Status-quo enhancing versus status-quo challenging change in global economic governance: the case of China in finance and trade

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Status-quo enhancing versus status-quo challenging change in global economic governance: the case of China in finance and trade

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Abstract

When a state is dissatisfied with an international institution it has different strategies available to it to secure change. These strategies are increasingly well understood due to research in the areas of regime complexity and institutional selection. But while there is an understanding of how the structure of a regime can influence the chances of success of different change proposals, there is less clarity on how the content of proposed changes impacts their success. In this article we decompose proposed institutional changes into two sub-types: Status-quo challenging and status-quo enhancing. Status-quo enhancing changes promote reforms that advance the objectives of the existing regime and so serve to drive change that would otherwise be limited by the inertia of existing institutions. Conversely, status-quo challenging changes undermine the stated goals of the existing regime. We develop these sub-types by comparing China's attempts to secure changes in the global finance and trade regimes and find that for China status-quo enhancing changes have met with more success than status-quo challenging approaches because they have created more opportunities for productive coalition building.

Keywords

China, finance, global economic governance, international institutions, regime complexity, trade

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Institutional change under complexity

When a significant mismatch develops between the position of a member state within an international institution and the power of that member, it is likely to seek changes that reflect its new status. Whether these attempts at change succeed can be crucial in determining the evolution of an institution and the future prospects for cooperation in that issue area. With their increased economic power, states such as China and India have become increasingly dissatisfied with aspects of the institutional arrangements around global economic governance.[1] While there is widespread consensus that changes are needed, there is disagreement on the precise content of those reforms.[2] Which of these reform proposals are more likely to succeed?

Existing research sheds light on the ways in which multiple overlapping institutions within a regime create opportunities for dissatisfied states to pursue their goals by utilizing the ambiguity that arises from multiple institutions producing overlapping sets of rules.[3] The existence of such complexes creates opportunities for strategic action.[4] Depending on the characteristics of a regime complex, available change strategies for dissatisfied states can include regime shifting (the use of existing alternative institutions), competitive regime creation (creating new institutions to challenge existing ones), or attempting to secure internal change without exercising such outside options.[5] In complexes that are characterized by higher degrees of functional differentiation between institutions, that is, complexes populated with institutions within the same issue area that differ in their roles, a strategy of regime shifting is more difficult, while a strategy of regime creation is more likely. An example of such institutional differentiation within the same regime is the WTO and the Food and Agricultural Organization with respect to agriculture rules.[6] In a highly differentiated institutional environment use of alternative institutions is thus limited by the existence of fewer alternative functionally equivalent institutions that serve the same niche.[7]

Similarly, in areas with clearly defined jurisdictional boundaries, dissatisfied states are likely to be constrained in needing to deal with the institution that is considered the appropriate setting for a particular issue.[8] The degree of dominance of a focal institution therefore also determines the range of feasible options available to dissatisfied states. Finally, the organizational density, and resource availability in an issue area can also mean that the development of new institutions is often constrained where density is high and resource availability is low.[9] In some cases the strategy of competitive regime creation might sometimes be precluded altogether simply because it too costly.[10]

Related to the structural constraints of the regime, the response of existing institutions to challengers can also constrain the prospects for success of change proposals. Existing institutions can either respond favorably and adapt to challenges in order to remain relevant, granting concessions to dissatisfied powers in return for their support.[11] At other times they can successfully resist change, and the degree to which they can do so often depends on the ability of the dissatisfied states to exercise meaningful outside options.[12]

The above-mentioned structural features are important in determining the chances of success for challenger states' change proposals. However, focusing solely on the structural features of a regime can result in neglect of other important factors driving outcomes. For example, the structural character of a regime cannot explain why different change proposals from the same state yield different degrees of success within the same regime. In order to better understand the full range of outcomes, attention should go beyond structural constraints and toward the content of the institutional change proposals themselves. In this article we draw a distinction between status-quo enhancing and status-quo challenging institutional change proposals.[13] We define status-quo enhancing changes as reforms that advance the stated goals and objectives of the existing regime and so serve to drive change that would otherwise not take place due to inertia. Status-quo challenging changes conversely undermine or substantially change the objectives of the existing regime. We utilize China as a case by which to develop these theoretical sub-types because in the areas of both trade and finance it has proposed both status-quo enhancing and status-quo challenging proposals.

In finance China's measures for reforming the US dollar dominated international monetary system generated mixed results: the ones that enhanced the IMF's authority and legitimacy succeed whereas those challenged the status-quo IMF governance structure and rules failed. Meanwhile, China, together with other Asian economies, successfully built a regional financial governance framework that endorse Chinese interests and Asian preferences, because the framework complies with the IMF's functions in core issue areas. In trade, China has been successful in establishing a new model of trade agreement that differs quite substantially from that adopted by other major economic powers. This has been successful because the differences in the agreements are in line with existing WTO rules on special and differential treatment of developing states. At the same time China has failed to secure sufficient support to successfully alter the dominant understanding of market economy status which would go against the established understanding of that term at the WTO. We draw on these findings to conclude that status quo-enhancing changes are, all else equal, more likely to succeed than status-quo challenging strategies because the former create opportunities for productive coalition building with already powerful members of an established institution. Status-quo challenging changes meanwhile require a much larger and unwieldy coalition of less powerful dissatisfied states in order to secure change.

The relationship between change content and strategy success

While existing accounts of institutional change emphasize the ways in which the structure of a regime complex can determine the success of change strategies, they tend to treat change as an undifferentiated variable. This is justified in terms of theoretical parsimony since, by definition, all attempts at change aim at altering the institutional status-quo. Yet this approach sacrifices nuance regarding the impact of variation in the content of the proposed change has on determining the strategies available to a dissatisfied state. There is a recognized need for more elaboration of the complexity of behavior that can be pursued by individual agents.[14] This article contributes by building on insights regarding the structural constraints of regime complexes and institutional responses to demands for change, to explore the interaction between these factors and the content of proposed reforms.

To determine whether a change is status-quo enhancing or challenging we use the stated goals, rules, and definitions of a focal institution as a baseline. In the case of finance, the objectives outlined in the articles of agreement of the focal institution, the International Monetary Fund (IMF), are used. Consequently, any reform proposals that are in line with the objectives of promoting monetary cooperation, facilitating growth of international trade and exchange stability, eliminating foreign exchange restrictions, and providing support for countries with balance of payments problems are considered to be status-quo enhancing while reform proposals that undermine these aims are considered status-quo challenging.[15] In the case of trade, the stated objectives of the WTO are used as the baseline: to increase transparency, promote fair competition, and to support developing countries.[16]

The next section explores briefly the structure of the finance and trade regime complexes within which China has been pushing for reforms. The following section outlines the ways in which China is dissatisfied with elements of both regimes. We then evaluate whether the proposed changes are status-quo enhancing or challenging and the effectiveness of China's change strategies in both areas. We show how China's status-quo enhancing change proposals have been successful in both finance and trade while its status-quo challenging proposals have failed in both regimes. We conclude that, because both the identity of the dissatisfied state and the regimes remain constant across the cases, the content of the proposed changes to existing regimes limits the range of reform strategies available and consequently the success of the proposals.

The finance and trade regime complexes

Finance and trade are both issue areas that incorporate overlapping institutions in a common issue area, albeit with obvious focal institutions in both, the IMF and WTO respectively.[17] The finance and trade regimes have long been characterized by complexity[18] and regional institutions increasingly overlap and intersect with the dominant focal institutions.[19] In finance there are a range of institutions increasing the complexity of the regime. The IMF is the central institution that oversees financial regulation at the global level. In addition, regional financial institutions have been advanced in the past two decades to facilitate liquidity support and crisis management. For example, the European Stability Mechanism[20] and Chiang Mai Initiative Multilateralization (CMIM)[21] facilitate financial support for the countries experiencing or threatened by severe financing problems in the euro area and ASEAN+3 framework respectively. The regional financial institutions maintain a complex dynamic with the IMF. On one hand, they are in liaison with the IMF for assessing the borrowing countries' debt sustainability and financial needs. Especially in the CMIM, borrowing countries are required to be subject to the IMF conditionality in order to secure the full requested amount. On the other hand, both institutions seek to consolidate consistent regional financial regulatory frameworks that are independent from the IMF.[22] In addition to regional financial institutions, inter-regional liquidity support frameworks (such as the BRICS countries' Contingent Reserve Arrangement), bilateral or inter-regional currency swap and sovereign lending mechanisms also increase the complexity of the finance regime.

In trade while there is consensus on the existence of regime complexity, there remains a debate over the degree of hierarchy present.[23] In particular, the overlap between the WTO and preferential trade agreements (PTAs) is sometimes used as evidence of the centrality of the WTO in the regime.[24] This is because PTAs often build upon GATT/WTO rules, adding a new layer of rules which gives states dissatisfied with slow progress at the multilateral level another option.[25] Elsewhere it is argued that states use PTAs and other regional trade arrangements to defect from WTO rules and undercut the GATT framework.[26] In practice, both undermining and supportive dynamics are at play in trade, but this depends on the content of the PTAs themselves. In short, the finance and trade regimes are both characterized by overlapping institutions and some degree of hierarchy.[27] It is in this context that China has sought reforms that more closely reflect its growing power status.

China in finance and trade governance

In recent decades China has become increasingly integrated into both the finance and trade regimes and global economic governance more generally. Since joining the WTO in 2001 China's GDP has grown from around $1.3 trillion to $14.7 trillion in 2020.[28] Today it is by far the largest exporter in the world and even during the COVID-19 pandemic, China's share of global exports has continued to increase.[29] As one of the world's largest sovereign creditors, China is now ranked third in terms of voting power in the IMF and the World Bank. China has also been instrumental in creating new institutions such as the New Development Bank and the AIIB.[30] Because of its domestic needs, development experiences, and strategic concerns China has adopted a multifaceted and complex approach in both finance and trade to further its interests.[31] Whether Beijing opts to contribute constructively in multilateral efforts, chooses to not participate, or exercises its outside bilateral options depends on its assessment of which strategy will further its interests in the most effective fashion.[32]

China's frustrations with the global finance regime

In finance, the Chinese delegation maintained a low profile and learned from the IMF various skills and techniques of financial governance in the first 20 years since Beijing assumed China's membership position at the Fund in 1980. China accepted Fund advice for its exchange rate policies and institutional reforms throughout the 1990s.[33] However, the China-IMF relationship intensified in the new millennium as China's domestic economic and political interests evolved and its objectives to pursue greater influence in the global finance regime amplified. China repeatedly complained about its severe under-representation in the Fund and requested quota and voting share increases to match its weight in the world economy. China's voting power has eventually increased in the IMF, after a long delay caused by the U.S. Congress' refusal to ratify the 2010 voting share reform that would result in a transition of voting shares from the Fund's developed to developing and emerging economy members. Yet the Fund remains a culturally and institutionally western-dominated organization.

Indeed, the Chinese representatives have felt that their unsuccessful push for changes within the Fund, and that they are sometimes forced to accept undesirable Fund decisions, are due to China's weak influence in the Fund's informal forums and groups such as the G7, G20, the group of EU representatives and the Asia Pacific Group.[34] China's informal governance power in the Fund is particularly weaker than the US and some other G7 countries. As a (partial) result, the U.S. treasury successfully persuaded the IMF to revise its bilateral surveillance guidelines to discipline China's 'manipulative' exchange rate regime in 2007, which led to a deterioration of China-IMF relationship in the following 2 years.[35] Further, China has been frustrated with the heavily US dollar-dominated international monetary system, especially since the global financial crisis burst in the US in 2008. It called on the IMF to lead the reform of international monetary system by strengthening its surveillance on the major reserve currency issuer countries, especially the US, and disconnecting the system from the domestic US economic and political interests. Nevertheless, this call did not receive warm responses from the IMF.[36]

Meanwhile, several other Asian countries were largely unsatisfied with the IMF's inadequate assistance and ineffective policy advice during the Asian financial crisis. Such dissatisfaction partially resulted in the establishment of two Asian regional institutions of liquidity support and crisis management, the CMIM and its surveillance unit the ASEAN+3 Macroeconomic Research Office (AMRO). China, together with Japan, are the largest shareholders of these two institutions. Its active pursuit for leadership in the CMIM and AMRO could be considered as an attempt to boost Beijing's influence in the international finance regime outside the IMF, where its formal and informal governance power has for long been undermined.

China's frustrations with the global trade regime

Despite the growing influence of China at the WTO in almost two decades of membership, the need for reform in key areas persists from the Chinese perspective.[37] As a developing country itself,[38] China has often publicly advocated for developing state interests at the WTO, though in the early stages of its membership it took a more low-profile leadership role when compared to countries such as India or Brazil, particularly during the Doha round negotiations where its private role was much more active than its public.[39] In recent years Beijing has been more assertive in arguing for reforms that 'address the difficulties developing members encounter in their integration into economic globalization, by providing developing members with flexibility and policy space needed for their economic development'.[40] At the same time the U.S. has consistently proposed opposing reforms and argued for reform of special and differential treatment of developing countries at the WTO. In 2019 the U.S. submitted reform proposals based on a critique of 'self-declaration' of developing country status, arguing that the current definition does not distinguish between different stages of economic development.[41] As a result of this difference of opinions between key members, movement on the issue of developing countries at the global level remains slow.

A second set of dissatisfactions stems from the conditions set out in China's accession protocol, specifically, its status as a non-market economy.[42] China paid a substantial price for WTO entry, agreeing to reduce tariffs on industrial goods to a significantly lower level compared to other major developing countries such as India and Brazil.[43] It also agreed to make subsidies to its state-owned enterprises subject to countervailing duties, and in doing so agreed not to apply the Subsidies and Countervailing Measures (SCM) Agreement that allows more leeway in subsidizing domestic industries.[44] At the same time, China agreed to be classified as a non-market economy (NME) for 15 years. This meant that from 2001 it was easier for other WTO members to successfully impose and uphold countervailing measures on Chinese exports compared to developed economies.[45] China's accession protocol required China to 'allow prices for traded goods and services in every sector to be determined by market forces except for those specified in Annex 4 of the Protocol'.[46] Consequently, the method for WTO members to determine dumping margins (and therefore anti-dumping duties) on products from China are calculated using the non-market economy methodology, where Chinese exporters' prices are compared to a value using surrogate values from an 'economically comparable country'.[47] These comparable country values are used instead of Chinese exporters' own values because prices in China are not viewed as being based upon market principles.[48] Crucially, if China were considered a market economy (ME), dumping margins would be based on Chinese prices rather than those of a third country.[49] In short, China's status as a non-market economy has made it particularly vulnerable to anti-dumping and countervailing measures from other WTO members and less able to defend itself against these measures through the dispute settlement system.

Whilst China continues to support the WTO and the multilateral trading system in general,[50] regional trade agreements represent an 'outside option' or hedge against unfavorable developments at the global level[51] and can offer a potential alternative mechanism to resolve these difficulties. Below we take the ASEAN-China Free Trade Area (ACFTA) as an archetypal example of this approach of utilizing outside options, both because it is one of the earliest and most significant regional agreements concluded by China, and because it offers a useful comparison with the CMIM/AMRO case in finance, given the significant overlap between participants across both cases.

China's institutional reform strategies

China represents an obvious case study to explore the success of various reform proposals due to the variety of its dissatisfactions with economic global governance and its rapid economic development. Today China is the second largest economy in the world, the world's largest exporter, and is increasing its role in international investment through its Belt and Road initiative. Yet, when it comes to global economic governance China is operating within a regime that was largely created when it was a middle economic power at best, and into which it had little input. For this reason, an examination of China's approach offers the opportunity to explore how dissatisfied states utilize regime complexity to achieve desired changes in regimes.

In finance, we show that China adopts both status-quo enhancing and challenging strategies to push for reforms in the international monetary system under the IMF framework, yet generating opposite results. Meanwhile, it adopts a status-quo enhancing strategy to change Beijing's long-existing underrepresentation in the international financial governance by seeking and consolidating a shared leadership in the CMIM and AMRO.

In trade, we argue that China has pursued a mixed strategy by attempting to use trade agreements such as the ACFTA to drive changes in the global trade regime. In some issue areas, such as treatment of developing countries, it has adopted a status-quo enhancing strategy. In others areas, such as attempting to re-define its market economy status, it has pursued a status-quo challenging approach.

In both the finance and trade cases there are similarities in terms of the regional and global linkages but also in terms of the membership of the overlapping regional institutions, given the focus on ASEAN. In focusing on these regional and global multilateral institutions we recognize that whilst unilateral tools are available to China, we assume that decisive changes to global economic governance are unlikely to be driven by one state acting in isolation. In evaluating China's strategies in these areas then, it is the degree to which the proposed regime shift is status-quo enhancing or challenging which determines its ultimate effectiveness in shifting the regime.

Attempts to reform the finance regime

China adopts mixed strategies to push for reforms in the international monetary system under the IMF framework. It called on the IMF to tighten its surveillance on the US and to divert the international monetary system away from its US–dollar domination. By doing so, China challenged the status-quo of the finance regime in which the IMF plays a central governance role. On the other hand, China pushed for adding the Chinese currency, Renminbi (RMB), to the IMF's Special Drawing Rights (SDR) basket in order to diversify the international monetary system while enhancing China's influence in the IMF. By strengthening the SDR, China's strategy enhanced the IMF's authority as well as the status quo. At the same time, China pursued a shared leadership in the CMIM and AMRO in order to increase its influence in the international financial governance. As the two regional organizations align with the IMF's core functions in surveillance and crisis management, China's pursuit of regional leadership enhances the status quo of the global finance regime.

Reforming the international monetary system: status-quo challenging versus status-quo enhancing

China has been concerned with the international monetary system that heavily centers around the US dollar. In such a system, the Chinese trade and investment policies are inevitably subject to the domestic US economic and political interests. China's concern peaked when the market expectation of the collapse of the US dollar escalated after the 2008 global financial crisis burst. This was primarily because China was holding enormous amounts of US dollar assets. When Beijing realized that the US government was not making efforts to protect the value of China's US dollar assets whereas the Chinese US-dollar assets holders were not able to sell out without suffering large financial losses, it started to call for reducing the US influence in the international monetary system.[52]

China's then president Hu Jingtao called for diversifying the international monetary system to include more currencies as the main international currencies at the 2008 G20

Washington Summit.[53] China's most remarkable open challenge to the US dollar domination came from the then head of Chinese central bank, Zhou Xiaochuan, who proposed to eliminate the influence of (US) sovereign interests in international liquidity management, to enlarge the use of the IMF's SDR as a super-sovereign reserve currency and to add more currencies to the SDR basket.[54] China's challenge faced multiple hurdles, as the US influence was deeply embedded in the international monetary system. Even after the global financial crisis burst in the US, several emerging economies continued to accumulate US government securities. As the world's largest exporter, China was also motivated to accumulate US dollar reserves while keeping the RMB exchange rate low, which made it a major part of the 'Bretton Woods II story'.[55] Facing the mighty 'structural power' of the US dollar, a description used by Helleiner in this 2014 book *The Status Quo Crisis*, China alone was not able to shake the system.[56] Hence, Beijing sought for multilateral solutions, that is pushing the IMF to strengthen its surveillance on the major reserve currency issuer countries, especially the US, and to promote diversifying the international monetary system and disconnecting it from the US domestic interests.[57] However, since the IMF gained authority in the global finance regime by maintaining the stability of the international monetary system, and that the Fund had been institutionally western-, and particularly US-, dominated, China's attempt to reform the international monetary system under the IMF framework largely challenged the status quo.

China's primarily status-quo challenging strategies did not meet with much success. Despite some short-lasting acknowledgments from other BRIC leaders, the Argentinean and French authorities and a few high-profile US economists (such as Joseph Stiglitz and Fred Bergsten), China's advocacy for international monetary reform was not widely supported by the IMF's main shareholders.[58] Although China's proposal for increasing the use of SDR resulted in one-time SDR allocations in 2009, it was approved by the US as a temporary and 'cheaper' way, compared to IMF quota reforms, to boost IMF resources and buffer countries from balance of payment shocks.[59] The G7 countries, and especially the US, effectively impeded China and other BRIC countries' pursuit of further SDR expansion and more fundamental measures of international monetary reforms. Several IMF executive directors of the G7 countries raised their concerns with that regular SDR allocations would reduce reserve accumulation and cause moral hazard.[60] Although the Chinese officials continued to lobby for international monetary reforms at IMF and World Bank meetings in the following years, the popularity of the topic quickly declined.[61] Neither has China persuaded the IMF to strengthen its surveillance on the US dollar. And undoubtedly the international monetary system remains heavily shaped by the domestic US interests.

However, one of Zhou Xiaochuan's 2009 proposals, that is adding more currencies to the SDR basket, was realized. The IMF announced in 2015 to add RMB into the SDR basket as the fifth currency next to the US dollar, euro, Japanese yen, and British pound. It allowed Beijing to enhance the RMB's international role without directly challenging the US dollar. What's more interesting was that the IMF lowered its criteria on 'free usability' to accept the RMB's entry into the SDR basket.[62] Even after China's policy measures for fulfilling the IMF's SDR requirement triggered a major domestic financial fluctuation in 2015, proving the RMB's unreadiness for the SDR basket, the IMF nevertheless decided to add the Chinese currency to the basket.

China's success in strengthening the RMB's international role by pushing it into the IMF's SDR basket was due to the status-quo enhancing nature of the strategy. Since China was the only strong supporter of the IMF currency among all the major economies, satisfying China's demand would also boost the Fund's own influence in the international monetary system. Further, adding the RMB into the SDR basket would not undermine the US dollar's dominance in the international monetary system nor change the key operating rules of the existing system in the short run.[63]

Leadership in the CMIM and AMRO: status-quo enhancing

The ASEAN+3 countries established the CMIM and AMRO to oversee regional financial stability after the IMF failed to control the damage of the Asian financial crisis. As the largest economy among all ASEAN+3 countries, China actively pursued the chief leadership in the CMIM and AMRO, as it expected the latter to facilitate China's leverage over its neighbors and to shape the regional economy more effectively than the IMF and G20.[64] It eventually obtained an equally-shared leadership in both institutions with Japan, Asia's other leading financial power, after multiple rounds of negotiations. More importantly, China also holds remarkable informal governance power in the two institutions. Since the directorship of the AMRO rotates between Chinese and Japanese citizens, the Chinese are guaranteed a long-term influence in the Office's policy direction. For instance, during the term of the second Chinese director (2016–2019) in the AMRO, the researchers were encouraged to show the positive impacts of economic collaboration and connectivity in Asia instead of merely reporting the risks and problems of the regional economies.[65] This preference coordinated with China's aspiration for boosting the regional economy through transnational cooperation programs such as the Belt and Road Initiative. Besides the shared directorship, there are several Chinese nationals in the AMRO's senior management team and advisory panel.

The Chinese voice is more influential in the CMIM and AMRO than in the IMF. Although the two regional institutions have weaker influence in the global finance regime than the IMF, and especially considering that the CMIM has not yet made a case of lending, the regional efforts in designing and operating both institutions demonstrate the Asian countries' determination and capacity in competitive regime creation under China and Japan's leadership. This demonstrates China's rise in the global finance regime, specifically by building an alternative financial governance framework that acknowledges the domestic Chinese interests and Asian preferences. Meanwhile, the IMF collaborates frequently with the two Asian institutions. The IMF's support for the CMIM and AMRO differs largely from its unfavorable reaction to the Asian countries' earlier attempt to build an 'Asian Monetary Fund' in 1997. The proposed Asian Monetary Fund was seen by some US and IMF officials as an attempt to weaken the US financial influence in Asia as well as a challenge to the IMF's authority in the global finance regime.[66] On the contrary, the CMIM and AMRO do not fundamentally challenge the IMF's role in Asian and global financial governance. More than that, the two regional institutions often complement the IMF's operation in Asia through close collaboration.

The most remarkable example of such collaboration is the CMIM's 'IMF link'. Currently the CMIM maintains a 40% IMF-link. It means if a member country makes a request for drawing, it gets 40% of the requested amount directly from the CMIM, and the rest 60% only if it also joins the IMF lending program and is subject to the IMF conditionality. Most of the potential recipient countries, which are the Southeast Asian countries that did not receive effective crisis assistance from the IMF during the Asian financial crisis, prefer to be more independent from the Fund.[67] Yet the potential donor countries, including China, have doubts about the AMRO's current capacity in conducting effective surveillance and ex ante enforcement during crisis-time.[68] They would therefore like to keep the IMF-link strong. Further, since the Chinese shareholder of the CMIM, the People's Bank of China, has a close relationship with the IMF, it has indicated strong support for the IMF-link. Finally, the CMIM's own lending conditionality is very similar to that of the IMF. This means even if the CMIM's IMF-link were to be eliminated one day, it would probably lend with similar conditions as the IMF.[69]

As a supporter of the IMF-link in the CMIM, China does not seek to use the CMIM and AMRO to undermine the IMF's role in the global finance regime. That being said, both China and Japan do support the AMRO to become an independent and accountable international organization with enhanced surveillance capacity.[70] They acknowledge the AMRO's potential in providing a valuable 'second opinion' through a particular Asian lens. An AMRO staff member confirmed that the Chinese authorities had often approached them and asked for opinions.[71] China and Japan also regard the CMIM and AMRO as a desirable platform for smoothening their neighbor relations. Further, the AMRO collaborates closely with the IMF in surveillance and policy advice. They run annual joint seminars on various regional economic issues. The IMF helps the CMIM prepare for real crisis-time operation through annual joint test runs. Consequently, the staff of two institutions tend to focus on similar macroeconomic factors, financial risks, and policy discussions from similar angles,[72] apart from the disagreements on few issues such as capital flow measures.[73]

Overall, the CMIM and AMRO help China (and Japan) achieve the objective of increasing influence in the international finance regime whilst focusing on increasing resources devoted to Asia. Crucially, these institutions support the existing regime and offer additional resources to the common goal of resolving balance of payments problems to help states stabilize their currencies and so represents a status-quo enhancing approach to regime shifting.

Attempts to reform the trade regime

One way that China has sought to address its dissatisfactions with the trade regime despite a lack of progress at the global level, is through PTAs. This is particularly true of the largest agreements to which it is party, the ASEAN-China Free Trade Agreement (ACFTA) and later The Regional Comprehensive Economic Partnership (RCEP). ACFTA entered into force in 2003, leading to the creation the largest free trade area by population in the world at the time.[74] A number of aspects of ACFTA are notable for diverging from the approach adopted in many other trade agreements.[75] ACFTA incorporates a more flexible approach to developing economies' liberalization schedules, contains a separate, more limited dispute resolution procedure, and includes recognition of China as a market economy. Each of these represent a potential divergence from the status quo that is more line with Chinse preferences, though in different directions, with the treatment of developing countries building on existing WTO rules and the recognition of China as a market economic representing a challenge to them.

Developing country treatment: status-quo enhancing

There were a number of factors motivating China's pursuit of a trade agreement with ASEAN, one aspect was the desire to improve its regional leadership position, balance the economic influence of Japan, reduce the regional perception of the 'China threat', and secure access to new markets in the event that global trade negotiations continue to fail.[76] China's regional agreements have long been noted for their relatively narrow issue coverage and the initially low levels of liberalization that often result.[77] ACFTA is typical of this approach and was negotiated sequentially, initially with goods liberalization first, followed by services and then investment liberalization. China's agreements are also often accompanied by up-front concessions on the part of China[78] and as part of ACFTA, China reduced tariffs more quickly on a wider range of products, and placed fewer products on the 'sensitive products' list – which entails less stringent liberalization commitments – than did the ASEAN countries.[79] At the same time China provided most favored nation (MFN) status to Myanmar, Vietnam, Cambodia, and Laos to take account of their status as the newest and least developed members of ASEAN.[80] The agreement also incorporates an Early Harvest Program (EHP) designed to protect the agricultural sectors in these least developed ASEAN countries by ensuring that tariffs on a range of agricultural products were eliminated by China whilst reciprocal liberalization was not required on the part of ASEAN's less developed members.[81] This approach contrasts with the more comprehensive agreement concluded between Japan and ASEAN in 2008 which does not contain any significant concessions for the least developed ASEAN countries.[82]

Though ACFTA resulted in initially limited levels of liberalization, the aspects of the agreement of allowing more gradual and limited liberalization on the part of least developed countries does not represent a serious challenge to the global trade regime. Rather these provisions are complementary to the special and differential treatment provisions outlined in WTO agreements. In relation to the EHP too, article 15 of the WTO agreement on agriculture explicitly allows such adjustments for developing states who '. . . shall have the flexibility to implement reduction commitments over a period of up to 10 years. Least-developed country Members shall not be required to undertake reduction commitments'.[83] In this respect, whilst ACFTA offers an alternative model to major regional trade agreements concluded elsewhere, it does not significantly challenge the norms or rules of the global trade regime. Such an approach is also in line with more recent developments such as the WTO Trade Facilitation Agreement (TFA) that entered into force in 2017 and contains the principle that implementation by least developed countries depends on their capacity.[84] In its 2018 position paper on WTO reform Beijing continued to argue that reforms 'should address the difficulties developing members encounter in their integration into economic globalization, by providing developing members with flexibility and policy space needed for their economic development'.[85] Whilst pushing these ideas at the WTO regional agreements have offered the opportunity to build a different approach at an increasingly broader regional level. In terms of impact on the broader regime China's participation in the Regional Comprehensive Economic Partnership (RCEP) is likely to be significant on this front. As with ACFTA, RCEP agreement is narrower in important respects and in particular incorporates relatively limited rules of origin standards, with only 40% of a given product's value needing to be added within RCEP countries. This is potentially important given the significant production networks across multiple countries in the region. Indeed, it has been suggested that this may make it easier for China to avoid anti-dumping measures that have been contentious at the WTO.[86]

Market economy status: status-quo challenging

In order to address the dissatisfactions related to its market economy status, China has pursued a substantial number of trade agreements that have linked the issue of ME status to trade liberalization[87] with Beijing making it 'known that nations wishing to sign a bilateral agreement with China must accord China market economy status'.[88] Beijing has similarly, signed a number of memorandums of understanding to this effect with its trade partners.[89] In the framework goods agreement with ASEAN, article 14 explicitly incorporates recognition of China's market economy status into the agreement itself.[90] However China's attempts to be recognized at the WTO as a market economy continues to face opposition from other major trading powers (particularly the U.S., EU, Japan).[91] Unless China can secure ME status recognition from these members, its outside options for securing its objective in this respect are limited. Such a scenario is unlikely because the objective that China is pursuing is viewed as undermining the core aims, specifically fair competition, of the global trade regime by these WTO members.[92]

In particular the U.S. and EU argue that granting of direct and indirect subsidies to Chinese State owned enterprises (SOEs), mean that domestic prices are distorted and not determined by market principles.[93] Today there are over 150,000 state owned enterprises (SOEs) in China and of these, 75 of the top 102 SOEs in the Fortune Global 500 largest companies in the world by revenue are Chinese.[94] As a result, SOE's are thought to constitute around 30% of China's GDP.[95] Japan, the U.S. and the EU have joined together to argue that this threatens the core objective of ensuring fair trade competition and prevent export subsidies and the dumping of products at below cost in competitor markets in order to gain market share.[96] Consequently they have worked together to call for stricter WTO rules on state subsidies, that would impact on China's trade.[97] In 2017, they issued a statement expressing concern about distortions caused by government subsidies, state-owned enterprises, and forced technology transfers. In 2018, they each agreed to strengthen rules on subsidies, notification requirements, and information sharing.[98] In late, 2018, along with Argentina and Costa Rica, the EU, U.S., and Japan presented a reform proposal that if a member does not notify the WTO about preferential measures or subsidies for domestic industries they could be expelled.[99] Finally, in 2020 the three parties proposed that 'the subsidizing Member must demonstrate that there are no serious negative trade or capacity effects and that there is effective transparency about the subsidy in question'.[100] Given the perception by these members that recognition of China's market economy status would undermine the core objectives of the existing global trade regime it appears unlikely that there will be a successful shift away from the status quo on China's market economy status soon.[101]

Concluding remarks: China in global governance

We have argued that China has pursued two sub-types of regime-shifting changes in both finance and trade governance, with varying degrees of success. In finance, China's proposals for instigating international monetary reforms within the IMF have met with different degrees of success. China's advocacy for disciplining the US within the IMF largely challenged the status quo. It was therefore resisted by the G7 countries, which formed a major governance coalition within the IMF. Thus, it failed to reduce the US influence in the international monetary system. On the other hand, China successfully reached its goal of diversifying the international monetary system by convincing the IMF to admit the Chinese RMB into its SDR basket, because the strategy enhanced the IMF's authority and legitimacy and therefore the status-quo. Meanwhile, by seeking and consolidating a shared leadership in the CMIM and AMRO, China successfully (co–) built a regional financial governance framework that endorses Chinese interests and Asian preferences. This strategy has received support from the IMF and other Asian states, as it complies with the IMF's functions in core issue areas such as surveillance and crisis management while leveraging regional resources for resolving balance of payments problems in Asia. It is therefore evidently status-quo enhancing. Looking ahead, China's change proposals in finance will undoubtedly continue to add complexity to the regime. Besides advocating for internal changes in the IMF, China will maintain constructive collaboration with the Fund, whilst supporting the CMIM and AMRO's regional financial initiatives.

In trade, China's approach to developing country interests in ACFTA is relatively distinct compared to other major regional agreements, but ultimately can be seen as a complementary extension of existing WTO rules on special and differential treatment of developing states. Conversely, we have shown how the position of Beijing on its market economy status is viewed by other major economies as a challenge to the status quo and has resulted in no meaningful progress. Looking ahead, China's change initiatives in trade will continue to add greater complexity to the existing institutional arrangements but we would expect that China's attempts to re-define the conventional understanding of market economy status will continue to be unsuccessful without the buy-in of the U.S., Japan, and EU.

The finding that China has been more successful when it has adopted status quo enhancing strategies compared to when it adopts status quo challenging strategies has important implications for international politics more broadly. It demonstrates that the status quo in trade and finance remains generally stable. This implies that China's ability to fundamentally challenge the current equilibrium remains limited given the current distribution of power and the continued support of a large number of countries for existing arrangements. At the same time, the relative flexibility and responsiveness of the regimes to status quo enhancing changes also suggests that China can achieve most of its objectives by continuing to work within the existing system. The framework developed here also sheds some light on China's behavior in issues areas beyond those discussed, for example, development finance. China's successful breakthrough in gaining larger influence in the international development regime, through creating the Beijing-based AIIB, does not fundamentally challenge the central goals and objectives of the existing regime. The AIIB's mandate and governance structure are not radically different from those of the existing creditor-dominated MDBs, including the World Bank and Asian Development Bank. This framework is therefore useful for studying the Chinese measures in various multilateral development finance institutions and the prospects for their success in reforming the international development regime. Further research is needed to establish how far this framework applies to yet other states and issue areas. We would expect our conclusion that status-quo enhancing strategies will, all else equal, be more successful than status-quo challenging strategies, to apply more broadly beyond the case of China. This is because the requirement for productive coalition building is likely to be more important, rather than less, for dissatisfied states that do not possess the resources, power, and outside options of China. Similarly in issue areas with more severe distributional concerns, such as security, we would expect that status-quo challenging changes to the regime would be even more difficult to implement given the greater difficulty of coalition building where vital security interests are at stake. Conversely we would expect that status-quo challenging change proposals may be more successful in issue areas where distributional concerns are less severe, such as in the area of global health. Overall, given the tendency in discussions on regime complexity to treat change proposals as undifferentiated, the distinction between status-quo challenging and enhancing changes can add valuable nuance to understandings of change and contestation in global governance.

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Notes

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