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## **China's Current Role in Global Economic Governance: Pushing for Gradual Changes by Remaining within the System**

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### **Abstract:**

Once the alienated economy, China is now well integrated with the rest of the world. The country recognizes the growing importance of global economic governance. In fact, it is now almost impossible to ensure effective and meaningful global economic governance without ensuring China's active participation. This article critically evaluates Chinese views of global economic governance and then tries to ascertain how the country has been participating in the process. The article argues that domestic development priorities play very important role in shaping China's global behavior pattern. It further argues that be it in the G20, in multilateral financial institutions or in the WTO, China has been following the prudent strategy of remaining within the system in order to influence gradual changes in global economic governance. It does not want to follow its strategy of alienation any more like it did earlier, between the 1950s and late 1970s.

**Keywords:** China, Global Economic Governance, China's Role

## 1. INTRODUCTION:

Since the reform and opening up policies of 1978, China's economy has been growing rapidly. According to the IMF, it has already become number 1 in the world in terms of Purchasing Power Parity (PPP) value and is expected to do the same in terms of GDP soon. Once the alienated economy, China is now well integrated with the rest of the world and has been showing consistent signs of promise in leading the world economy towards achieving a sustainable growth pattern. The country followed a carefully articulated gradual reform strategy to manage its transition from a command economy to an open market economy. However, its economy is still regulated and controlled by state planners to a great extent, especially in some key sectors like financial services, energy, telecom etc. 'Socialism with Chinese characteristics' or 'Capitalism with Chinese characteristics' whatever it may be called, there is no doubt that it has, so far, worked well for China. In the age of globalization, the country recognizes the growing importance of global economic governance and has been doing a great deal to engage more extensively with the world economy. China, for the last few decades, has emerged as an important part of the global economic governance process. In fact, it is now almost impossible to ensure effective and meaningful global economic governance without ensuring China's active participation. This may be because of its growing importance due to its relatively high shares in the global GDP, exports, foreign currency reserves, imports and so on. This article will at first critically evaluate Chinese views of global economic governance and then try to ascertain how the country has been participating in the process and how other leading international players like the USA, EU and Japan have been reacting to China's activism. While doing so, it will also take into consideration the country's domestic development priorities shaping its behavior pattern. For the convenience of analyses, its role in the global economic governance process will be divided into three parts, a) in the G20, b) in multilateral financial institutions, and c) in the WTO. At the end, some concluding remarks will be made.

## 2. CHINA'S VIEW OF HARMONIOUS GLOBAL ECONOMIC GOVERNANCE:

There have been contrasting views regarding global economic governance in China. A section of Chinese elites see the current process of global economic governance as nothing but a western-dominated mechanism with the main aim of restricting the country's ability to act independently. As a result, they argue in favor of a strategy of isolation (Shield 2013). On the other hand, some view it more positively. They recognize the growing importance of global economic governance in the wake of an increased level of global interdependence and so call for more active participation by China in the global economic governance process (ibid.). At present, the supporters of the latter viewpoint seem to have dominance over the policy domain of China.

Chinese policymakers strongly argue in favor of harmonious global economic governance which they have been promoting consistently as an alternative to the prevailing uni-polar system. In support of their view, they point to the fact that in the current age of increased globalization and interdependence, economic problems are like epidemic diseases that tend to transcend national or state boundaries. Therefore, everyone needs to be engaged in order to manage a globalized economic system. At least true representation from every corner of the world should be ensured to reach a broader level of consensus before making decisions whose effects are felt worldwide. This may ensure better compliance and better implementation of the decisions at the global level. The overarching logic of reaching a broader consensus involving more stakeholders is now more or less recognized by the entire world. Opinion polls conducted in 19 countries after the financial crisis of 2008, suggested that majority of the respondents in the 17 countries were unhappy with the prevailing global economic governance system and supported major reforms in it (Drezner 2014). China is of the opinion that more collective action is needed, that more countries from the developing world should be involved in the decision making process, and that more representation and democratization is required at various levels of global governance forums. Allowing various regional arrangements of developed, emerging and least developed countries to play greater roles in the global economic forums can help bring about the desired changes (Soesastro 2009).

China follows a policy of participating in the global economic governance process whilst keeping its domestic development priorities and concerns in due consideration. Global concerns are always addressed by China in light of its national interests like social stability, economic reality etc. The Chinese also insist on following the principle of non-interference in the domestic affairs of a sovereign state. Moreover, the country argues against imposing global decisions on unwilling or disinterested states.

### 3. HOW THE LEADING INTERNATIONAL PLAYERS VIEW CHINA'S CURRENT ROLE:

The leading international powers currently dominating the global economic governance system view the critical viewpoint of China mentioned in the earlier section with suspicion, and accuse the country of not playing its due role in making the system more effective. China's current role in the global economic governance process is seen as a potential threat to the prevailing international order within existing institutions and forums because it apparently challenges the status quo. Some countries from the developed world criticize China for not doing enough in terms of reforms and liberalization in its domestic arena and thus causing huge trade imbalances with the US, EU and other large economies that lead to global imbalances. For instance, the USA blames the country for artificially keeping its currency the RMB undervalued, ignoring its real value and thus causing gigantic trade deficits for the USA. The Chinese surplus and the US deficit are sometimes viewed as mirror images of one another inviting political tensions between the two countries (Dervis and Foda 2011). We know that China's surplus is caused by not only favorable transactions in the current account but also

movements of capital in the form of FDI. Some of the policy measures taken by the Chinese government have been contributing to this favorable situation for the country. In today's globalized economy, policies adopted by a nation state to protect and promote its domestic economy often create major problems for other economies of the world. Retaliatory measures by the affected states to counteract those policies may be met by further retaliation from the first state, complicating the global situation further and further. Therefore, there are strong arguments in favor of building an effective global governance mechanism to deal with the problems of global imbalances (Frieden 2012). China is criticized by leading international players for the poor state of Intellectual Property Rights (IPR) in the country. They also refer to the protectionist policies pursued by the Chinese government in some of the key sectors of its economy. China's close association with some African countries gave rise to concerns about the country's true intention in playing an effective role in the global economic governance.

#### 4. CHINA'S ROLE IN THE G20:

The G20 summit is currently viewed as the premium forum for dealing with global economic issues. During the Pittsburgh summit of 2009, world leaders upgraded the G20 by replacing its earlier version of G7/G8 and subordinating the IMF, the WTO and other institutions setting international rules, regulations, and standards (Walter 2011). China has been playing an active role since its joining of the forum in 2008. It recognizes the importance of the G20 in addressing key economic issues of the world economy and wants to take as much advantage of this premier forum as possible to play a more active role in the area of global economic governance. It may be noted here that China was very critical of the G7/G8 by calling it 'the rich men's club' and questioning its legitimate authority to deal with economic issues at the global level. This criticism was mainly due to the exclusion of China from the world forum and the lack of representation from emerging and developing economies in it. The G20 has been recognized as a well-balanced initiative having equal representation from both the developed and emerging economies. Ten industrialized countries from the former G7 plus Australia, Russia and the EU Presidency have been combined with ten emerging economies like China, India, Brazil, South Africa, Argentina, Indonesia, South Korea, Mexico, Saudi Arabia, and Turkey in order to form the world's premium forum for effectively resolving economic issues with global implications (Bradford and Linn 2004). China, however, is still critical of the G20 for its limited focus on the resolution of short-term financial crises only and for failing to adopt a longer-term perspective. China has been actively lobbying in favor of utilizing the G20 to facilitate the process of building up a sustainable mechanism to deal with economic issues that are of global relevance (Shield 2013). The Principal Economist of the Asian Development Bank Cyn-Young Park identified four issues for the G20 that have a high level of importance: a) the orderly resolution of global imbalances, b) safeguarding financial stability, c) concluding the DOHA round of trade negotiations, and d) dealing with income inequality and poverty (Park 2011).

China has been uncomfortable with the tendency of the USA and some other allied member states from the developed world to raise its domestic economic policy issues, like the undervalued exchange rate of the RMB, resultant trade imbalances with the USA and other large economies, protectionist policies in some key sectors etc., in G20 summits (Shield 2013). In this regard, China highlights the importance of domestic considerations and accuses the USA, Japan and the UK of maintaining double standards by pointing to the fact that they have also been recently following ‘unconventional monetary policies’ (ibid.).

Perhaps, it is difficult for Chinese policymakers to ignore the reality of China’s export-led growth which is largely dependent on the favorable impact of an undervalued RMB. By any means, they want to keep protecting their export-led growth for a few more years. The protectionist role of the Chinese state has been justified here as a necessity in the interest of the continuation of its ongoing trend of growth and development. In this connection, the priority of national interest has been overshadowing mounting pressure from the international community for a more liberal monetary policy. It may be argued here that China definitely recognizes the fact that it can not prolong this kind of protectionist policies forever due to growing pressure from the international community. Therefore, as part of a pragmatic strategy, China probably wants to buy as much time as possible for its export-based domestic industries till they develop some level of resilience to be able to sustain themselves against the challenges posed by externalities. The pressure from large economies, especially from the USA, regarding the associated trade imbalances is also handled by China by following the same strategy of buying time.

Moreover, the country has been dealing with some of its key sectors with caution and proceeding, in terms of reforms and liberalization, at a relatively slower pace despite continuous criticisms from the USA and the EU. It is true that China has been making major reforms by allowing foreign firms to invest and operate in its once restricted sectors as part of the WTO negotiations and agreements. But it was not willing to fully open up these key sectors overnight. Instead, it has been maintaining some level of protectionist measures in the form of policies related to minimum capital requirements, maximum stake allowed etc. and the continuation of state-dominance through the presence of a few mega-sized state-controlled firms in these key sectors. China wants to achieve a proper balance in this connection. While recognizing the very importance of compliance with the international rules, regulations and commitments, it also wants to protect the key sectors of its domestic economy that have substantial strategic importance.

## 5. CHINA’S ROLE IN MULTILATERAL FINANCIAL INSTITUTIONS:

Despite its critical view of the ‘unequal and undemocratic international order’ prevailing within the Bretton Woods system of multilateral financial institutes, China has been engaged with the same in order to meet its growing requirement of foreign capital to support its massive development programs (Shield 2013). It also aimed to take advantage of the Bretton Woods

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system, though an unfair system in their view, in order to effectively integrate its alienated economy with the rest of the world. The global financial crisis of 2008, originated in the USA and Europe, caused a catastrophic global decline in asset value by about US\$ 27 trillion which was equivalent to almost half of the global economic output (Drezner 2014: 123). The scenario has been dramatically changed for China by this crisis and brought the country to the forefront of the global economic governance process due to its geo-economic rise and its perceived capability to contribute towards stabilizing the global economy (Shield 2013). To the surprise of many observers, China suddenly responded to this changed scenario quite responsibly and came forward with a contribution of US\$ 40 billion for the IMF as capital reinforcement and agreed to channel the major portion of its aid and development assistance through existing multilateral financial institutions like the World Bank and the IMF (*ibid.*, pp. 154 and 157). It may be mentioned here that the amount of China's aid and development assistance was more than that of the World Bank in 2010. Such an overshadowing of the entire multilateral financial system by a single country seriously challenged the effectiveness of the prevailing system. However, China accommodated international concerns regarding its unilateral policies on aid and development assistance, and agreed to work more closely with the existing multilateral financial system for channeling its development assistance to Africa, Latin America and the Caribbean region. China's commitment of US\$ 2 billion to the Inter-American Development Bank and active discussions on formation of collaborative funds with the African Development Bank and the World Bank were viewed as positive signs of the country's increasing willingness to utilize the existing multilateral financial system.

China has been consistently raising its voice about the need for reforms in multilateral financial institutions. Notably, the Governor of the People's Bank of China (PBC) stressed on the need for reconsidering the role of US dollar as the global reserve currency in order to move towards an alternative mechanism of a multicurrency reserve system (Shield 2013). China also criticizes the hierarchical system of dominance whereby only citizens of the USA, the EU and Japan can become chiefs of the World Bank, the IMF and the ADB respectively. The credit allocation processes of these institutes are often viewed as inappropriate due to their biasness towards dominant players of the developed world (Boyce 2004). In this connection, the weighted voting system of the Bretton Woods institutes on the basis of respective economic contribution is also criticized by most developing countries (UNGS 2011). China has been pressing for an end to this undemocratic system of representation and alternatively proposing to introduce a more representative system to accommodate all stakeholders' voices. The World Bank and the IMF have been actively considering some important reforms towards achieving a better balance of representation in order to keep pace with the changing global scenario. For instance, the recent IMF quota adjustments benefited China the most with an increase from 3.72 percent to 6.39 percent (Madhur 2012: 822).

It is important to note here that China is not doing this campaign alone. It has consulted and successfully coordinated with other major emerging countries, especially from the BRICS and

the ASEAN, and together they are following concerted strategies to bring about the desired changes in the global economic governance system. Ironically, China has also been playing a leading role in creating alternative development banking mechanisms within the frameworks of BRICS and SCO (Shanghai Cooperation Organization) in order to put some level of pressure on the existing multilateral financial system. This is the reflection of China's dual track strategy of utilizing the existing system while at the same time pursuing some alternative mechanisms too.

## 6. CHINA'S ROLE IN THE WTO:

In 2001, China finally acceded to the WTO after a 15 year-long negotiation process. The WTO accession terms compelled the country to undertake major reform initiatives in terms of market liberalization, transparency, and international engagement (Singh 2011). It had to accept a number of unfavorable and overly strict targets like reducing average tariff to as low as 10%, lowering almost all the non-tariff barriers, making major commitments in the service sector etc. Some of the provisions were extraordinarily stricter for China compared to other WTO member states giving rise to criticisms of treating China unfairly in a multilateral system where every state is supposed to be treated on an equal footing (Kennedy 2011). But the Chinese leadership took a long-term perspective in this regard and found areas of greater interest in pursuing their ongoing reform policies and also a number of factors like enhanced market access to 142 WTO member countries, equality of treatment in key markets, further integration into the world economy, involvement in rule setting, and potential trade relationships with major trading partners (Buckley and Zhou 2013). China's seriousness about the WTO accession has been reflected by the fact that over 3,000 laws and regulations have been either abolished or modified or enacted at the central level, and at the local level the same figure has been as high as 190,000 (Yi 2011: 2).

There are major criticisms regarding China's slow progress in the area of enforcement of Intellectual Property Rights (IPR). As part of the WTO accession agreements, China has been committed to implement IPR and it has done so, at least, in terms of promptly enacting the required laws and regulations to international standards. But in terms of the enforcement of IPR, China is lagging far behind the expectations of the international community and there are widespread infringements of IPR happening throughout the country. Lejeune (2014) identifies three reasons for the slow progress of China's enforcement, namely; a) the lack of political will, b) the lack of socio-cultural tradition supportive of IPR, and c) the lack of structural framework for the enforcement of IPR laws. Some critics question the sincerity of the Chinese government in enforcing IPR. But Lejeune (2014) suggests that China also needs a strong IPR regime in order to lift its economy to the upper levels of the value chain by encouraging more indigenous innovations. Under severe pressure from the international community, but still keeping domestic considerations in mind, Chinese policymakers are probably trying to give some breathing space to its domestic industries by slowing the process of IPR enforcement.

Another major area of criticism from the developed world is China's policies of promoting indigenous innovation products by using government funds to purchase those products on a preferential basis. This is in line with the recently adopted Chinese ambition of transforming its manufacturing-based economy into an innovation-based economy by encouraging indigenous innovations. In this connection, critics from the developed world accuse China of violating its WTO obligations and commitments. Again under international pressure, especially from the USA and the EU, Chinese policymakers have committed to make some revisions in the country's Indigenous Innovation Policy measures to comply with the WTO commitments (Boumil 2012). This is a reflection of China's desperation to pursue a strategy of protecting and promoting its domestic industries while at the same time accommodating international dispositions.

The commitments made by China under the WTO General Agreement on Trade in Services (GATS) paved the way for foreign banks and financial institutions to enter into the once restricted financial services sector of the country. It may be noted here that China has been undertaking fundamental reforms in the banking sector at the time of its WTO accession negotiations. Therefore, despite opening up of the financial services market to international competition, foreign banks could make very little impact in the Chinese banking sector. The IMF reports that as of the year 2010, less than 2% of China's banking assets was controlled by 130 foreign banks (IMF 2011: 21). Foreign banks have been accusing China of adopting discriminatory policies barring them from competing on an equal footing with Chinese banks and also restricting their attempts to acquire controlling stakes in the existing Chinese banks (Crosby 2008). China wants to move slowly in this regard. International players like the USA and Japan question the legitimacy of China's restrictions on foreign equity participation in existing Chinese banks of up to 20-25% and see it as a violation of its WTO commitments under GATS. On the other hand, China argues that foreign equity participation in existing Chinese banks should be beyond its WTO commitments (*ibid.*).

## 7. CONCLUSION:

From the above analyses, it is evident that China has been, in recent times, following a strategy of being actively engaged with the prevailing global economic governance system in order to reap the benefits from the existing system. At the same time, it has been also pressing for reforms in order to mainly fix the issue of the 'balance of influence' by creating pressures from both inside and outside the system. Although some view the necessity of a USA-China centered G2 system as a pre-requisite for a more effective G20, China does not explicitly accept the idea of a narrower G2 (Walter 2011). This may be due to a potential conflict of position with its ongoing campaign for a harmonious global economic governance system. It may be argued that since the 1980s, China's position in the process of global economic governance has never been very rigid. To sum it up, four salient features can be labeled on China's current role in the process. Firstly, the country has been making a considerable amount of concessions amidst international pressures wherever it has been considered to be absolutely necessary. Secondly,



China takes its domestic concerns into serious consideration while engaging with the global economic governance process and consistently shows the tendency of trying to buy time for domestic situations to reach a certain level of maturity and sustainability. Thirdly, China has been gradually assuming a more pro-active role in global economic governance without seriously damaging the existing system. Finally, China has been building a strong support base from the emerging and developing countries at regional and global levels to create effective pressures on the current dominant players in the area of global economic governance. After the financial crisis of 2008, China's campaign for a more harmonious and inclusive global governance gained a better ground and even policymakers from developed countries started to look at China's viewpoint more positively. They have been able to recognize the growing importance of incorporating China and other major emerging economies like India, Brazil and South Africa for achieving an effective global economic governance system. Here, possibly, lies the success of China's continuous efforts in favor of a harmonious system that it has been promoting for decades. Be it in the G20, in multilateral financial institutions or in the WTO, China has been following the prudent strategy of remaining within the system in order to influence gradual changes in global economic governance. It does not want to follow its strategy of alienation any more like it did earlier, between the 1950s and late 1970s.

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