China and The IMF: A Troubled Relationship

Alessandro Gili

Abstract China is trying to find its place in the International Monetary System. In the last years there was an assumption that the Chinese development model could replace the traditional prescriptions of Washington Consensus and find followers in the emerging markets. The reality seems to be different: the China model is unique and it is hard to be replied abroad. Beijing is taking an active role in many regional financial institutions and mechanisms, such as in the Chiang Mai Initiative Multilateralization, but these efforts could not be necessarily inconsistent with the global framework provided by the IMF. The greater weight given to China in the IMF through the recent reforms and the inclusion of the renminbi in the SDR basket will probably inaugurate a new path of relationship between IMF and China, giving the country the role of a "responsible stakeholder" in the management of the world economy.

Contents

1 Introduction

The relationship between China and the main financial institutions has a troubled history. Since 1978, when the reforms of Deng Xiaoping wrote a new era in China's economic path, many progresses have been made. The main question arising nowadays from the involvement of China in international financial institutions is related to the role that Beijing is willing to pursue: a responsible actor struggling to

A. Gili (✉)
Research Centre on International and European Organizations, Luiss Guido Carli University, Rome, Italy
e-mail: croie@luiss.it

E. Sciso (ed.), *Accountability, Transparency and Democracy in the Functioning of Bretton Woods Institutions*, DOI 10.1007/978-3-319-57855-2_3

integrate itself in the existing framework or a main promoter of a different economic order, with the aim to rebalance and shift the global power from advanced western economies to the emerging ones?

Last year closed with important steps towards a comprehensive overhaul of International Monetary Fund's framework. The recent approval by US Congress in December 2015 of the governance reform will lead to a new pattern of relations within the IMF, through a significant rebalancing of voting powers in accordance with the current economic power of member States. In November, a second important step was taken in order to allow an enhanced representation of China inside the Fund: the inclusion of renminbi in the Special Drawing Rights (SDR) basket and, consequently, in the elite of world currencies. This last decision has largely been interpreted as a symbolic acknowledgment of yuan's relevance in the world economy. For the first time in the history of contemporary monetary system the renminbi has been recognized as a safe and liquid international asset, where foreign governments can park their wealth. Even though this interpretation is largely understandable, the way the decision was taken and the political and economic outcomes require a further analysis.

This paper, starting from the evaluation of the Beijing Consensus as a possible alternative model to the better known Washington Consensus, tries to identify the main elements that can lead to a judgement over the role of China in the main financial institutions and particularly in the IMF, evaluating also some regional arrangements such as the Chiang Mai Initiative Multilateralization which holds strong and interesting linkages with the financial framework provided by the International Monetary Fund.

2 The *Beijing Consensus*: A Successful Model?

The definition of "Beijing Consensus" originated through the work of Joshua Cooper Ramo, who in 2004 published an outstanding essay named "The Beijing Consensus: notes on the new physics of Chinese power".[1] The Beijing Consensus could be seen as an acknowledgment of China's success in the world economy and as a challenge to the traditional economic pattern linked to the Washington Consensus. Particularly, China refused the universal "one-size-fits-all" approach to development based on imitation of international best practises. There are five main elements that highlight the differences between the economic path pursued by China and the traditional prescriptions of Washington Consensus.[2]

– Incremental reform. Beijing is carrying on a program of vast reforms which are tested locally before being adopted nationwide.

[1] See Ramo Joshua (2004).

[2] Williamson (2012), pp. 6–7. See also Beeson and Iyanatul (2005).

- Innovation and experimentation. China claims the success of an economic model based on innovation-led development: the rise of overall productivity through innovation is one of the main reasons to explain the sustainability of Chinese growth and a useful tool to curb the huge internal imbalances.
- Export-led growth. China maintains a large current-account surplus as a primary vehicle of economic growth.
- State Capitalism. China has embraced the so called “socialism with Chinese characteristics”. Even though Beijing has never formally abandoned the socialist doctrine, nowadays there are no longer any claims of central planning by government. Many companies remain State-owned enterprises (SOEs), but in the country new private-owned enterprises are finding their place. During the last global financial crisis (2008–2009) Beijing adopted an impressive plan of fiscal stimulus in order to overcome the world recession, reaffirming an enhanced role of the State in the economy.[3]
- Authoritarianism. This form of political pressure is supposed to have allowed higher growth rates, avoiding disturbances and demand of social rights.

Ramo adds two other central points. According to him, Beijing intends to carry on a sustainable and balanced growth, where the equitable distribution of wealth through policies has a central role. Furthermore, the Beijing Consensus would create a new core of emerging economies that refuse the liberal prescriptions of Washington Consensus and recognize to China a leading role in the elaboration and implementation of a new set of policies. These last two points are really controversial and not fully shareable. Indeed, China has taken some steps towards environment protection but the technical environment requirements for Chinese companies are far lower than the ones in the western countries. Concerning the second point, some evidences prove that Beijing complied with eight of ten main elements required by the Washington Consensus: China has been rigorous in terms of fiscal discipline and has maintained a competitive exchange rate, liberalizing trade and foreign direct investments. Increasing progresses have been made on four other points: spending review, tax compliance, easing barriers to market entry and strengthening property rights.[4]

In the last decades China has fostered growth and encouraged investment by suppressing wages, tolerating environment pollution and keeping the interest rates on loans artificially low; the central government has boosted exports by maintaining a weak currency. The main consequence is the huge current account surplus, where other countries have to run deficits. In recent years, China has become aware that the only choice relies on a new economic model because western economies are no longer able to import as much as before the global financial crisis, due to fiscal constraints and the need to reduce the high debt-to-GDP ratio; furthermore, an investment-driven growth is no more efficient, as witnessed by the housing bubble

---

[3]See Barboza (2008).

[4]Kennedy (2010), pp. 468–470.

which is bursting in many regions of China.[5] Prime Minister Wen Jiabao himself recognized that there were structural problems linked with the *China Model*, which caused "unsteady, unbalanced, uncoordinated and unsustainable growth".[6] Accordingly, the 12th 5 Year Plan pursued towards a transition from state-led investments to a more consumption-based economy. The World Bank in a working paper stressed the importance to orient the strategic direction of China's development towards these main issues:

– Completing the transition to a market economy
– Creating a positive environment for open innovation
– Turn the environmental troubles into green growth as a driver for development
– Modernizing and strengthening the domestic fiscal system
– Linking China's structural reforms to the challenging international economy.[7]

China's model of development is surely influenced by political factors and by the need for the ruling Chinese communist party to maintain a firmly control over the country. Since the government lacks legitimacy in the classic democratic sense, it tried to achieve an economic-based legitimacy instead, by steadily improving the living conditions of Chinese people. Nevertheless, China's astronomic growth in the past has left it in a precarious situation and the government tries to tackle popular uprisings and economic imbalances through "pain relievers", in order to lower regional disparities, to improve infrastructures, health care and education in rural areas and to contain the demand for higher wages.[8]

The China model and the Beijing Consensus are therefore going through hard times. The currency is experiencing an instable period, that triggered a capital flight towards safer markets. The sum of private and government debt raised from 160% of GDP in 2008 to 240% in 2016: this debt-to-GDP ratio is sustainable only if China will meet the growth forecasts—an average of 6.5% annually—for the next years. The problem is not only an economic one. The government and the communist party seem not to be capable to systematically tackle the imbalances and the challenges affecting China in the last years: in particular they are uncertain how to proceed in the complex reforms of the financial system, the currency policy and the management of state-owned enterprises. The Beijing Consensus and the China Model need a deep overhaul. The President Xi Jinping, during a meeting with the Central Committee, stressed the importance of market forces to be given a decisive role in the economy; therefore, structural reforms rather than huge state-led investment are the new path to ensure a sustainable growth for China, the so-called "China Model 2.0 Edition".[9]

[5]Peerenboom and Bugaric (2013), p. 6.

[6]Premier Wen Jiabao's Press Conference of 2007/03/17, Ministry of Foreign Affairs of the People's Republic of China, www.fmprc.gov.cn/enh/zxxx/t304313.htm.

[7]World Bank (2012), p. 11, available at: http://www.worldbank.org/en/news/2012/02/27/china-2030-executive-summary.

[8]Yang (2010).

[9]The Economist (2016a).

The Beijing Consensus is losing its leverage. Even though the Chinese development experience has some singular characteristics, they are not easy to be spread or replied abroad, because they are inherently correlated to China's distinctive political order. According to Edward Steinfeld, "China today is growing not by writing its own rules, but instead internationalizing the rules of the advanced industrial West."[10] The Beijing Consensus is ultimately a way to combine internal features with the unavoidable integration with the international financial system, without any claims to become a universal template for other developing countries.[11]

3 The Chiang Mai Initiative Multilateralization: The Seed of an Emerging Asian Monetary Fund

The Chiang Mai Initiative was established in 2000 by ASEAN+3 finance ministers, with the purpose to create a safety net of bilateral swap agreements and a liquidity facility within a financial framework of regional cooperation.[12] The members requiring financial assistance obtained the 10% of the needed liquidity immediately, whereas the remaining 90% should have paid off in accordance and within a program supervised by the IMF or through an emergency credit line. The linking between the grant of the liquidity and IMF conditionality has been seen as fundamental in order to ensure that such swap arrangements were not independent from IMF assistance and to guarantee the loan repayment and the fulfilment of the requested structural reforms. By the end of 2003, 2 years after the establishment of CMI, twelve bilateral swap agreements had been concluded, for an overall value of 39 billion dollars.[13] In 2005 the global amount increased sharply up to 90 billion dollars and the loan's share not subjected to IMF conditionality grew to 20% of the total loan.[14] In the Summit of Tokyo in 2007, the finance ministers reached an agreement to convert the bilateral scheme into a multilateral self-managed reserve pooling arrangement governed by a single contractual agreement (*Chiang Mai Initiative Multilateralization*).[15] Two years later, the twelfth Summit of ASEAN +3 in Bali triggered to important developments, identifying the shares of each member country, the loans requirements and an independent regional surveillance mechanism. The CMIM should have been able to meet two fundamental goals: tackling liquidity crises in the short-term and support the existing international agreements regarding financial cooperation.[16]

[10]Steinfeld (2010), p. 18.

[11]See Beeson and Li (2015), pp. 103–105.

[12]See ASEAN+3 (2000), par. 6.

[13]Kuroda and Kawai (2004), pp. 145–146.

[14]See ASEAN+3 (2005), par. 6 (IV).

[15]See ASEAN+3 (2007), parr. 6–7.

[16]See ASEAN+3 (2009), parr. 7–9.

In 2010 the Summit in Tashkent reached an agreement on the main AMRO's features: the surveillance mechanism would have been activated from 2011 with headquarter in Singapore, helping to promptly detect the major regional economic risks and the correlated corrective policies. The total size of CMIM's crisis resolution facility was decided to be around 120 billion dollars, with a contribution coming from China, Japan and South Korea of 80% and a remaining 20% from ASEAN countries. China and Japan have nowadays a share of 32% each, and the South Korea in a position of kingmaker with a share of 16%. China, Japan and South Korea represent the 72% of voting rights in CMIM, with representativeness concerns for the remaining ASEAN countries. The final agreement made the voting rights reliant on some quantitative elements, such as GDP at current prices, foreign reserves, and net contribution to CMIM. Fundamental issues (total size of CMIM, contribution of each CMIM party etc.) for the CMIM would be determined by a consensus approval at Ministerial Level Decision Making Body, which consists of ASEAN+3 Finance Ministers. Executive level issues (initial execution of drawing, renewal of drawing, events of default) would be determined by 2/3 majority at Executive Level Decision Making Body (ELDMB), which comprises the deputy-level representatives of ASEAN+3 Finance Ministries and Central Banks and Monetary Authority of Hong Kong, China.[17]

The member States of ASEAN+3 had to balance different and often opposite interests when considering the rules attached to credit lines: easing the liquidity could have undermined the fiscal discipline and triggered budgetary crises in neighbour countries. The agreement establishing the CMIM takes into account these concerns; therefore each member country is authorized to borrow a sum predetermined in advance and consistent with the contribution to CMIM's capital. For instance, ASEAN-5's economies are entitled to ask for loans equal to 2.5 times their financial contribution; smaller countries can receive up to 5 times their deposit in the CMIM. The member countries can apply for a loan to the countries that hold the rotating presidency (two chairs for China, Japan and South Korea and one chair for the remaining ASEAN countries). The lending countries have the possibility to escape a particular loan before the disbursement, if they are authorized by the fellow ASEAN+3 deputy finance ministers or in instance of force majeure or incompatibility with the internal legislation. If one or more countries deny the loan and it is notwithstanding approved, the remaining countries are called to cover the lacking liquidity.[18] This prevision ensures to the member States the right to take position against a disbursement when they have relevant implications for their internal situation. Nevertheless, the chance to opt out underlines some institutional weaknesses of CMIM and its lack of independence, highlighting the distance from more structured mechanisms, such as the IMF credit lines.[19]

[17]See ASEAN+3 (2010), Annex I, particularly par. 7.

[18]*Ivi*, par. 9.

[19]Ciorciari (2013), pp. 944–945.

In 2012, the CMIM was further enhanced. The total size of CMIM Stability Facility was doubled to 240 billion dollars, with unmodified contribution shares, purchasing multiples and voting shares. The IMF-delinked portion was raised from 20 to 30% of the total loan, with the possibility to be increased up to 40%. The maturity of IMF-linked portion was lengthened from 90 days to 1 year with two renewals, with a total supporting period of 3 years. The IMF-delinked portion was lengthened from 90 days to 6 months with three renewals, with a total supporting period up to 2 years.[20]

The main innovation came from the establishment of the CMIM-Precautionary Line. The introduction of this new credit line was a response to the concern that the CMIM was ineffective to prevent a currency crisis. The most important feature of the CMIM-Precautionary Line is the total independence from the IMF concerning its design. The country applying for a precautionary loan should fulfil five qualification criteria concerning external position and market access, fiscal policy, monetary policy, financial sector soundness and supervision, and data adequacy. The Executive Level Decision-Making Body (made by Deputies' Level Meeting) is responsible to decide on the grade of flexibility when assessing these criteria (ex-ante qualification criteria and ex-post conditionality), considering the economic reports by the requesting country and analyses by AMRO, Asian Development Bank and IMF as the basis for the decision. The CMIM-Precautionary Line can be replaced with the CMIM-Stability Facility if any recipient country is hit by a crisis and needs a strengthened support.[21]

The surveillance mechanism was designed to analyse and monitor the regional economies, with a central role in supporting the CMIM's decisional process. An effective CMIM needs therefore a credible surveillance tool, established with the *Macroeconomic Research Office* (AMRO) in 2010. Since the trade and financial sectors of ASEAN+3 economies are strictly interconnected, the AMRO's surveillance has to cover two main areas: (a) bilateral and multilateral surveillance and (b) macroeconomic and financial sector surveillance. AMRO's surveillance reports (*AMRO Regional Economic Monitoring* and individual economic surveillance reports) are submitted on a quarterly basis to the member countries' ministries of finance and central banks; twice a year, they are discussed during the meetings of vice ministers of Finance and deputy governors of the central banks of the ASEAN +3 economies.[22]

AMRO is not intended to duplicate the IMF's surveillance function; the new established surveillance mechanism is regarded as more efficient than the previous regional experiences in ensuring an economic surveillance in the region thanks to three fundamental features. First, it plays a central role in the surveillance of ASEAN+3 countries through the participation in the Economic Review and Policy Dialogue (ERPD). Secondly, the AMRO's design, made by economists and

[20]See ASEAN+3 (2012), par. III.

[21]*Ivi*, Annex I, par. 2.

[22]Siregar and Chabchitrchaidol (2013), pp. 18–19.

researchers with a thorough knowledge of economic strengths and weaknesses in the region, ensures a better comprehension about fiscal and financial imbalances and therefore on the member countries' economic outlooks. Finally, AMRO is an autonomous institution, with no dependence from existing organizations, even though a strict cooperation with IMF and Asian Development Bank is operating on an equal footing. AMRO's approach to regional surveillance is really different from the IMF. If the latter envisages a public pressure with a high degree of transparency, the former focuses on a peer review and a confidential relationship with the State. The reason has to be found in the instability of Asian economies, and in the consequent need to maintain an adequate level of confidentiality between the AMRO and the political and economic officers in the member States. The mechanism keeps open the possibility to share *early warnings* among all the member States, in case of no collaboration of the State under surveillance, that could trigger negative and systemic spillover effects on regional level.[23] One of the main critics about AMRO relies on the tendency to focus too narrowly on the domestic economy in the bilateral surveillance and less on external factors, such as other regional economies and global financial markets.[24]

In 2013 the Summit of ASEAN+3 held in New Delhi made a fundamental change, with the transformation of AMRO from a research office into an international organization, strengthening the legal basis and the ability to intervene. In order to make it possible AMRO reached an *Headquarter Agreement* with Singapore, granting a permanent institutional and administrative facility.[25] The AMRO as an institutional organization became effective and operative on 9 February 2016.[26]

There are several steps to further enhance the effectiveness of AMRO in the Asia region. To secure adequate financing for members in crisis within the IMF-delinked portion the total size of CMIM should be at least doubled. Second, purchasing multiples may be increased for ASEAN countries and reduced to China and Japan (unlikely to require CMIM assistance). Third, a further reduction of the CMIM's IMF link, ultimately to zero: the Summit of ASEAN+3 countries in 2016 confirmed the engagement to further reduce the IMF-linked portion by November.[27] Fourth, strengthen economic surveillance by moving beyond the information phase to a more binding peer review and pressure and, ultimately to a "due diligence" as in the European experience. If these steps are fulfilled, a new Asian Monetary Fund would emerge, capable of conducting effective surveillance and providing liquidity in case of crisis, with an independent conditionality policy. CMIM and AMRO need to work with the IMF in order to ensure a coordination framework and to boost complementarities and synergies.[28] Therefore, IMF and the CMIM should not be

[23]See Chabchitrchaidol (2012), p. 65.

[24]Siregar and Chabchitrchaidol (2013), p. 20.

[25]See ASEAN+3 (2013), parr. 7–13.

[26]See ASEAN+3 (2016), par. 13.

[27]See ASEAN+3 (2016), par. 7.

[28]Kawai (2015), pp. 27–28.

seen as competitive financial institutions in the Asia region, but the latter could serve as a complementary organization of the global financial architecture provided by the IMF, exchanging information on a routine basis, conducting joint analyses and financing together the member countries in the region if needed.

4 The Inclusion of Renminbi in the Basket of IMF Special Drawing Rights

The Special Drawing Rights (SDR) are an international reserve asset designed in 1969 by the International Monetary Fund as a supplement to foreign reserves of member countries and as a financial instrument for countries in balance of payment crisis. This facility cannot be defined as a currency, although it is linked to an interest rate and tradable with freely usable currencies. A national currency should meet two main quantitative requirements to be included in the Special Drawing Rights basket. First of all, the country has to be ranked among the top ten world exporters, with a share of at least 1% of the global trade. Secondly, the money should be freely usable, therefore widely used in international transactions and payments and traded in the fundamental exchange markets.[29] This second condition was introduced as a formal requirement only in 2000, and it is nowadays widely open to interpretation; in the context of IMF financing it aims at ensuring that the currency is liquid, convertible and used for the settlement of international transactions.

If China certainly fulfils the first qualification, being the first world exporter of goods and services, Yuan's leading position among the most traded currencies is a major controversial issue. According to some indicators on international money exchange, such as the utilization of renminbi in central banks' foreign reserves and in the debts international market, the Chinese currency seems to have less weight than Canadian or Australian dollar, even though these last two currencies are not included in the SDR basket. Popular Bank of China (PBoC) itself recognized that, during 2015, the value held by foreign central banks and denominated in renminbi was estimated at about 108 billion dollars, equal to 1% of total international foreign reserves. Nevertheless, central banks optioned 500 billion dollars in swap agreements in order to get yuan, more than any other currencies included US dollars. Since 2009, the Popular Bank of China focused in establishing bilateral swap agreements with foreign central banks in order to strengthen and expand the use of the renminbi in international trade and in the financial transactions. By September 2015, 34 central banks concluded swap agreements with the Chinese Central Bank for a total amount equivalent to roughly half a trillion dollars. These swap lines will surely enhance the renminbi's international use; the Central bank of Beijing is struggling to make a wider group of States ready to use renminbi-denominated instruments and financial facilities. Notwithstanding, IMF denied the possibility to identify swap agreements as an indicator on yuan's relevance in

[29] See IMF (2016b).

the world economy.[30] Despite the lack of convertibility, the renminbi has gained a modest but increasing role in some central banks' reserve portfolios. In September 2011, Nigeria announced its decision to diversify the external reserve holdings by including the renminbi in the existing currency mix.[31] Chile took a similar decision and other countries—such as Austria, Australia, Pakistan, South Africa, Switzerland, Tanzania, Russia and the United Kingdom—are checking the possibility to include renminbi-denominated assets to their reserve portfolios.[32]

The Fund has several times refused to admit political assessments in its decisions concerning governance framework and lending facilities, as clearly stated in the Articles of Agreement. Nevertheless, considering the last decisions, there could be an attempt to give more legitimacy to IMF's operations and governance by ensuring China a greater voice inside the Fund. The second reason—linked to the first one—is to be found in the IMF's willingness to contain Chinese efforts to create new financial and development institutions alternative to International Monetary Fund and World Bank, such as the Chiang Mai Initiative Multilateralization (CMIM), Asian Infrastructure Investment Bank (AIIB) and New Development Bank. Some policy makers—such as Edwin Truman, former US Secretary of Treasury and expert in Fund's affairs—convey the idea that IMF stressed the inclusion criteria in order to gain the support of a leading economic power. Therefore, Fund's decision would be an acknowledgment of China as a new economic superpower and a try to bind the country within a globally recognized framework and to comply with the rules of the international financial system.[33] Europe supported and had an important role in the raising from four to five currencies in the SDR basket: the economic ties between Beijing and the European Union are very strong, as witnessed by the swap agreement signed in October 2013, for a total amount of 45 billion euro.[34]

Christine Lagarde, managing director of IMF, stated that the decision to include renminbi in the SDR basket is a milestone on the way to integrate Chinese economy in the international financial system. Partially, the victory of China should be ascribed to the economic reforms pursued by the country in the recent years and to the efforts to liberalise the capital market, by making it compliant with international financial institutions' standards. The decision taken by IMF could strengthen reformers inside the government against the far conservatives and isolationists.[35]

In March 2009, the then President of the Popular Bank of China for the first time claimed the inclusion of the renminbi in the SDR basket[36] and proposed to enhance

[30]See Brasher (2015).

[31]See Central Bank of Nigeria (2011). The Renminbi was included among the US dollar, the Euro and the British pound sterling.

[32]Pradas (2016), pp. 80–81.

[33]Donnan and Anderlini (2015).

[34]Casarini and Fatiguso (2016).

[35]See IMF (2015a).

[36]See Xiaochuan (2009), in particular chapter IV.

the role of SDRs as a reserve currency. In 2010, the IMF applied strictly its criteria by recognizing that the yuan did not meet the requirements in order to be regarded as a freely usable currency and therefore to be included in the SDR basket.[37] In 2011, the G20 in Cannes shifted to a more flexible evaluation, recognizing that a broader SDR basket would be an important determinant of its attractiveness, and in turn influence its role as a global reserve asset.[38] In the same year the IMF issued a paper proposing core indicators in order to evaluate a currency's inclusion in the SDR basket: (a) volume of transactions in foreign exchange spot markets; (b) volume of transactions in foreign exchange derivatives markets and over-the-counter derivatives; (c) existence of an appropriate market-based interest rate instrument; (d) currency composition of official reserve holdings.[39] The 2015 review reported that the renminbi was not to be considered as freely usable at that time but, nevertheless, it was "exhibiting a significant degree of international use and trading".[40] The report concluded that the final assessment about the renminbi's inclusion in the SDR basket would have involved a significant element of judgment, due to the rapidly changing importance of the Chinese currency in the world trade and in the financial transactions.

As shown in Fig. 1, in 2015 the share of renminbi as a world payment currency is still modest (roughly 2.5% of global transactions) but it is quickly gaining some positions in the world ranking, passing from the 20th place in 2012 to the 5th place in 2015, just behind the US dollar, the euro, the pound sterling and the Japanese yen.[41]

The importance of the inclusion of renminbi in the SDR basket—which is effective from October 1st 2016—is to be found in some distinguishing elements. Since 1999, when Euro replaced German Mark and French franc in the reserve system, the basket was made by four main currencies: US dollars, Euro, Japanese Yen and British sterling. The admission of renminbi will change the relative weights in the club: from October onwards DSP basket will be 41.73% made up of US dollars, 30.93% of Euro, 10.92% of Chinese renminbi, 8.33% of Japanese Yen and 8.09% of British sterling.[42] It is important to highlight that the Yuan is the

[37]IMF (2010a).

[38]G20 (2011), Available at: https://www.oecd.org/g20/summits/cannes/Cannes%20Leaders%20Communiqu%C3%A9%204%20%20November%202011.pdf.

[39]IMF (2011).

[40]IMF (2015b).

[41]Pradas (2016), pp. 39–40.

[42]The inclusion of the renminbi in SDR Basket led also to a relative loss of the Euro compared to the US dollar. The US dollar decreased its share from 41.9 to 41.73% (−0.17%), meanwhile the quota of the Euro had a sharp reduction from 37.4 to 30.93% (−6.47%). In 2015, the Euro has tumbled 13% against the dollar, the most in a decade, and central banks have reduced the proportion of the currency in their reserves to the lowest since 2002. The Euro is getting the most impact from the inclusion of the renminbi in the SDR basket. In the years to come, this downgrade could lead to a diminished role of the Euro in the world transactions and as a reserve asset, being replaced by an enhanced renminbi.

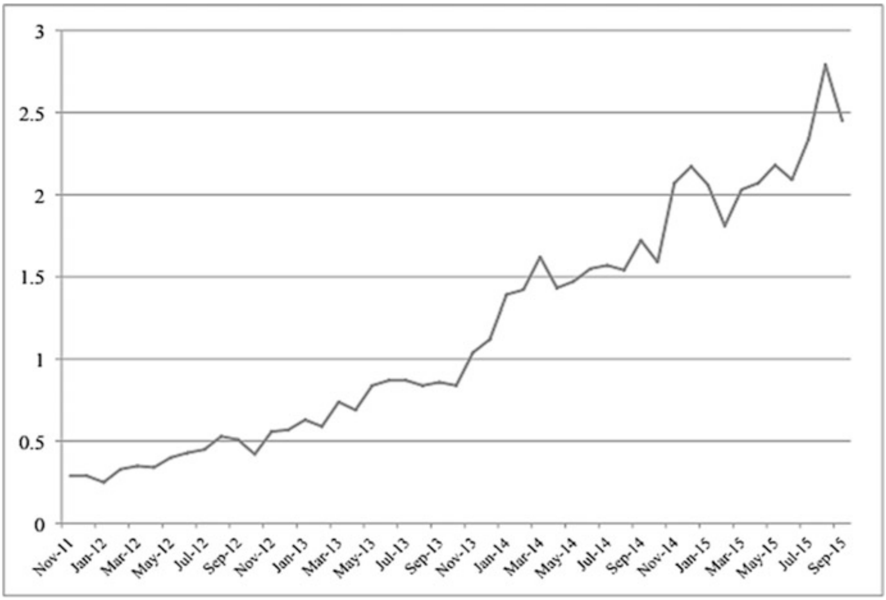

Fig. 1 Share of renminbi as a world payment currency. *Source*: Author's elaboration on SWIFT data

first currency to be admitted in the SDR belonging to a still formally emerging country, even though there are negotiations to grant China the status of market economy. Secondly, although Chinese GDP (PPP) is reaching the US GDP, per capita income is still a quarter compared to the other economies represented in the SDR basket. Finally, current members of the basket are all western democracies ruled according to principles of rule of law, with fully convertible currencies and open capital markets. China is different from many points of view: it is a non-democratic country run by a political system where the single party (Chinese Communist Party) has a central role and has tried to limit the yuan convertibility and foreign capitals.[43]

The inclusion of renminbi in the SDR basket will cause effects in the management of international economic affairs in the years to come. First, there will be a wider use of renminbi in commercial and financial transactions, ensuring China the role of global economic power. Secondly, the IMF decision could open the way to a depreciation of yuan: the Popular Bank of China (PBoC) will be stressed to handle with national currency in accordance with the path followed by central banks in the main advanced economies. Making the yuan more market-based will influence the ability of Chinese central bank in overseeing the renminbi performance. The supervision on exchange rate movements will be more difficult and more expensive but, at the same time, the liberalization will ensure more efficiency and accordance

[43] See Panda (2015).

with economic fundamentals. The Chinese government has already made the fluctuation band wider and it has linked the opening quote with the closure of the previous day; in recent times this value was determined discretionally by the central bank, considering political and geopolitical issues rather than monetary realities. China, in order to comply with Fund's requisites, was obliged to forego some of the tightest control tools on the currency, with effects on exchange rate that led to a sharp devaluation in August 2015. These changes have occurred in a time when China's economy is experimenting new imbalances—high domestic debt (particularly in the financial sector), market bubbles, and claims for higher salaries—while entering in a slowdown cycle.

The inclusion of the renminbi in the SDR basket will lead to some changes in IMF's financial operations. Single currencies in the SDR basket contribute to determining the interest rate attached to lending facilities. The entrance of China, that traditionally has higher interest rates than other western countries, will probably cause a rise in interest rates correlated to lending operations.

From a geopolitical perspective, the renminbi in the SDR basket is not supposed to threaten in the short and mid-term the supremacy of US dollar in the global monetary exchanges. The U.S. Treasury itself supported the renminbi inclusion in the SDR basket, provided that the currency meets the IMF's existing criteria.[44] Nevertheless, the rising importance of yuan in the world economy, triggered by the recent decisions of IMF, could weaken the ability of Western countries to impose financial sanctions on countries charged with human rights violations or considered to be a threat to international security, such as Sudan or North Korea. The acknowledgment of the China's yuan as one of the most important currencies in IMF operations could also weaken the resistance of western countries to grant the status of market economy to Beijing. The renminbi's inclusion in the SDR basket will probably erode the use of the dollar in the international financial transactions but, with the lack of an open capital account and free convertibility of the currency, it is unlikely that the yuan will become a prominent reserve currency.

5 The Representation of China Inside the Fund: Concluding Remarks

The representation of China has known a steady and increasing growth in the last ten years. In 2006, the ad-hoc adjustment rose the quota shares of China inside the Board of Governors to 2.94% (2.69% of the voting rights), far lower than the share of China's GDP in the world economy. In 2008, after the resolution 63-2, the country gained a further rise in its quota, which reached 3.19% (3.35% of voting

[44]U.S. Department of the Treasury (2015), *Readout from a Treasury Spokesperson of Secretary Lew's Meeting with Chinese Vice Premier Wang Yang and Finance Minister Lou Jiwei at the G20 Leaders Summit in Antalya*.

rights). The real news came from the decision of US Congress to ratify the 2010 reform, which meant almost a doubling of Chinese quota shares: the voting shares passed from 3.19 to 6.39% (from 3.81 to 6.07% of voting rights). It is clear that China is still underweighted inside the Board of Governors, if compared with 17.41% of quota shares for the United States.[45]

The increasing weight of China inside the IMF poses some challenges in the organization's internal governance. Some considerations could be drawn considering the Democratic Index developed by Economist's Intelligence Unit. The Democratic Index gives a picture of democratic situation in 165 independent countries, considering almost the whole world population and the States belonging to the international community. The index is based on five indicators: (1) pluralism and electoral process, (2) civil liberties, (3) process of government (4) participation in politics, (5) political culture. Up to the single scores (calculated in a scale from 0 to 10), each country is to be classified in one of the following categories of political system: (1) full democracy, (2) defecting democracies, (3) hybrid political system, (4) authoritarian system.

If the on-going reform process is surely positive, giving to underrepresented countries a greater voice in the internal decisional mechanisms and therefore ensuring a more effective representation of balance of power in the world economy, on the other side there should be an evaluation over the impact of the greater weight given to a non-democratic country. If we consider the States which have most gained from the reforms in the last years, some concerns about the overall democracy within the Fund arise. China, the main recipient of the reform process, takes 144° place in the Democratic Index, among the authoritarian political systems, with an overall score of 3 out of 10. In particular, China scores 0 in the category "pluralism and electoral process", 4.64 in "process of government", 3.33 in "participation in politics", 6.25 in "political culture" and 1.47 in "civil liberties".[46]

Therefore, if we consider the inner democracy in the IMF as a sum of citizens involvement in national politics and in the decisional process in their own State, the greater voice of China inside the Fund could hardly be greeted with enthusiasm in terms of IMF democratization. In China, the participation of citizens is almost void and therefore the Chinese representatives in the Fund are expression of the single ruling party rather than the result of a popular vote.

By stretching this argument and considering the inner democracy of IMF as a sum of countries' single performances, the outcome is a worse Democracy Index after the implementation of the 2010 reform: the overall score decreases from 7.03 to 6.90 (see Table 1). The fall has not been disruptive because the shift of voting rights and quota shares to emerging countries has been limited; a greater weight and voice to China, e.g. in line with its economic fundamentals, would have resulted in a sharp reduction of IMF's *Democracy Index*.

[45] IMF (2010b).

[46] See The Economist (2016b).

Table 1 IMF democracy index

Country	Voting rights 2006	Voting rights 2010	*Democracy Index* 2015
USA	17.023	16.471	8.05
Japan	6.108	6.135	7.96
Germany	5.968	5.306	8.64
France	4.929	4.022	7.92
United Kingdom	4.929	4.022	8.31
China	2.928	6.068	3.14
Italy	3.242	3.015	7.98
Saudi Arabia	3.21	2.009	1.93
Canada	2.928	2.213	9.08
Russia	2.734	2.586	3.31
India	1.916	2.627	7.74
Netherlands	2.375	1.76	8.92
Belgium	2.12	1.299	7.93
Brazil	1.402	2.217	6.96
Spain	1.408	1.918	8.3
Mexico	1.196	1.795	6.55
Switzerland	1.595	1.173	9.09
South Korea	0.76	1.73	8.06
Australia	1.494	1.331	9.01
Venezuela	1.229	0.767	5.00
Sweden	1.108	0.907	9.45
Argentina	0.981	0.661	7.02
Austria	0.869	0.808	8.54
Indonesia	0.964	0.95	7.03
Denmark	0.764	0.711	9.11
Norway	0.777	0.773	9.93
South Africa	0.867	0.634	7.56
Malaysia	0.692	0.749	6.43
Nigeria	0.814	0.516	4.62
Poland	0.638	0.841	7.09
Iran	0.697	0.736	2.16
Turkey	0.453	0.952	5.12
…	…	…	…
Total	100	100	–
IMF Democracy Index	7.035	6.897	Average 5.579

Source & Note: IMF Democracy Index calculated by the authors (Gili et Monteverdi, "Democrazia e Trasparenza nelle Istituzioni di Bretton Woods", Research Project of Relevant National Interest, 2015) as a weighted average between the quota shares held by each country in the IMF and the Democracy Index attached to the same country. 162 countries have been taken into account; these countries represent roughly the 99% of the IMF quota shares

China during the last years called several times for enhancing its political influence and of the emerging market economies in the IMF and, consequently, for ensuring a greater decision-making power in the Executive Board. Beijing intends the IMF reforms as a unavoidable part of the overall shift towards a multipolar world economy. China is willing to use its position as one of the most prominent world powers in order to correct the imbalances on behalf of the other emerging economies.[47] The country, in occasion of the 2009 temporary emission of SDR-denominated securities, demonstrated its leading role among the BRICS when it purchased the largest share of IMF bonds (US $50 billion), while other BRICS economies subscribed US $10 billion each.[48] The BRICS represent the privileged and most important forum in order to push reforms in the IMF governance in favour of a more democratic representation inside the Fund: in occasion of the 2009 extraordinary emission of bonds, China and its allies decided to contribute in exchange of assurances of future transferring of votes and quota to developing economies.[49]

China lost its confidence in the IMF's framework during the 1997 Asian financial crisis due to the Fund's policies. Beijing claimed that the severe structural reforms and conditionality applied to the developing countries during the 1980s and the 1990s triggered a diminished legitimacy of this international organization. Chinese authorities have repeatedly questioned the dominant model of fiscal austerity backed by the IMF, preferring a less intrusive IMF, closer to a clearing-house for ideas on economic cooperation and on financial regulation, more pragmatic and open minded.[50] Beijing is pushing for an enhanced representation of Chinese and developing countries officers in the Fund and for a more "open, transparent and merit-based selection process of the IMF Managing Director.[51]

Summing up, China does not intend to destroy the current international economic order; on the contrary the country is taking the role of the "responsible stakeholder", using its leverage to gain a greater voice in the IMF not only for itself but also for the other emerging economies under-represented inside the Fund. The creation of new multilateral and regional financial organizations seems to be an attempt to affirm a leading role in the world economic affairs and it is not necessarily inconsistent with a support to the traditional Bretton Woods institutions. Beijing's actions aim to ensure the endurance of the international monetary system by reforming its governance, strengthening the legitimacy and granting fresh resources to the IMF's budget.

---

[47] See Momani (2013).

[48] IMF (2009).

[49] Glosny (2010), pp. 112–113.

[50] Momani (2015), pp. 269–270.

[51] China is represented in the IMF through a Deputy Managing Director. See IMF (2016a, c).

References

ASEAN+3 (2000) The Joint Ministerial Statement of the ASEAN+3 Finance Ministers' Meeting, Chiang Mai, Thailand

ASEAN+3 (2005) The Joint Ministerial Statement of the 8th ASEAN+3 Finance Ministers' Meeting Istanbul, Istanbul, Turkey

ASEAN+3 (2007) The Joint Ministerial Statement of the ASEAN+3 Finance Ministers' Meeting, Kyoto

ASEAN+3 (2009) The Joint Ministerial Statement of the ASEAN+3 Finance Ministers' Meeting, Bali

ASEAN+3 (2010) The Joint Ministerial Statement of the ASEAN+3 Finance Ministers' Meeting, Tashkent, Uzbekistan

ASEAN+3 (2012) The joint statement of the 15th ASEAN+3 Finance Ministers and Central Bank Governors' Meeting. Manila, The Philippines

ASEAN+3 (2013) The joint statement of the 16th ASEAN+3 Finance Ministers' and Central Bank Governors' Meeting. Delhi, India

ASEAN+3 (2016) The joint statement of the 19th ASEAN+3 Finance Ministers' and Central Bank Governors' Meeting. Frankfurt, Germany

Barboza (2008) China Unveils Sweeping Plan for Economy. New York Times

Beeson M, Iyanatul I (2005) Neo-liberalism and East Asia: resisting the Washington consensus. J Dev Stud 41(2):197–219

Beeson M, Li F (2015) What Consensus? Geopolitics and policy paradigms in China and the United States. Int Aff 91(1):93–109

Brasher K (2015) China's Renminbi Is Approved by I.M.F. as a Main World Currency. New York Times, 30 November 2015

Casarini N, Fatiguso R (2016) L'ascesa della finanza cinese e il ruolo Ue. Affari Internazionali. Available at: http://www.affarinternazionali.it/articolo.asp?ID=3586

Central Bank of Nigeria (2011) Nigeria Approves Inclusion of Chinese Renminbi in External Reserves. Central Bank of Nigeria Press Release

Chabchitrchaidol A (2012) AMRO's role in regional economic surveillance and promoting regional economic and financial stability. Financ Stab Emer Mark 65

Ciorciari J (2013) The Chiang Mai initiative multilateralization. Asia Surv 51(5):926–952

Donnan S, Anderlini J (2015) IMF poised to admit China's renminbi in elite currecy basket. Financial Times (November 29)

G20 (2011) Communiqué G20 Leaders Summit. Cannes

Glosny MA (2010) China and the BRICS: a real (but limited) partnership in a unipolar world. Polity 42(1):100–129

IMF (2009) Press Release: IMF Signs US$50 Billion Note Purchase Agreement with China. Press Release No.09/293, Washington

IMF (2010a) IMF Executive Board Completes the 2010 Review of SDR Valuation. IMF Public Information Notice 10/149, Washington

IMF (2010b) IMF Quota and governance reform – elements of an agreement. Approved by Andrew Tweedie, Sean Hagan, and Reza Moghadam, Washington

IMF (2011) IMF Executive Board Discusses Criteria for Broadening the SDR Currency Basket. IMF Public Information Notice 11/137, Washington

IMF (2015a) IMF's Executive Board Completes Review of SDR Basket, Includes Chinese Renminbi Press Release No. 15/540, Washington

IMF (2015b) Review of the method of the valuation of the SDR–initial considerations. IMF, Washington

IMF (2016a) Press Release: IMF Deputy Managing Director Min Zhu to Leave the Fund. Press Release No. 16/297, Washington

IMF (2016b) Special drawing rights factsheet. IMF, Washington. Available at: http://www.imf.org/external/np/exr/facts/sdr.htm

IMF (2016c) Statement by IMF Managing Director Christine Lagarde Proposes Appointment of Mr. Tao Zhang as Deputy Managing Director. Washington

Kawai M (2015) From the Chiang Mai Initiative to an Asian Monetary Fund. ADBI Working Paper No. 527

Kennedy S (2010) The Myth of the Beijing Consensus. J Contemp China 19(65):461–477

Kuroda H, Kawai M (2004) Strengthening regional financial cooperation. In: De Brouwer G, Wang Y (eds) Financial governance in East Asia. Policy dialogue, surveillance and cooperation. RoutledgeCurzon, New York, pp 170–185

Momani B (2013) China at the International Monetary Fund: continued engagement in its drive for membership and added voice at the IMF executive board. J Chin Econ 1(1)

Momani B (2015) China at the IMF. In: Lombardi D, Wang H (eds) Enter the Dragon: China in the International Financial System. Center for International Governance Innovation, Waterloo, pp 267–293

Panda A (2015) The Renminbi Joins the IMF's SDR Basket. Now What?. The Diplomat

Peerenboom R, Bugaric B (2013) The emerging post Washington, Post Beijing consensus: prospects and pitfalls. Paper presented at law and society conference, Boston

Pradas E (2016) China's Efforts to Expand the International Use of the Renminbi. Report prepared for the U.S.-China Economic and Security Review Commission

Premier Wen Jiabao's Press Conference of 2007/03/17, Ministry of Foreign Affairs of the People's Republic of China, www.fmprc.gov.cn/enh/zxxx/t304313.htm

Ramo Joshua C (2004) The Beijing Consensus: notes on the new physics of Chinese power. Foreign Policy Centre, London

Siregar R, Chabchitrchaidol A (2013) Enhancing the Effectiveness of CMIM and AMRO: Selected Immediate Challenges and Tasks. ADBI Working Paper Series No. 403

Steinfeld E (2010) Playing our game: why China's rise doesn't threaten the west. Oxford University Press, Oxford

The Economist (2016a) A Crisis of Faith

The Economist (2016b) Democracy Index 2015: Democracy in an age of anxiety. Economist Intelligence Unit

Williamson J (2012) Is the Beijing Consensus Now Dominant? Asia Policy 13(1):1–16

World Bank (2012) China 2030: building a modern, harmonious, and creative high-income society. Paper No. 11. Available at: http://www.worldbank.org/en/news/2012/02/27/china-2030-executive-summary

Xiaochuan Z (2009) Reform the international monetary system. BIS Review 41

Yang Y (2010) The End of Beijing Consensus. Can China's model of authoritarian growth survive? Foreign Affairs, Washington