking a balance between the rights and obligations of the contributing countries. Second, the scale of increase should be determined in the light of the vast difference among countries in terms of stage of development, per capita GDP, the nature, composition and build-up of foreign exchange reserves and the level of dependency of a country’s economic security on foreign exchange reserves. It is neither realistic nor fair to set the scale of contribution simply by the size of foreign exchange reserves. Third, on the ways of increasing IMF resources, top priority should be given to a quota increase. If quota-based contributions fall short of immediate needs, the IMF can issue bonds, and China will be a buyer of the bonds. Bilateral borrowing arrangements should be discussed separately between the countries concerned and the IMF. Anyhow, the increase of resources should be achieved within the IMF framework and in flexible and different ways. Fourth, on the use of the resources, the IMF must enhance capacity-building, reform governance structure and ensure that the resources play a significant role in easing the international financial crisis and countering the global economic downturn. The use of resources should be subject to scientific assessment, proper planning and rigorous oversight to ensure that it is fair, just, transparent and effective.  

In the eyes of Beijing, for many years, the U.S. and the West dominated decision-making at the core of the Bretton Woods institutions and the rest had little influence. This has to change for better and fairer world economic governance in line with the changes in the world distribution of power. During its finance ministerial meeting prior to the London Summit, the G20 agreed to speed up the IMF governance structure reform to reflect the shifting global economic power balance. It was also agreed upon to finish the next share review (分权审查) sooner rather than later to increase the rights to speak and representation of the emerging economies and developing countries. This move is favorable

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37 Wang Qishan, “G20 must look beyond the needs of the top 20,” *The Times* March 27, 2009. See http://timesonline.co.uk/tol/comment/columnists/guest_contribution.
to China as an emerging economic power to gain more institutional power (zhiduxing quanli).

During the 2009 annual meeting of the IMF and World Bank, Finance Minister Xie Xuren went ahead with China’s more concrete proposals:

First, the selection of the heads of IMF and the World Bank should be based on the principles of openness, transparency, and merit, and the related procedures should be stipulated sooner rather than later. Second, the two major institutions should take concrete and practical measures and continue to increase the percentage of employees from the developing countries, especially medium- to high-level managing personnel. Third, with respect to the direction for future development, IMF should continuously improve its governance structure to ensure its legitimacy and representation. In the mid to long term, it should establish share adjustment mechanism to reflect in time the countries’ changes of relative status in the world economy. Fourth, the IMF, as the core institution of the IMS, should embark on exploring the schemes for reforming and improving the IMS. Efforts should be made to fundamentally overcome its inherent flaws and to provide a stable monetary environment for global economic growth and financial stability.38

To China’s satisfaction, some reform measures have been taken and the international efforts have born fruits. In 2010, the World Bank changed its voting structure to give nations such as China (now its third-largest shareholder), Brazil, India, Indonesia, and Vietnam greater say in running the place, and is considering ways to shift the balance of power further. The shift occurred in voting power saw China overtake large European nations. China’s voting share rose to 4.42 percent from 2.77 percent, above that of the UK, France and Germany. It was a long overdue measure that went toward recognizing the Asian giant’s status as the world’s third or second-largest economy. Similar adjustment took place at the IMF. During the 14th quota review in December the same year, the IMF’s board of governors agreed to make China the third largest member. European countries gave up two of their eight seats on the 24-member board. More than 6 percent of IMF voting power was transferred to under-represented countries, after which China became the third biggest member of the 187-strong institution.39 In addition, China has committed resources beyond the quota

contributions to the IMF in case there is liquidity shortage. Reflective of these changes, China is becoming an important voice in the IMF decision-making process, as well as on surveillance discussions of its member countries’ economies.\(^{40}\)

However, “the country’s influence still falls far short in terms of personnel representing it on international public sector and multilateral bodies, such as agencies of the United Nations.”\(^ {41}\) Nevertheless, one important progress happened at the leadership level of the IMF.

In May 2011, the abrupt resignation of Dominique Strauss-Kahn, Managing Director of the IMF, dramatically highlighted the question how the IMF’s top leadership position should be filled. Nations like Brazil wanted a more open process that does not automatically see the top position granted to a European, as has been the convention for nearly seventy years since the Fund’s founding. This practice, *Yomiuri Shim bun*, the leading Japanese newspaper, said in its editorial, should end, and candidates for the IMF’s top post from Asia and Central and South America should be considered.\(^ {42}\) China also publicly weighed in on the debate, proposing that emerging and developing countries should have representation at senior levels. The representatives of BRICS (i.e. Brazil, Russia, India, China, and South Africa) on the IMF’s executive board convened and released a joint statement, insisting on a “merit-based” process for selecting the organization’s new chief. The BRICS was unambiguous by stating that “if the Fund is to have credibility and legitimacy, its Managing Director should be selected after broad consultation with the membership. It should result in the most competent person being appointed as Managing Director, regardless of his or her nationality.”\(^ {43}\) For Michael Spence, a Nobel Laureate in economist, “[T]he openness of the selection process for a new IMF leader will be key not only to the future legitimacy of that institution but to the very notion of cooperative global economic management.”\(^ {44}\)

As the European leaders appeared to coalesce behind Christine Lagarde, the French

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\(^{43}\) “BRICS release joint statement on IMF selection process,” see http://bosco.foreignpolicy.com/posts/2011/05/24/brics_release_joint...

finance minister, as their preferred candidate to succeed Strauss-Kahn, she realized that she could not ignore the voice from the BRICS nations, especially China, given its economic weight. Lagarde repeatedly promised while campaigning for the job to give more power to emerging markets in the IMF, and she backed a bigger role for China at the organization. While she successfully received support from Beijing, appointing a Chinese national for a more formal, high-level executive position was put on the table. While a fourth deputy managing director was added to the senior management team, Mr. Zhu Min, special advisor to the managing director, was appointed in July 2011. This was the first time in the IMF history a Chinese citizen was appointed deputy managing director and was, thus, a breakthrough for China.

*International Financial Regulation*

The global financial crisis has strikingly revealed the problems with the current financial regulation system which was not working well to prevent financial malpractice and to avoid a crisis. Starting from Wall Street, the heart of the U.S. financial capital, the crisis exposed what terrible outcomes the mismanagement of the financial sector could bring about and how unconstrained greed could undermine and erode the financial health. Strengthening financial regulation immediately became such an obvious measure for the G20 economic powers and therefore a consensus. The real question was how that should be done, and China came up with its own answers.

Right before the G20 London summit, Mr. Hu Xiaolian, Vice Governor of the People’s Bank of China, laid out China’s proposals:

First, include all the financial market actors in the scope of regulation, especially strengthen regulation over institutions of systemic influence. The consistence of regulation rules has to be noticed to prevent “regulation arbitrage.” Second, policy tools of ameliorating pro-cyclical risks have to be developed and used. Encourage financial institutions to raise internal rating capability and adjust their dependence on external ratings. The use of Fair Value accounting rules needs to be adjusted in time. Third, the accuracy and forward-looking

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47 See *Renmin ribao* (People’s Daily) 24 March, 2009, p. 3.
nature of the Financial Sector Assessment Planning (FSAP) need to be further promoted. Evaluation systems that are suitable to the particular development situation of the emerging economies should be created. Taking into consideration the market features and their financial sector situation, people should not directly transplant or copy the models of the developed countries and mature markets to the emerging markets countries. Fourth, be supportive of speeding up the process of integrating international settlement system and bankruptcy laws. Think about establishing global norms or best practice guide with respect to large-scale cross-border financial institutions’ bankruptcy settlements, and treat domestic and international investors fairly. Countries should be vigilant of various kinds of trade and financial protectionism.48

Again in the run-up to the June 2010 Toronto Summit, according to Vice Finance Minister Zhu Guangyao, China supported the finance ministers and central bankers’ decisions to strengthen the management of the financial institutions’ capital adequacy and liquidity, to decrease the moral hazard of the financial institutions that have systemic influence, to tighten up the regulation of hedge funds, credit rating agencies, CEO salary, and the over the counter derivatives, and set up globally unified high quality accounting standards. The G20 ministers agreed to, under the premise of respecting concrete national situations and policy options, make rules regarding financial sector shouldering government rescue costs, in order to reduce financial systemic risks.49 For Li Xiangyang, Director of the Institute of Asia-Pacific Studies at the Chinese Academy of Social Sciences, there are natural limitations to the financial regulation and global financial system reform led by the developed countries, because they will not allow their dominance in the international financial system to be undermined. To tighten the irresponsible government behaviors, especially by the government capable of issuing world currency, is also very important.50

Moreover, given the repeated questioning and criticisms, reform of the current international credit rating practice has become another important regulatory issue. During the Toronto meetings, the G20 reached a consensus to reform the existing international credit

48 “The Ministry of Foreign Affairs held briefing to introduce President Hu Jintao’s forthcoming participation in the second G20 Summit,” see Renmin ribao (People’s Daily) March 24, 2009, p. 3.
rating system. At the summit, China underscored the need to develop an objective, fair, reasonable, and uniformed method and standard for sovereign credit rating, so that rating results can accurately reflect a country’s situation as well as its level of credit risk. The supervision of credit rating agencies should be enforced and the regulations and accountability system on credit rating agencies should be strengthened.\(^{51}\) What was not touched upon here was how China’s own rating agencies should be forged and become internationally recognized.

According to Guan Jianzhong, chairman and CEO of Dagong Global Credit Rating Co Ltd., China’s most internationalized rating agency, the current international credit rating system must take part of the blame for the crisis, and reforming that system is key to global credit recovery. The dominance of developed countries in the rating system is one reason the global credit and financial crisis hit in the first place: the developed countries assigned themselves the highest credit rating against their actual solvency, concealing their credit risks from investors, and thereby setting off the big credit bomb globally.\(^{52}\) The three major U.S. rating agencies – Moody’s, Standard & Poor, and Fitch – have betrayed international investors and their interests, proving yet again that they are the faithful servants of the biggest debtor nations. This situation has to be changed in the years ahead.

**The Future of the Dollar**

Once again, the crisis has cast doubt on the future role of the US dollar as the most dominant key currency. Most participants in a March 2010 international conference on the future global reserve system held in Tokyo, Japan agreed that, although with a diminishing weight, the US dollar will remain the main reserve currency well into the future. But the world is headed toward a multiple reserve currency system.\(^{53}\) Zhou Xiaochuan’s famous proposal “reflected China’s anxiety over its deep vulnerability to the dollars value and to the overall health of the US economy. It also reflected the impotence of the renminbi (because of China’s closed capital account) to present any kind of alternative.”\(^{54}\) That has to change

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\(^{51}\) Hu Jintao’s speech at the G20 Toronto Summit, see Renmin ribao (People’s Daily) 28 June, 2010, p. 1.


\(^{53}\) See www.adbi.org/event/3634.conference.global.reserve.system.asia/.

given the flaws as well as the changing balance of power. Not surprisingly, China has a desire for reform but holding a realistic attitude.

For Zhou, issuing countries of reserve currencies are constantly confronted with the dilemma between achieving their domestic monetary policy goals and meeting other countries’ demand for reserve currencies. The frequency and increasing intensity of financial crises following the collapse of the Bretton Woods system suggests the costs of such a system to the world may have exceeded its benefits. There are inherent vulnerabilities and systemic risks in the existing international monetary system.\(^{55}\) This clearly points to the dollar and the problems it has posed to the entire global financial system.

According to Yu Yongding, a leading Chinese international economist and former member of the central bank’s monetary policy committee, China has already fallen in the “dollar pitfall”, and has to be very careful while moving ahead. Due to the drastic growth of dollar supply, the dollar assets China holds have actually devalued. If one can not sell foreign currency reserve, and whenever it is sold, the value of the reserve assets immediately go down, this is the “dollar pitfall.” To avoid further sliding in the pitfall has to become China’s task of high priority while reducing the possible loss of the present foreign currency reserve.\(^{56}\) The possible loss of the value of its foreign currency assets has certainly worried the Chinese leadership.

There have been constant discussions on and calls for reform of the dollar-dominated international monetary system in the Chinese media. One senior analyst affiliated with a government think tank contends that since international monetary system is at the core of the world economic system, only when a fair monetary system is established, can a reasonable world economic order be possible to emerge. It appears that the world economy remains to operate under the current international monetary system. In fact, the credibility of the major currencies issued by the major developed countries has been questioned. Their governability is being undermined. The realities are challenging the dominant status of the seemingly powerful dollar. In particular, to stimulate its economy, the U.S. continuously ushered in the so-called “quantitative easing” (QE), which seriously weakened the national credibility of the

\(^{55}\) Zhou Xiaochuan, “Reform the international monetary system.”

\(^{56}\) Yu Yongding, “Bimian meiyuan xianjing” (Avoiding the dollar pitfall), Caijing (Finance), No. 8, 2009. See also “China faces foreign reserves dilemma,” China Daily Asia Weekly, August 5-11, 2011, p. 4.
dollar. Responding to the commentary that the BRICS countries are conducting “de-dollarization,” one Chinese observer argued that actually it is dollar itself which is doing “de-dollarization”, by referring to QE which pushed down the credibility of the dollar, the biggest international reserve currency, and led to the exacerbation of the externally imposed global inflation. This kind of action has brought the whole world to the attention that at the end of the day dollar is the biggest factor for global instability, and the dollar-dominated international monetary system (IMS) has to be constrained and reformed. Deviating from the dollar systemic risks is not only the creditors’ interest, but also the way-out for a stable and sustainable global financial system.

Still there is another Chinese finance specialist who argues, “Thoroughly reform the dollar-dominated IMS is essential. What is needed utmost (dang wu zhi ji) is to beef up the surveillance over the dollar issuing through establishing an international supervision mechanism and stipulating the standards for the supervision and management of dollar issuing. It is also necessary to invent supervisory and constraining mechanisms within the IMF over the U.S. Federal Reserve’s increasing currency issuing activities.” Those sound like bold ideas as well as a radical proposal. This immediately encounters the reality that the U.S. central bank presumably will not give up its own autonomy and let the IMF take over even part of its power.

In his written answers to questions submitted by The Washington Post and The Wall Street Journal, prior to his state visit to Washington in January 2011, President Hu Jintao responded to the question on the U.S. dollars’ future role by pointing out, “The current international currency system is the product of the past. As a major reserve currency, the U.S. dollar is used in considerable amount of global trade in commodities as well as in most of the investment and financial transactions. The monetary policy of the United States has a major impact on global liquidity and capital flows and therefore, the liquidity of the U.S. dollar

57 Gao Wei, “Guoji huobi tixi gaige buneng tingzhi” (Reform of the international monetary system can not stop), Renmin ribao (People’s Daily) (overseas edition) 10 February, 2011, p. 2.
58 Huang Qing, “Guoji huobi jinrong tixi jidai gaige” (The international monetary and financial system needs urgent reform), Renmin ribao (People’s Daily) (overseas edition) 20 April, 2011, p. 1.
should be kept at a reasonable and stable level.”61 Carefully phrased, it is not desirable for China to let its destiny be determined by a foreign country and its policies, which can likely be conducted at the expense of other countries’ interests.

What is the right and viable approach? It is a consensus that a gradual approach should be adopted to allow IMS to have more participation, to allow more currencies to prop up the system, fuller representation, and more effective operating mechanism. However, the progress in this regard eventually depends on the shifting balance of power, interests and interactions among the world’s economic and political powers.

For Beijing, it is determined to proactively participate in the IMS reform for more involvement and more access to be better informed and have bigger say. In the short run, China needs to, under the current frameworks of IMS with dollar at its core, actively play a part in the G20 efforts for global economic recovery, to promote international cooperation, and to improve the concrete institutional arrangements within the current IMS frameworks. There is something China can do. For Yu, “The lack of alternatives to the dollar as a reserve currency has bred a false sense of security in the US. Yet when China reduces its current surplus (and diversifies from dollar assets) the effects would be felt in the US Treasury markets.” “China’s development is putting to an end the period of unquestioned western supremacy.” 62 Chinese policymakers would never be that straightforward as they are aware how daunting their tasks are down the road toward a developed country status. They do not want China to appear to be challenging the U.S. and to attempt to substitute the current IMS with anything like a fundamentally different one. With this state of mind, they are careful in taking initiatives, or measures that may appear to deliberately weaken the status of the dollar. This explains China’s low profile in hosting the G20 symposium on IMS reform during French President Sarkozy’s visit to China.

As the host nation of the 2011 G20 summit, France was keen to push IMS reform forward, the centerpiece of France’s agenda for its G20 presidency, and, given China’s rising status, would like to work in tandem with the latter. Yet Beijing was cautious not to appear to

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61 A full transcript is available at http://www.washingtonpost.com/wp-dyn/content/article/2011/01/16/AR2011011601921.html.
want to overthrow the current order. To show the symposium was “informal and academic”, it decided to hold the event in Nanjing, outside the capital city, in March 2011, with the participation of a number of G20 finance ministers and central bankers. In fact, later Sarkozy watered down his tone and proposals, a result of his U.S. visit early that year during which he raised bold IMS reform without receiving U.S. backing. This in turn reflected the usefulness of China’s keeping low profile.

**Internationalization of the Renminbi**

Theoretically, given China’s prominence in world trade, in manufacturing, and increasingly in financing as well, it would be logical for the Renminbi to become one of three or four major international currencies in the global economy. As of June 2011, China’s share of world trade was 11 percent, but the Renminbi’s share of global foreign exchange trading that year was only 0.9 percent. Unsurprisingly, the Renminbi internationalization has become China’s objective. The benefits of making the Renminbi an international currency include less need for China to hold US dollar assets so as to avoid risking capital losses, the elimination of exchange rate risks for Chinese firms, greater funding efficiency for Chinese financial institutions, and the promotion of Shanghai as an international financial center. The yuan becoming an international currency would be in China’s medium and long term interests, while in the immediate term, trade settlement in yuan helps mitigate exchange risk and reduce transaction costs for enterprises trading with China.

However, in some quarters, “the debate over the role of the US dollar and the emergence of the RMB is seen as threats to the status quo.” For Fred Bergsten, the rise of China implies the Renminbi will qualify for global currency status, thus he has a different view which anticipates the emergence of Renminbi as one of the three global currencies. The IMS is already becoming bipolar, and may soon be tri-polar, meaning the dollar, the euro, and the

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64 Liu Mingli, “Guoji huobi tixi gaige buyao qiwang taiduo” (Don’t expect too much of the international monetary system), http://gb.chinareviewnews.com, 9 April, 2011.
yuan in lead. The US should accept this and even promote its acceleration.\textsuperscript{67}

The outbreak of the financial crisis provided the backdrop against which China embarked on its yuan trade settlement in July 2009. A number of factors contributed to this initiative which has significant explicit or implicit implications. It was partly in reaction to the US dollar liquidity crunch following the global financial crisis; China’s growing economic stature; the need to re-balance its own currency composition of huge external reserves. The aim was essentially to reduce the overdependence on the US dollar as the major settlement currency. It was widely believed in China’s research and policy circles that the U.S. was taking advantage of the dollar’s special status and was pursuing an irresponsible policy by creating the flooding of liquidity in the name of QE, in essence turning to money-printing machine. This was inflating asset bubbles and pushing up exchange rates to the detriment of developing economies.\textsuperscript{68}

China launched that pilot Renminbi Trade Settlement Scheme in 2009 and thus made an important step toward the goal of internationalizing its currency. This program allows trade in the yuan between Chinese mainland, Hong Kong and Macao and countries within the Association of Southeast Asian Nations (ASEAN). In the early phase the initiative was restricted to just five mainland cities and 370 designated Chinese enterprises, but this phase was just a short one.

In the next two years, cross-border yuan settlements increased explosively, which were revealed in the following three areas. First, the RMB is expanding its role in the settlements of cross-border trades. While the volume in 2010 was 500 billion yuan, about 2 percent of the total, the volume of the first four months of 2011 had already reached 530 billion yuan that exceeded that of the previous year as a whole. Second, the experiments in cross-border RMB investments and necessary funds circulation began to be carried out. Third, non-mainland enterprises are permitted to invest in the Chinese mainland. These practices symbolize the important start of the RMB internationalization.\textsuperscript{69} By the end of 2011, the cross-border


\textsuperscript{68} Economy Minister of Germany, Rainer Bruderle, said quantitative easing by the U.S. Federal Reserve was tantamount to manipulating the dollar’s exchange rate. See Alan Wheatley, “Covering up the big divide on currencies,” \textit{International Herald Tribune}, October 26, 2010, p. 21.

\textsuperscript{69} “Renminbi guojihua wenjian tuijin” (RMB internationalization is steadily progressing), \textit{Renmin ribao} (People’s Daily) (overseas edition), 15 July, 2011, p. 1.
Renminbi settlements experiment has expanded to the whole China. Countries or regions that conduct actual Renminbi receiving and paying businesses have reached 181. Furthermore, while Hong Kong SAR is an offshore trading center for the Renminbi, Britain and Hong Kong are teaming up to develop London into a new hub for the Renminbi market as a complement to Hong Kong by strengthening the ties between Hong Kong and London in terms of settlement system, market liquidity and the development of Renminbi-denominated financial products. There are other centers, including Singapore and Taipei, which are vying for a share of the growing offshore Renminbi business.

In terms of currency cooperation between the central banks, China has signed currency swap agreements with its trading partners, including South Korea, Hong Kong SAR, Malaysia, Belarus, Indonesia, Argentina, Iceland, and Singapore, and by the end of 2011 the total volume reached 1.3 trillion yuan (about $210 billion). These agreements allow them to use their own currencies for mutual assistance in case of contingencies, reducing dependence on the dollar. For Robert A. Mundell, a Nobel laureate economist, the Renminbi is already a regional currency in Southeast Asia, where China has become the dominant trading partner of many countries.

During the G20 Cannes Summit in November 2011, it was agreed that the IMF’s Special Drawing Rights (SDR) basket of currencies should be reviewed. President Nicolas Sarkozy of France, the hosting nation, proposed to include the yuan in the SDR basket. According to the summit declaration, the basket should “reflect the role of currencies in the global trading and financial system and be adjusted over time to reflect currencies’ changing role and characteristics”. Currently the SDR is made up of the US dollar, the euro, Japanese yen, and pound sterling. Basically, the inclusion of the yuan would better reflect the new realities of global economics.

Unlike Mundell who boldly states the Renminbi “is likely to become a reserve currency in the future, even if the government of China does nothing about it”, China itself is more patient and is willing to allow more time to make this happen. In the written answers to the

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73 “Cannes Summit Final Declaration,” see http://www.g20-g8.com/g8-g20/root/bank/print/1557.htm.
questions from *The Washington Post* and *The Wall Street Journal*, President Hu Jintao responded in, as always, a cautious manner. “It takes a long time for a country’s currency to be widely accepted in the world. China has made important contribution to the world economy in terms of total economic output and trade, and the RMB has played a role in the world economic development. But making the RMB an international currency will be a fairly long process. The on-going pilot programs for RMB settlement of cross-border trade and investment transactions are a concrete step that China has taken to respond to the international financial crisis, with the purpose of promoting trade and investment facilitation. They fit in well with market demand as evidenced by the rapidly expanding scale of these transactions.”

In any case, making RMB an international currency as a goal has been set up and China is taking steps. This development will inevitably have impact on the restructuring of the IMS.

**The G20 and Global Economic Governance**

The world is changing rapidly. As Robert Zoellick, President of the World Bank, points out, “The international economy is shifting to a new multipolarity. About half of global growth is now from developing economies and this will transform power relations.”

Over the years, there have been repeated identifications of the defects of the IMS and waves of calls for reform. For example, fifty years after the Bretton Woods conference, in 1994, there was a considerable desire to reform the IMS. The major objections to the present “non-system” emerged from considerably adverse effects from exchange-rate volatility and capital flow volatility. This became a consensus when the 2008 global crisis broke out and shook the world, as it further revealed the problems and the necessity for reform. For Zoellick, “The development of a monetary system to succeed ‘Bretton Woods II’, launched in 1971, will take time. But we need to begin. The scope of the changes since 1971 certainly matches those between 1945 and 1971 that prompted the shift from Bretton Woods I to II.” As is often the case, there is considerable disagreement on how and to what extent the IMS should

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be reformed. The reform proposals vary in degree from increased macro economic policy coordination to the creation of a World Central Bank.\textsuperscript{78}

No doubt, there are different assessments of the G20, including its usefulness and impacts, and it is easy to brand the G20 a failure. For example, after the Seoul Summit, a *Financial Times* editorial said it did not embody “collective leadership, but joint abdication of power”.\textsuperscript{79} However, some important actions have emerged. The London G20 summit in 2009 produced a $1.1 trillion global recovery plan, featuring national stimulus efforts, calls for increased IMF resources and greater financing for trade. The London summit also transformed the Financial Stability Forum – a loose grouping founded by the G7 – into a more influential Financial Stability Board open to all G20 nations and tasked with guiding new financial regulatory policies; it has already led to accords on standards and monitoring. The G20 summits in Pittsburg, Toronto and Seoul, as well as the preparations for the Cannes summit under France’s chairmanship, have achieved agreements on exempting emergency food supplies from export bans and on agricultural assistance for Africa. Also, France has used the G20 to spark debate on what a future international monetary system might look like.\textsuperscript{80}

For China, first, the G20 is an important platform. G20 emerged from the backdrop when the Western countries were widely held responsible for the outbreak of the financial crisis and the G8 was incapable to singularly cope with it. When G20 at the summit level was born, for the first time major developing countries were engaged in global economic governance on a more equal footing. This has been a significant development and has provided a rare opportunity for major emerging countries, and China should actively participate in the process.

Second, the G20 elevation is a favorable development. When China’s comprehensive national power is growing and its international status rising, no matter what form global economic governance will take in the future, it would not be realistic without China’s participation. Since America and Europe hope to enlist China’s cooperation, Beijing is in a positive and advantageous position. On the whole, there are more gains to choose G20 and to

\textsuperscript{78} Jo Marie Griesgraber and Bernhard G. Gunter, eds., p. 116.
\textsuperscript{79} “G20 show how not to run the world”, *Financial Times*, 13 November, 2010, p. 6.
participate in global economic governance on an equal footing. The emerging economies will obtain more representation and vantage point.

Third, make G20 a long-term effective mechanism. After the Pittsburg summit, G20 started a process of establishing regulations and building institutions (jianzhang lizhi), and entered into a transition from a crisis-fighting to a long-term mechanism for hopefully effective global economic governance. This development has far-reaching implications as it has preliminarily changed the situation in which for many years the developed countries monopolized international economic affairs, and has helped upgrade developing countries’ rights to say in them. It is beneficial for China to participate in global governance in a wider platform and to defend China’s own as well as many developing countries’ legitimate interests.81

Fourth, there are three outstanding questions that need to be resolved. One is the issue of legitimacy. The concerns of those non-G20 nations need to be addressed and their interests taken into consideration. Second is the G20 has to be effective. G20 bears the characteristics of hastiness to combat emergencies. When the crisis subsided, clashes of different interests and aspirations would likely emerge and thus pose challenges for the G20 states to continue coordinating their actions or policies for better governing global economic affairs. A third one is the power distribution issue. Schemes have to be worked out for proper and improved arrangements regarding financial regulation, share management, and voting power distribution in the IFIs. Beijing has been aware that this will take time and will be undergoing a long, complex, and even tortuous process. This was proved to be right given the intense controversies and fights over China’s exchange rate policy, especially before the Seoul summit.

In short, China wants the status of G20 as the premier global economic governance platform to be consolidated, and further turns China’s influence into institutional power. By adequately and reasonably taking advantage of its newly increased institutional power in the international governing organizations such as the IMF and World Bank, Beijing hopes to effectively safeguard and expand its development interests, and to shape favorable institutional environment for its participation in international economic cooperation and

81 Interview with a government official on April 21, 2011.
competition at a higher level.

**Conclusion**

Today, China has increasingly become a pluralistic society. More and more actors are now involved in the foreign policy decision-making process. In the case of China in the G20, while local governments are not involved, there are different bureaucratic organizations which are playing a role, prominent among them include Ministry of Foreign Affairs (MFA), Ministry of Finance, and the People’s Bank of China, i.e., China’s central bank. There has been policy coordination between them, and, although there is a rare example of their difference on creating a “supra-sovereign currency”, our research does not find major policy differences among them regarding China’s involvement in the G20 process. This is likely due to relatively clear-cut portfolios and policy terrains. Also, the Finance Minister and the central bank governor often attend the same meetings together, such as the joint IMF and World Bank meetings. With respect to the research community, quite often there are different views, but they do not seem to differ greatly on the issue of G20.

As is defined at the beginning of this paper, a reform-minded status quo power sits somewhere between rigid and anti-status quo powers. A status quo state accepts the existing rules of the game and it does not seek to change them because generally it is satisfied with the current situation. China has benefited from the existing international system and has continued to rise to the world’s second largest economy status. Logically, it does not aspire to overthrow this system within which it is doing well. In this sense, China is indeed a status quo power. Meanwhile, it is not true that China rigidly sticks to this existing system and wants it to remain unchanged. Rather, China has been arguing that the current international order is flawed and there exist a number of unjust and unreasonable components.\(^{82}\) They long need to be changed. In this sense, China is not a complete but rather a reform-minded status quo power.

This paper has analyzed the case of China in the G20 process and has examined China’s position and policies on relevant issues, including the IMS reform, reform of the IFIs,
international financial regulation, the future of the dollar, and internationalization of the renminbi. My findings demonstrate that China has actively participated in the G20’s deliberations and actions, put forward its suggestions, sought expanded share and voting power in the IFIs in correspondence with its rising status, and promoted the internationalization of the renminbi. In other words, while having accepted and observed the current international rules of the game, China seeks changes for greater institutional power and for better global governance. This aspiration became stronger when it appeared that China has fallen into the “dollar pitfall” in which China is “abducted” by the large reservoir of the U.S. treasury bonds it has purchased and accumulated, as the value of which is determined by the U.S. domestic policy decisions. When the dollar devalues, China’s dollar assets shrink. This real risk prompted Beijing’s desire for a new international reserve currency that is independent from a particular nation’s policies, though China’s Foreign Ministry claimed it was China’s official policy.

China’s approaches to the changes it seeks are reformist rather than revolutionary. In this regard, there are two features. One is incrementalism, namely, being patient and attempting to bring about changes gradually over a fairly long period. The other is consensus-based. China is prepared to seek consensus in the multilateral settings, working with other actors and joining global economic governance. After all, governance is a collective endeavor. Crisis usually drives changes. The G20’s being elevated to the summit level and its rise to prominence were a product of the global financial crisis when the G8 was unable to fight the crisis alone. Against this backdrop countries had to join hands to collectively combat the crisis and further to explore the necessities of reform. After all, the developing powers are rising. Due to these reasons, the G20 process inevitably bears the color of reform.

Nevertheless, on the issue of United Nations Security Council reform, as one of the permanent five members that possess veto power and thus has a vested interest, China is more rigid and reluctant to expand veto power to other nations. This is not very different from, in fact shared by, other two permanent members, the United States and Russia. If one looks at this case of the UN Security Council reform only, one could easily come to the conclusion that China is a rigid status quo seeker. However, facts combined do not lead us to such an argument. On this particular issue of Security Council reform, China’s position has
much to do with Japan’s ambition for a permanent seat and with Sino-Japanese relationship.

Let us not lose sight of the forest while looking at the trees. China has been espousing necessary changes for a “new international political and economic order.” When that sounded too revisionist and being aware that China was a benefactor of the existing order, Beijing opted for a more moderate rhetoric “pushing international order to change in the direction of becoming more just and reasonable.” With that in mind, China carefully wants to avoid being seen as anti-status quo and to demonstrate a realistic attitude. In the meantime, China does have ideals and wishes for a better world. For example, it wishes for more even distribution of power between established and emerging powers, better treatments of the less developed countries, and fairer representation of different kinds of countries in terms of level of development. In general, China espouses constructive reforms while accepting the existing rules and wanting to integrate into the world further. What China has been practicing within the G20 proves this well.