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Begründet von Günter Diehl
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Power Shifts and China's Challenges to Global Financial Governance

Gerald Chan*

Summary
This paper aims to identify and assess the challenges facing global financial governance as a result of the shift of power from the West to the East in the world. It argues that these challenges are too weak to be able to alter the pattern of global financial governance in any significant way in the foreseeable future. The paper explains why this is the case. It points out that the resilience of the current system of governance, which owes a great deal to the embedded hegemonic structure, is sufficiently adaptive to resist, withstand, or soften the challenges. To test this argument, the paper proposes to focus our attention on the International Monetary Fund at the global level and the Chiang Mai Initiative at the regional level. It discusses some initiatives taken by certain emerging economies to tackle the current global financial crisis. The paper analyzes the role played by the West in global financial governance led by the U.S. and the role played by the emerging economies spearheaded by China.

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Keywords: China, global financial crisis, financial governance, IMF, Chiang Mai Initiative, BRICS, soft power, Confucius Institutes, G7, G20

> China's government reacted to the 2008 crisis by building things, not giving money to banks. (Elsworth 2013)

Introduction

This paper aims to identify and assess the challenges that confront global financial governance as a result of the shift of power in world politics, focusing on Sino-U.S.

* This article has its origin as a draft paper prepared for presentation at a conference on China and the G20 held at Fudan University, Shanghai, in December 2012. It has subsequently gone through various stages of development as a seminar paper presented at the University of Kent, King's College London, Cambridge University, the University of Sheffield, and the University of Nottingham when I was a visiting fellow to Cambridge University from January to March 2013. I am grateful to the conference and seminar organizers and the participants for their support, comments, and criticisms. Special thanks are due to Professor Sebastian Bersick of Fudan University and Professor Jörn-Carsten Gottwald of Ruhr University Bochum, Germany for organizing the conference and for their comments. The final draft benefits from anonymous reviewers. My long-term friends and research collaborators, Dr. Pak K. Lee of the University of Kent and Dr. Lai-Ha Chan of the University of Technology, Sydney read earlier drafts and offered invaluable suggestions for making improvements. All remaining errors are mine.

relations. It argues that the challenges are not great enough to alter the governance of the existing global financial order in any major way. The paper explains why this is the case. It further argues that the current system of financial governance, which has been sustained by an embedded hegemonic structure, is sufficiently strong and resilient to resist, withstand, or ameliorate the challenges. This hegemonic structure, dominated by the West, is adaptive enough to ensure the continuing survival of the current governance system in the foreseeable future.

To support this argument, the paper proposes to focus its analysis on the International Monetary Fund (IMF) at the global level and the Chiang Mai Initiative (CMI) at the regional one. It attempts to go slightly beyond the CMI to explore some new initiatives taken by emerging economies to address the current global financial crisis. The paper examines the role played by the West with the U.S. in the lead and the role played by emerging economies spearheaded by China. The IMF was chosen as a case study here because of its obvious importance in maintaining global financial stability and in tackling the current global financial crisis; the Fund overshadows the role played by the World Bank and the World Trade Organization in dealing with the crisis at this critical point in time. The CMI was chosen for analysis because it was born out of the collective effort taken by the major countries in Asia to deal with possible liquidity problems subsequent to the outbreak of the Asian financial crisis in 1997–98. The CMI — or rather, its multilateralization version, the CMIM — is regarded by some observers as a miniature version of the IMF in Asia.

First of all, though, what exactly do we mean by power shifts in global politics?

"Power shifts"? What power shifts?

In the current literature, the term "global power shift" often refers to the shift of power from the West to the East, i.e., from the U.S. and Europe to the rising powers of Asia and the emerging economies in various parts of the world. This power shift is mainly driven by economic forces, much less so by military, political, or social means. In terms of *global military power*, the U.S. still reigns supreme by an overwhelming margin despite its economic slowdown: the amount of its military spending (US$711 billion in 2011) is larger than that of the next nine "big spenders" put together (SIPRI 2013). This huge amount was more than five times China's expenditure in 2011. China's defense budget in 2012 was 670 billion yuan, or US$107.5 (*Times* 2013b). More significantly, the U.S. has been spending such vast sums of money on defense each year for several decades now, so the accumulated effects and strength it has gathered are also enormous, and the military spending cut planned for the near future is unlikely to dent the country's military superiority an iota. The U.S. has over 100 military bases around the world today, whereas China has little or no military allies to speak of. America's eleven active aircraft carrier groups roam over the oceans with impunity. Its military alliances with countries around the world form such a dense military system that it is practically impossible to penetrate by any other states. Its spying and espionage network, acting alone or working in coordination with its close allies (the English-speaking world of the U.K., Canada, Australia, and New Zealand in a communication network called Echelon, for example), is unparalleled in human history in its scale and scope. There is no doubt that the U.S. rules the world militarily, imposing a kind of imperial "common goods" in global security, whether rival or enemy states like it or not. To an increasing number of observers, the global terrorist threats seen by the U.S. and echoed by the rest of the Western world are grossly exaggerated and are being used as an excuse by those with vested interests to ensure the firm control of oil and energy supplies from the Middle East and elsewhere in the industrial West.

In terms of *global political power*, one only needs to take a look at how international organizations fall under the firm control of the West to realize how embedded the nature of global political governance is. A simple example will suffice to illustrate this by comparing the relative weight of the West vis-à-vis the East in controlling international organizations. This example takes the U.S., France, and the U.K. as being representatives of the West and China, India, and Russia as being representatives of the East. Russia is included in the East, as it is a member of the BRICS countries, which also consist of China and India in addition to Brazil and South Africa. In this sample of three Western and three Eastern states, all but India are Permanent Members of the United Nations Security Council and therefore have veto power, so their importance to the effective running of the global political economy is obvious. Drawing data from the 2011–12 issue of the *Yearbook of International Organizations*, an authoritative and comprehensive source of information in this area, we can compare the number of headquarters or secretariats of international organizations hosted by these six countries.[1] As of 2010, there were 13,568 international organizations, 938 of which were IGOs (intergovernmental organizations) and 12,630 NGOs (nongovernmental organizations). They belong to "international bodies" under cluster one in the *Yearbook*'s classification system, meaning that they can be understood as the major international organizations (IOs) of the world.

Table 1: No. of secretariats of IOs in selected countries, 2010

West			East		
U.S.	France	U.K.	China	India	Russia
1,650	960	1,277	57	110	55

Source: *Yearbook*, Vol. 2, Appendix 2, Table 4

Table 1 shows that the West plays host to large numbers of secretariats of international organizations, with the U.S. in a clear lead. This hosting translates

1 The scope of international organizations covered here includes five categories: federations of international organizations (category A according to the *Yearbook*); universal membership organizations (category B); international membership organizations (C); regionally oriented membership organizations (D); and organizations of a special form (F).

quite naturally into the control of voting powers held by the West in the major international organizations of the world, the composition of senior executives in these organizations being staffed by Westerners, and the budgetary and policy influence exercised by the West, either through formal or informal governance. John Mathiason (2007), a long-term participant observer of the workings of many international secretariats, points out that international secretariats wield important influence over the performance of international organizations from behind the public scenes; he refers to this influence as "invisible governance." The picture of the near absolute control by the West over international organizations becomes complete when one considers the kind of functions performed by these organizations: they form the sheer majority of institutions in the world managing important global issues of one kind or another from politics to economics, and from science to sports. On the other hand, those international organizations with secretariats or headquarters based in China are mostly confined to regional (i.e., Asian) affairs, or they have strong connections with Chinese culture, whose values are little or not yet widely shared with or identified by other major powers beyond the pale of Confucianism. We shall focus on the IMF as a specific case for closer examination later in order to illustrate the relative power of the West over the rest in this particular institution. Also we shall demonstrate how structurally dependent the CMIM is on (or interdependent with) the IMF in dealing with potential financial crises in Asia.

In terms of *global social influence*, a good indicator would be the possession and exercise of soft power. Professor Joseph Nye of Harvard University, commonly acknowledged to be the main proponent of soft powers, has identified Harvard, Microsoft, Hollywood, and McDonald's as America's soft powers (Joffe 2000).[2] Harvard University is, of course, one of the best universities in the world. Basing his own findings on a world survey of university rankings (Times Higher Education 2012), Professor Michael Cox of the London School of Economics and Political Science says that reports of the West's fall and the East's rise are grossly exaggerated. Drawing his sources from the *Times*' 2012–13 ranking, Cox finds that 89 of the top 100 universities in the world are found in the West, while only 11 are in Asia (Cox 2012). The U.S. alone is home to about half of the top 100. India, in contrast, has none in the top 100, and neither have Indonesia, Thailand, the Philippines, or Taiwan. South Korea has three, however, and Hong Kong and Singapore each have two universities ranking in the top 100. China and Japan also have two each. More intriguingly, Cox finds that Sweden, Switzerland, Belgium, and the Netherlands, which together have a combined population of only 45 million, can lay claim to more top 100 universities than the whole of Asia, a continent home to nearly half of the world's population of seven billion people. A similar picture can be extracted from an analysis of data drawn from other comparable sources,

2 Nye also cites basketball star Michael Jordan as an American soft power in place of McDonald's in his book on soft power (Nye 2004: 17).

such as the QS World University Rankings or the Shanghai Jiao Tong ranking of universities. Year after year, the three sources have consistently found that the top ten universities in the world are all located in the U.S. and the U.K.

If one regards universities in the West as part of the structure of imperialism, as so eloquently depicted by peace researcher Johan Galtung in the 1970s (Galtung 1971), then one is confounded by the intriguing question of why so many rich and powerful Chinese (and also other Asian) leaders send their children to study in the West.[3] In the academic year 2011–12, 194,029 Chinese students enrolled at U.S. universities, representing twenty-five percent of all international students in the U.S. that year.[4] This number marks a rise of twenty-three percent over a similar number a year earlier (*Sing Tao Daily*, November 14, 2012) and has nearly quadrupled since 2008 (Economia 2013: 26). China has the largest number of students studying in the U.S., overtaking India in 2010 (Wang 2012). *China Daily* (2013b) reports that, according to a survey conducted by a Chinese education consultancy, nearly thirty percent of high school students in provincial capitals such as Harbin, Shenyang, Nanjing, and Zhengzhou are interested in studying abroad — mainly in the United States. Xinhua News Agency also reports that seventy percent of the high school students in Chengdu, the capital of Sichuan province, are interested in studying abroad, with forty-five percent of them specifically looking at colleges and universities in the U.S. From a visit to Beijing in May 2012, William Bennett, a former U.S. secretary of education, found that Chinese parents "yearn for their children to attend American universities, and if possible, stay in America" (Bennett 2012). If this is not a "triumph" of American and Western social influence, it would be very difficult to explain why Chinese students and their parents are so attracted to American colleges.

One often-cited example of Chinese soft power is the Confucius Institutes set up by the Chinese government to promote Chinese language and culture. The first one was formed in 2004. As of 2013, there are about 400 such institutes in some 100 countries around the world (Xinhua 2013a). Despite the rapid increase in the number of these institutes, the ready acceptance of Chinese values and cultural practices by non-Chinese should be called into doubt. Apparently, the speed with which these Confucius Institutes have been established can be seen as a successful spread of China's soft power, at least from a Chinese perspective, but it can also be regarded as only one aspect of soft power, which has started to grow from a very low base

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3 For information about the educational background of China's princelings, see the website of "China's red nobility." For an interesting source on the connections between capitalism, wealth, and these princelings, see *The Washington Post* (2013).

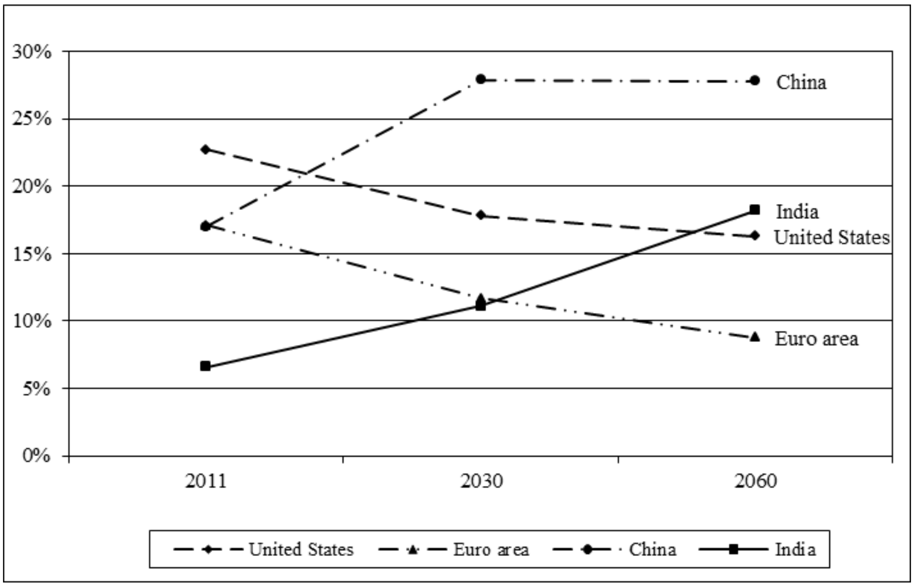
4 Interestingly, China itself is increasingly becoming an important destination for international students. According to the Institute of International Education, in 2007, China ranked fifth as a destination for international students, behind the U.S., U.K., France, and Germany. The number of Americans studying abroad in China has increased fivefold in the past ten years, making China one of the top ten study destinations for U.S. students. In 2007, American students accounted for 7 percent of all international students in China (See Li 2010).

within a short period of time. While the promotion of Chinese culture to increase mutual understanding is to be welcomed, some of these institutes' local partners are critical of their Chinese counterparts for forbidding them to discuss topics such as Taiwan, Tibet, the Tiananmen incident, and the Falun Gong.

In another effort to extend its soft power (Joffe 2000), China has recently set up media outlets in Africa as well. In mid-December 2012 the state-supported *China Daily* started to publish a weekly newspaper in English called *Africa Weekly* from a base in Nairobi, Kenya for distribution across the whole continent. In January 2013, the Chinese state broadcaster China Central Television opened an African bureau, also situated in Nairobi. A daily news show called *Africa Live* is broadcast to audiences in Africa and China every night. This is in addition to China Radio International, which broadcasts on FM in Swahili, English, and Mandarin. The full effect of this mass-media development on Africa, China, and the West has yet to be felt and assessed. Xinhua is already providing a cheaper alternative source of information to Reuters and Associated Press aimed at African audiences. However, China Central Television is not alone in its effort to grab a bigger share of the global broadcasting market from established Western news agencies — it is also competing with Al Jazeera and Russia Today (*China Daily* 2013a).

It is in the area of the global economy that stronger indicators of the power shift have become clear. Many individuals and institutions have made forecasts indicating that China's economic growth is expected to surpass that of the U.S. soon. One such forecast by the OECD is used as an example here, given the OECD's international standing as a leading international economic organization. Figure 1 shows that China and India are expected to grow significantly over the next fifty years, while the U.S. and the euro area will slow down substantially in terms of their relative contributions to the global economy. This proportional economic growth in the emerging economies in general and in China in particular underlines the growth of trade, the accumulation of financial surpluses, and the increasing influence of these countries in the global political economy. The fact that China's economy will outsize that of the U.S. in a few years' time is no longer news, but that India's economy is expected to grow bigger than that of the euro zone by around 2030 and bigger than that of the U.S. by around 2060 has added weight to the evolving global economic shift from the West to the East. Bloomberg already reports that China actually surpassed the U.S. to become the world's biggest trading nation in 2012, as measured by the sum of exports and imports of goods, according to their respective official figures: $3.82 trillion in the case of the U.S. compared with China's $3.87 trillion (Hirschberg and Schumacher 2013).

Figure 1: Economic growth, West vs. East, 2011–2060



Source: OECD: "Looking to 2060: Long-term growth prospects for the world," www.oecd.org/eco/lookingto2060.htm, the author's own compilation

In chairing a group of economic luminaries to discuss the global outlook at the Davos World Economic Forum in 2012, Martin Wolf gave some introductory remarks on the global economic power shift. Quoting figures from IMF forecasts, he said that between 2007 and 2012, China had grown by 60 percent, the Asian developing countries and the emerging economies of the world, which made up half the world's population, had grown by 50 percent, the emerging economies of the world alone had grown by 35 percent, while the developed world had not grown at all.[5] Europe, he said, was in recession. In a recent report, the World Bank concluded that a shift in the balance of spending power is currently taking place around the world. The Bank found that business between developing countries in 2012 accounted for over fifty percent of their total exports, a rise from thirty-nine percent in 2002 (*Times* 2013a).

Economic data and forecasts of this kind are, of course, fraught with uncertainties, oversimplifications, and biases. For example, although rising, China's GDP per capita ranks very low in the world, and there is a huge gap between it and that of the U.S. Moreover, most economic forecasts are made on the basis of a static, statistical projection of existing limited circumstances without taking contingency factors in the future into due consideration. Despite these and other limitations of economic

5 "Davos 2012 – Global economic outlook," YouTube (accessed on 2012-10-24).

forecasts, the general trend seems to be clear: in terms of economics, there is a definitive shift occurring from the West to the East. In the areas of military, political, and social power, however, the driving force still lies with the West and the U.S.; the overall shift of power in these three areas from the West to the East is slight and much less significant than the shift in the economic realm. This is in line with various studies, which conclude that the U.S. is still very dominant in the global order, considering its comprehensive power strengths in various areas.[6]

Based on the above understanding of what can be described as some diverse, partial, and confined power shifts, what exactly are the challenges confronting global economic governance?

Is China challenging the current state of global financial governance?

The rise of emerging economies spearheaded by China has posed a challenge to the governance of the global economic system, especially in areas in which China is closely involved. This challenge can take place in bilateral economic relations or in multilateral institutions, like the Bretton Woods system at the global level and many economic institutions and free-trade zones at the regional level. It is in multilateral institutions that China's nascent influence is felt more strongly as China begins to challenge the rules and regulations that these institutions use to govern the global economy. China's engagements with the International Monetary Fund serve as a good test case. China joined the IMF (and the World Bank) in 1980. In the first twenty-five years or so of its membership, the country was a rather distant, timid, passive, and compliant member, a norm identifier and a rule follower. Around the time of the outbreak of the global financial crisis in the last decade, China began to emerge as a vocal defender and fervent promoter of its financial interests in the IMF and in the global financial system. Since then, the country has spoken out in defense of its currency value, entered into mild debates about the causes of instability in the global financial system, repeatedly stressed the need to increase the share quotas and voting powers of the emerging and developing countries in the IMF, and openly or implicitly expressed the need for the inclusion of the renminbi or yuan in the Fund's Special Drawing Rights.

The year 2006 marks a change in China's norm compliance with the IMF. In that year, the IMF found it necessary to move away from the elite Group of Seven industrialized countries alone to consult a wider multilateral group in making policies that affected global exchange rates. This was undertaken in the midst of the U.S. putting pressure on the renminbi to appreciate. Rodrigo Rato, then managing director of the IMF, called for "coordinated action by the major players in the global economy" (Chan et al. 2012: 64), referring to the need to include some major non-G7 countries such as China when making important global financial decisions.

6 See the work of Norrlof (2010), for example.

The global financial crisis of 2007–9, triggered off by the fall of the U.S. housing mortgage market and the collapse of Lehmann Brothers and the subsequent spread of the financial crisis within the euro zone, has highlighted the role of the IMF in stabilizing the global financial situation. The IMF is working under great pressure to find a solution to stave off a possible global financial meltdown. Not unexpectedly, the IMF discreetly turns to the emerging economies for financial help, as these economies (China, Russia, Brazil, India, and Mexico — the big five reserves) had collectively amassed approximately US$4.5 trillion in their treasuries as of July 31, 2012 (Pedersen 2012). However, these countries have had little say in managing IMF affairs, as the U.S. and Europe have dominated control since the founding of the Bretton-Woods system in 1944. The emerging economies — especially the BRICS countries — have been calling for a change to the representation in the decision-making structure of the Fund so as to reflect the changing distribution of global financial powers; these countries and the developing world want to have a larger quota and a bigger share of voting rights and hence a greater say in managing global financial affairs through the IMF. Their demands represent a challenge to the traditional Western powers in managing global financial affairs seldom seen since the oil crisis of the 1970s with the rise of the Organization of the Petroleum Exporting Countries.

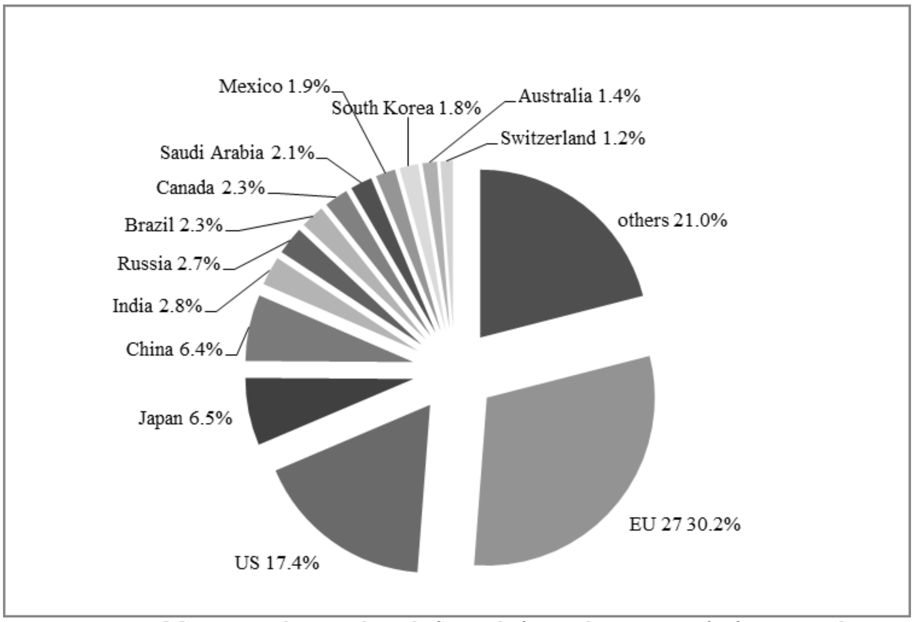
Not unlike the rules in an old, conservative gentlemen's club, those of the IMF are very hard to change. For some sixty years since its foundation, the IMF quota and voting rights had experienced realignments of little significance despite some periodic reviews of the quota system.[7] It was around 2008 that a more significant realignment of the voting shares of the institution was initiated, and in subsequent years the issue was discussed at various meetings of the G20. In 2010, it was agreed that the quota shares should be changed, this becoming effective by the end of 2012 to allow a small increase for the emerging economies and the developing countries, albeit at the slight expense of certain European countries (see Figure 2). If the planned changes were to be fully implemented, they would represent about 6 percent of the voting rights changing hands, passing from the developed countries to the emerging economies and the developing world.[8] Overall, Europe, the U.S., and other countries in the West possess about half the votes in the IMF, even though they account for only 35 percent of global GDP. Asia, on the other hand, has only 20 percent of the voting share despite the fact that the region accounts for around 34 percent of global GDP (CNBC.com 2011).

7 For an incisive review of the IMF quota system, see Bird and Rowlands (2006).

8 As of the end of 2012, the implementation seemed far from complete. The U.S. was busy with its presidential elections, and Congress approval was delayed. Delays of one kind or another might occur in other jurisdictions as well, as approval has to go through domestic legislatures. In the end, a kind of consensus might need to be achieved in the IMF to proceed with such a quota change. My thanks to a conference participant for pointing this out at a China and G20 workshop at Fudan University, Shanghai, December 3–4, 2012.

The year 2012 came and went. In early 2013, members of the IMF failed to agree on a formula to implement the decision made two years earlier to shift a small amount of quotas and voting rights from some of the European countries to the emerging economies. The emerging economies argued that the change in quota and voting rights should be based on the use of the purchasing-power-parity method to measure members' economic sizes. The European countries, however, would require emerging economies to make changes to become more transparent in their economic operations. Negotiations came to a standstill, so member countries now have to wait for another chance for possible settlement in early 2014 when the 15th general review of quotas is due to start (Reuters 2013). Such is the difficulty in peaceful negotiations over the redistribution of the economic balance of power.

Figure 2: Projected quota shares in the IMF after the reform agreed in 2010 for implementation by 2012



Source: IMF, 2011[?] "Quota and voting shares before and after implementation of reforms agreed in 2008 and 2010": 1, the author's own compilation

Apart from monetary contributions through subscriptions to the IMF, another item of change that signifies some shift in the power balance is the appointment of senior staff members in the IMF. In the case of China, Zhu Min, a former senior Chinese banker, was appointed one of the three deputies by the new managing director of the IMF, Christine Lagarde, when she succeeded her countryman, Dominique Strauss-Kahn, in July 2011. In terms of the backbone staff (the economists and bureaucrats who run the day-to-day operations of the IMF), some 55 percent of the staff come from industrialized nations, with approximately 40 percent consisting of Europeans. The representation of Asians among the Fund's staff is relatively low given the region's fast-growing economic size, despite an increase from around 15 percent in 2006 to about 20 percent in 2010 (CNBC.com 2011). Apparently, these staffing and voting power changes reflect some adjustments in favor of the East and the South, but they are rather too small and marginal at this stage to be able to have any significant impact on the governance structure of the IMF. The composition of the Board of Governors and the Executive Board — the highest decision-making and executive branches of the IMF — has remained more or less intact. So has the working style and culture at the highest level of the organization.

Aside from the formal voting structure and the setup of the top decision-making bodies of the IMF which favor the West, Randall Stone (2011: 7–8, 52) points out that the informal governance of the institution also plays an important part in ensuring its dominance by the West. This informal governance explains why and how the U.S. is able to control the IMF with only seventeen percent of the vote. The constitution of the IMF stipulates that major decisions would require an eighty-five percent vote, which turns America's seventeen percent voting power into a veto. However, most decisions are made by "consensus" rather than through formal voting. The reasons for this lie in the relatively weak Executive Board, the delegation of executive power from the Board to a strong management, relatively weak oversight, and a lack of transparency. These conditions allow the U.S., which hosts the headquarters of the IMF in Washington, D.C., to capture and enjoy an organizational advantage, to control the flow of information, and to push for an exception to the rule in favor of strong and rich countries. In view of the relative decline of America's structural power, Stone envisages a U.S. tendency to exploit informal governance in the IMF and beyond. A recent example of the exercise of informal governance can be found in the U.S. putting pressure on the IMF to blame China for its huge trade surplus and its currency management. This case of the U.S. exerting pressure on the IMF was pointed out by external auditors to the IMF (*Washington Post* 2012). As the IMF is a keystone financial institution in the world, the fundamental global financial system has therefore remained more or less unscathed despite various minor organizational adjustments made to the system over the years.

In terms of policy inputs, China has made some of its financial preferences known, either to the IMF or to other related agencies and forums.[9] These preferences include the appreciation of the renminbi at a manageable rate, the use of Special Drawing Rights (SDRs) as the base currency for international financial transactions, partly replacing the U.S. dollar, the internationalization of the yuan necessitated by China's increasing volume of trade with the rest of the world, the role of the state in driving

9 It will be interesting to investigate China's role in introducing Basel III in early 2013 to deal with banking regulations after the outbreak of the global financial crisis in 2008.

economic development in addition to the free market, and the extension of foreign aid to enhance the development of the Third World through South–South cooperation. These preferences are discussed in more detail in the following paragraphs.

The value of the renminbi has been a bone of contention between the U.S. and China over two decades, as America has been accumulating an increasingly high amount of deficit in the balance of trade with China since 1985, amounting to US$315 billion in 2012 alone (U.S. Census Bureau 2013). The U.S. has often accused China of manipulating its currency to boost its own exports, especially when tempers flare over the trade imbalance and when domestic pressure mounts over job losses in American manufacturing industries. China has denied any wrongdoing, pointing out that its currency has appreciated against the U.S. dollar over the years and that the country will continue to manage its currency appreciation at a steady pace to avoid causing instability to its economy. In fact, the renminbi appreciated from 8.1 yuan per dollar in mid-2005 to about 6.5 yuan per dollar in 2011 and to about 6.2 yuan in early 2013 (Bloomberg 2013b).

China's central-bank governor, Zhou Xiaochuan, suggested in 2009 that the SDRs should be used as a global reserve currency in place of the U.S. dollar (*China Daily* 2009). His view has been widely reported in the international media, reflecting China's growing financial clout. This call has subsided recently, though, for several plausible reasons. One is that it is very difficult to put the proposal into practice, as the U.S. dollar is widely used as an international trading and reserve currency. The U.S. is unlikely to change this situation, as the current financial system works to the advantage of its banks and economy. Another reason is that other countries may not be keen to support a major change in the current economic situation, fearing that such a move could increase global uncertainty and instability. Thirdly, although the renminbi has been increasingly used as an accounting unit in international trade, it still has some way to go before being widely accepted as a preferred international currency; the Chinese banking system needs to improve its operational transparency and to reduce its bureaucracy before other countries and major corporations put their trust in the yuan.

To consolidate its economic strength, China has taken steps to internationalize its currency. Up to 2011, it issued treasury bonds three times in Hong Kong, denominated in renminbi (to the value of 6 billion yuan in September 2009, 8 billion yuan in November 2010, and 20 billion yuan, or US$3.1 billion, in August 2011) (*China Daily* 2011). The latest bond issue was open to private investors for the first time. This internationalization effort may pave the way for the Chinese currency to be eventually included in the IMF's SDRs. The internationalization of the yuan has since proceeded apace. The Chilean, Malaysian, and Nigerian central banks are reported to have started investing their foreign-exchange reserves in the Chinese currency (Subramanian 2011; Prasad and Ye 2012). Since China allowed international trade in the offshore version of its currency in 2010, this trade has grown substantially — from a very low base. London has become the second-largest offshore trading center for the renminbi after Hong Kong, surpassing Singapore in June 2012. Excluding mainland China and Hong Kong, London's share of the offshore yuan market was 27.8 percent in September 2012, compared with Singapore's 26.4 percent (*Wall Street Journal* 2012). Toronto may become the fourth offshore center of this kind (Zhao 2012). Taipei and Paris also plan to set up hubs for trading in the renminbi (*Financial Times* 2012), as do Tokyo, Luxembourg, and Kuala Lumpur (*Wall Street Journal* 2013).

The need for China to internationalize its currency is becoming necessary, as the country has now developed into the world's second-largest economy and its largest trader.[10] In the case of ASEAN, some fifty percent of its trade with China has been settled in yuan (Bi 2009: 10). China–ASEAN bilateral trade has surged in the past decade from $54.77 billion in 2002 to $400.1 billion in 2012, with an average annual growth rate of 22 percent, making China ASEAN's largest trading partner. The first half of 2013 saw a year-on-year growth of 12.2 percent in China–ASEAN trade that totaled $210.56 billion (*Xinhua*, July 23, 2013b). While economic growth in Europe and the U.S. ground to a halt in this period, it remained at a respectable rate of around six percent in the Asia-Pacific region in 2011–12, according to the IMF (IMF 2012). This was mainly due to China's vibrant two-way trade and investments with other countries in the region. On June 1, 2012, China and Japan, the world's second- and third-largest economies, began direct trading of the Chinese yuan and Japanese yen in Tokyo and Shanghai in a move to boost bilateral trade and investments (*Xinhua*, June 4, 2012). On April 10, 2013, Australia and China began to replace the U.S. dollar by yuan in conducting their bilateral trade (Morley 2013).

China's increasing amount of trade with other regions of the world has helped to push the internationalization process for its currency as well. In the case of Africa, bilateral trade has risen tenfold in less than a decade, growing to US$160 billion in 2011, up 28 percent from 2010, with an annual rate of increase of 33.6 percent (*China Daily* 2012b). In the case of Latin America, China has become the region's third-largest trade partner and investment source. Bilateral trade increased annually by approximately 30 percent from 2001, reaching $241.5 billion in 2011, while Chinese investments in Latin America totaled $10.1 billion in 2011, 16.8 percent of the country's outbound investment that year. China's trade with Brazil, the largest Latin American economy, rose by 5 percent in 2011 from a year earlier in the first nine months of the year (*China Daily* 2012a). As a result of this, the chief executive officer of HSBC Hong Kong predicted that the yuan would be fully convertible by 2015 (*Taipei Times* 2013b).

10 Bloomberg has pointed out that China surpassed the U.S. to become the world's biggest trading nation in 2012, as measured by the sum of exports and imports, according to their respective customs figures: US$3.82 trillion in the U.S. and US$3.87 trillion in China (*Taipei Times* 2013a).

Regarding the role of state involvement in economic development, most Chinese policy-makers and economists have made it clear that there is a definite part for the state to play in promoting development and regulating the market. This line of thinking has gained increasing acceptance, as it has been recognized that the current financial crisis was caused in large part by the overly freewheeling banking system in the West, which breeds greed and unscrupulous risk-taking in pursuit of huge profits. Justin Yifu Lin, the World Bank's chief economist from 2008 to 2012, argues that in addition to an effective market mechanism to allocate resources, there is a need for the government to facilitate structural improvements (Lin 2012). This argument dovetails with the thinking of some developmental economists in the emerging school of new structural or institutional economics, like Robert Wade of London University and Ha-Joon Chang of Cambridge University. For developing countries in many parts of the world where politics remains in the hands of authoritative personalities, a state-led development has its intrinsic attractiveness, especially when it produces handsome economic rewards.

In recent years, China has resumed its foreign assistance to the developing world, especially to African countries, mainly to help them to build up their infrastructure, such as roads, hospitals, schools, sports facilities, mining industries, and telecommunication systems. Chinese loans are growing increasingly large and come with low interest rates. Chinese aid usually has few political strings attached to it, in stark contrast to the often harsh political and economic conditions imposed by Western donors to ensure "good governance." While Chinese aid is often blamed by NGOs and governments in the West for ignoring the human-rights abuses of recipient countries, developing countries are generally happy to receive it as an additional or alternative source of income to aid coming from traditional Western donors. The World Bank recently called on China to coordinate its aid efforts with the Bank, as the latter is facing increasing competition from the PRC. In fact, the China Development Bank is now said to have overshadowed the World Bank as the world's development bank (Sanderson and Forsythe 2013). In recent years, other countries in the BRICS group have also made a bid to distribute aid to their respective neighboring regions, all in an effort to contribute to South–South cooperation (*Cambridge Review*, special issue, 2012).[11] In April 2011, China published its first white paper on foreign aid, in which it gave some details about its aid policy and practice (China Foreign Aid 2011). Being a "newly rich" country, China is not only competing with traditional Western aid donors to win over the

11 South–South cooperation (or *nannan hezuo* in Chinese) has become a slogan denoting China's approach toward Third World development. Interestingly, it does not just relate to various forms of infrastructural building in developing countries (through the relatively easy lending of huge loans with few strings attached, the influx of Chinese labor, and the management of Chinese state-owned enterprises), but it has also merged with the work of China's peacekeepers in UN peacekeeping operations; Chinese "peacekeepers" are largely involved in working with the local population as civil engineers, medical personnel, and policemen on reconstruction projects.

hearts and minds of the developing world in a softly-softly approach, but also with other relatively rich countries and emerging aid donors in Northeast Asia, viz., Japan, South Korea, and Taiwan (Kim and Potter 2012).

These five Chinese financial preferences and practices (the appreciation of the yuan, the use of SDRs, the role of the state, the internationalization of the yuan, and South–South development assistance), although not causing any paradigm changes to global financial governance, are beginning to make their presence felt in international affairs. This is the case in some of China's unilateral, bilateral, and multilateral actions, which bypass the existing mechanisms of global economic governance in whole or in part.

Aside from its engagement with the IMF at the global level, most recently China has also engaged proactively in Asia to help to form and shape the Chiang Mai Initiative (CMI).[12] Originally started as currency swaps among some Asian countries to help them tackle liquidity problems caused by the Asian financial crisis in 1997–98, the CMI has built up a collective fund of US$120 billion (as of early 2013). Member countries, including the ASEAN 10 plus China, Japan, and Korea, have agreed to double the amount to $240 billion in late 2013. The CMIM (CMI Multilateralization) is still a very young organization, and its effectiveness has yet to be tested. So far, no member countries have made any request to use these funds to help to ease their own financial situations. At present, its implementation and research office, called AMRO (ASEAN Plus Three Macroeconomic Research Office), is small, consisting of some fifteen staff economists. Incorporated under Singaporean corporate law, a plan is afoot to turn AMRO into an organization with an international legal status so that it can engage as a recognized global entity to conduct business with other international organizations and states. It draws on the experience of the IMF and the Asian Development Bank to set up its working programs. In terms of borrowing rights, member states can borrow up to thirty percent of their set quota. For any amount above that, IMF approval has to be sought, which means that the IMF's conditionality requirements can kick in. This IMF link, together with the fact that CMIM members are also members of the IMF, will probably ensure that the IMF has much greater influence over this regional organization than would otherwise be the case.

Despite its small size and young age, some of the CMIM's experience has begun to be applied to other parts of the world through collaborative projects initiated by the BRICS countries. These nations are currently discussing ways to set up a similar mechanism in addition to the proposed establishment of a development bank to provide help from the South to countries in that region. These new developments, together with the aid programs of individual BRICS countries, are likely to change the governance of global development in subtle but tangible ways, both over time

12 For further details on the recent developments between China and the CMIM, see Chan (2012).

and in terms of cumulative amounts. At a summit held in Durban, South Africa in March 2013, the five leaders of BRICS agreed to set up a BRICS emergency fund and a BRICS development bank to help them and developing countries to face possible financial difficulties in future and to promote development.

Why can the existing structure withstand the challenges?

The embedded power structure of global economic governance is so strong in terms of norm diffusion, institution-building, and policy-making, and the challenges posed by the rising powers and by the global financial crisis are so weak relatively speaking, that the existing vested interests seem able to resist, withstand, and adapt to these challenges. While the relative prominence of the G20 can be seen as a result of the rise of emerging economies, the inclusion of these emerging economies to discuss global issues of importance can also be seen as a successful co-optation by the G7 countries to bring these countries into line with G7 priorities and share the burden of global economic governance. At issue is which countries are leading the global agenda of rule-setting and compliance-monitoring. Set against this measure, it is quite clear that countries in the West in general, and the U.S. in particular, are still leading the way. This embeddedness of the neo-liberal market is a matter of structure as well as one of ideology, with both reinforcing each other to sustain the strength of this market system in the global economy. Also, the path dependency of the users of the common goods produced under the existing system helps to sustain the system.

An interesting lesson that can be learned from the above analysis is that a comprehensive global collective action per se may not necessarily bring about a satisfactory solution to the global financial crisis. It can be argued that global collective action, if taken by a small, elite group of countries that share very similar ideologies and close working relationships, may produce the means needed to address global financial problems.

Based on the current trend and trajectory of power shifts from the West to the East, especially in the economic field, it can be expected that the East will continue to challenge the existing governance system, but this challenge seems to be constrained for the various reasons discussed above. We can expect new changes to pop up here and there from time to time, but they do not seem to amount to any paradigm shift in the way the global system is run. The fact that China on the whole seems to be happy to play by the rules of the game of global financial governance and the possibility of the West staging an economic recovery and taking steps to address the malaise of the present global economy help to reinforce the "working as usual" appearance of the existing system.

Conclusion

The shift of power from the West to the East, from the industrialized countries to the emerging economies, and from the U.S. to China is relative, but real, especially in the economic field. The size of the shift is, however, subject to different perceptions and is open to different interpretations. It also varies across different issue areas, so subject to different understandings is the effect of the shift. It is not certain to what extent an increase in the material power of the emerging economies would translate into an increase in the influence that these economies wield over the existing rules and norms of global governance. On the whole, changes of various magnitudes are inevitable, more pronounced in the area of economics than in areas of politics or the military or social sector. These limited changes are likely to accrue over time in the foreseeable future and could spill over into other areas from the field of economics. The push and pull along the boundaries of spheres of influence between the traditional rich world and the emerging developing world will be felt by all states across various global issues. The monopoly of voice in international relations traditionally held by the West will be tempered by voices coming from other parts of the world, resulting in a harmonization of interests in some areas, but disharmony in others. The contestation and competition over voice, influence, and loyalty will become increasingly common in a world that is turning more diffused and pluralistic in the global distribution of political and economic power.

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