

# CHAPTER I

## INTRODUCTION

### A. Background

China is the fastest developing country in the world. Through Beijing Consensus, China opens its isolation situation by being industrialized one and open for market and investment. Beijing Consensus or China's Alternative Development Model itself is the political and economic policies of China that based upon three overarching ideals of Chinese development, which are innovation, pursuit of dynamic goals or rejection of per capita GDP, and self-determination. Seeing the high progress of China in develops its country, China is expected can reach the level of United States' structural power.

*“Structural power is the power to shape and determine the structures of the global political economy within which other states, their political institutions, their economic enterprises and (not least) the scientist and other professionals’ people have to operate” (Strange, States and Markets, 1998).*

*“Structural power, in short, confers the power to decide how things should be done, the power to shape frameworks within which states relate to each other, relate to people, or relate to corporate enterprises” (Strange, 1988).*

Structural power, according to Susan Strange, is based from four sources which are control over security, control over production, finance (the control of credit), and control over knowledge. In Strange's understanding, states that have the ability to exert control over those

international relevant power structures (security, production, finance, knowledge) thus influence the framework defining their relations with other states (Kremer & Pustovitovskij, 2012).

The United States has been the most powerful state in the world for several decades and has organized strong military forces in almost underdeveloped countries since the Post-Second World War. Understanding the concept of structural power by Susan Strange, it is somewhat true that United States can influence the framework defining its relations with other states because United States has the ability to exert control over security, production, finance, and knowledge. With its big influence in two biggest international institutions in the world which are the World Bank and the IMF, the U.S. becomes the only superpower state to hegemonies the world.

In the early 21<sup>st</sup> century, the critics of the process and regulation in the two biggest international economic institutions, the World Bank and the IMF, are more widespread. The critics are mostly caused by the action and policy of the World Bank and the IMF which seem unfair to the Third World countries and even symbolize hegemony of the Western countries, especially United States. In order for member countries to receive any kind of development assistance, the governments of those countries must agree to certain conditions and rule set out by the World Bank and the IMF which permits the implementation of specific reforms provided by these institutions (Baylis & Smith, 2007).

Gramsci's concept of hegemony has two related definitions. First, it means the consensual basis of an existing political system within civil society. Here it is understood in contrast to the concept of domination which means the state's monopoly on the means of violence and its consequent role as the final arbiter of all disputes. Strong states rule almost exclusively through hegemony (Adamson, 1980).

In its second sense, hegemony is an overcoming of the economic-corporative. The hegemonic level represents the advance to a "class consciousness," where class is understood not only economically but also in terms of a common intellectual and moral awareness, a common culture. Gramsci did not deny that a revolution could be carried out at the economic-corporative level (Adamson, 1980).

*The Gramscian concept of hegemony as "consensual domination" exercised in civil and political society at the level of the individual nation (or national society) may be extended/ applied to the emergent global civil and political society. In the context of asymmetries in the international political economy, the United States has exercised its domination in the periphery in the post World War II years chiefly through coercive domination, or the promotion of authoritarian arrangements in the Third World. (Robinson, 1996)*

According to Jack S. Levy, in the book *Balance of Power: Theory and Practice in the 21<sup>st</sup> Century*, hegemony is a situation in which one state amasses so much power that it is able to dominate the rest of the states in the system, which would put an end to the multistate system. This state is in a position to have absolute mastery and dominate over others.

The Banks, refers to the World Bank and the IMF, are the two biggest global economy institutions in the world. The members of this institution must follow the regulations and agreements after joining it. Those regulations and agreement have big influences towards the members which are commonly under the United States' government. Not only as the board of executive directors in favor of the biggest shareholders, but also the presidency of the World Bank and IMF has only ever been held by American delegates. The World Bank and IMF's basic problems derive from its governance structure. Today, the majority of the World Bank and IMF's votes are in the hands of the G-8, and a small minority of the world's population.

Joseph Stiglitz and Kevin Danaher think that some of the World Bank and IMF's policies symbolize United States hegemony. They are worried if the World Bank and IMF will act as the United States' handmaiden to impose developed countries' will. According to Stiglitz, the World Bank and IMF have become the tools of American interests to suppress the third world countries through economic capitalism.

World Bank and IMF are only as a means to assure that the capitalist economic power remains in the developed industrial countries. Like a double-edged knife, assistance from the World Bank and IMF felt by borrowing countries provide two effects at once, where one and the other opposite to each other. Beside, such the World Bank and IMF' assistance is also often create new problems that are sometimes much larger than the

issue that has been resolved. Seeing the purpose of the World Bank and IMF to help the poor condition of the countries, however, the fact is the World Bank and IMF fail to resolve the economic problems within the countries.

The IMF has order to assistance the developing countries. However, on the contrary, its policies have played a major role in the increase of unemployment rates within developing countries. Its policies about regulating labor market and costs have negative impact to the local industry development in developing countries. Besides causing more destruction than reconstruction at state intervention, the IMF and the World Bank also failed to destroy corruption which negatively affected income distribution and social reconstruction.

The People's Republic of China (PRC), one of the members of the World Bank and IMF, also felt the problems that occurred because of United States. Becoming not as one of the Western countries, China felt that it couldn't have bigger role in those two international institutions. Actually, China has been seeking for years to gain a bigger role in existing institutions such as the International Monetary Fund, the World Bank and the Asian Development Bank or ADB (Wharton, 2015).

The action that China took is giving the fund for Asian Development Bank because The Asian Development Bank Institute published a report in 2010 which said that developing countries in Asia require financing of US\$776 billion per year which are for national is US\$747 billion and

regional requires US\$29 billion to be invested from 2010 to 2020 in infrastructure for the region to continue economic development (Bhattacharyay, 2010).

Simultaneously with those report, The Guardian newspaper wrote in 2014 that the new bank could allow Chinese capital to finance these projects and allow it a greater role to play in the economic development of the region commensurate with its growing economic and political clout (Guardian, 2014). But until 2015, China in the ADB has only 6.5% shareholdings, while Japan has 17.6% and the U.S. has 17.5% shareholdings (ADB, 2015).

Having low percentage of shareholders in the ADB, China also has only 3.81% vote's right, whereas United States has 16.74% votes in the IMF (IMF, 2016). In the World Bank, China becomes the third largest shareholder with only 5.09% under Japan with 7.89%, whereas United States has the largest shareholder with 17.07% (Treasury, 2015). Because of that, China seeks for a bigger role to exist in the world monetary.

Seeing some proofs about the United States' power through the World Bank and the IMF that intervene other countries and control monetary system in the world, China appears as a rising global power in dealing with the U.S. predominance. The rise of China is having a significant effect on the global balance of power (Mearsheimer, 2010). It seems somewhat true that the power gap between China and the United States is narrower.

Some Western countries and the neighborhood states have fear about the rising of China. In conclusion, this thesis will examine the efforts that China does to tackle down the United States hegemony and whether there is an interest of China to become a great power country, not just becoming the balancer of the U.S. hegemony.

## **B. Research Question**

How is the effort of China to deal with the hegemony of United States' structural power in the IMF and the World Bank?

## **C. Theoretical Frameworks**

The first theory that will examine the effort of China in this thesis is Liberal theory. It is true that the world system is anarchic where sovereign states have no one above them to tell them what to do. Liberal theory sees international politics can make progress, even in anarchy situation. Anarchy stops the progress, and is something that needs to be limited or overcome in whatever way is possible (Baylis & Smith, 2007). The world is on the way to something better. People can learn from the mistakes, and move forward to a better world. State can learn, so what happened in the past cannot happen again. So, China will not necessarily repeat the U.S.'s path.

Liberals argue that trade, interdependence, membership of international organizations, and international law all increase the possibilities of cooperation and reduce the chances of conflict (Angell,

1933). States that have many economic ties are less likely to fight each other. The only way to solve the world's problems is to increase international cooperation through organizations. International organizations increase the chance of cooperation and reduce the chance of conflict. Trade and better communications draw us together, so that war is less likely.

Actors have fairly constant preferences and interests, and their actions are designed to achieve these preferences and interests. Actors are assumed to be rational; that is, they are goal-oriented "utility maximizers". Utility maximization itself is an action to choose the best alternative according to some fixed utility function to get more advantages (Aleskerov, Bouyssou, & Monjardet, 2007). In this thesis, the actor is the China as a state. The government of China is very influential in taking the China to be raising and influencing the world. Their actions in making decision foreign policy become rational and peaceful. China is influencing the world by making market oriented such as economic cooperation and trade.

Liberal International Relations theorists believe that participation in international institutions, free trade and economic interdependence, and shared democratic norms and ideas greatly increase the prospects of peace (Ferrero, 2014). International institutions give better chance of avoiding conflict by improving the flow of information between countries and creating common rules and mechanisms. There are international organization, such as United Nations, and international law that dictates the actors how to behave. It means that every actor in the world is becoming



more integrated because there are agreements and processes that help actors overcome the problems of lack of trust that realist always talk about.

Liberal believes that great powers need to be locked into a network of organizations in order to try to restrain their power. States can learn to understand that if everyone gains, then that is better than always trying to gain more than their neighbors. They can learn to create win-win situations. International organizations increase the chance of cooperation and reduce the chance of conflict (Quayle, 2013).

Based on liberal theory, the rising of China is developed by economic growth. China uses economic actions to make cooperation with other states. Liberalist thinks that China rises peacefully because China uses economic actions to gain national interest. If China's rise does not take place peacefully, the cooperation will be broken and it makes China lose everything.

Liberal theorists see that China can rise peacefully by focused on economic growth. Economic growth in China depends on free trade and gains much profit towards cooperation with other countries. Even though the military of China is well-developed, liberal believes that China will not use military force to hegemonies the regions.

One idea of liberal theory is international organization. Liberalists believe that international organizations have the ability to get states to cooperate as a way to see that international politics are not only about

struggle for power which according to military security issues is the top priority. According to the explanation above, China's rise is developed more by pursuing economic growth. The economic growth, that China gains, is by some economic initiatives such as becoming the lenders for other countries and developing the biggest international bank in Asia.

To strengthen the Liberal theory, this thesis will use Structural Power concept as the adjustment. Structural Power concept by Susan Strange in her book, *States and Market*, is divided into four kinds which are security structure, economic structure, financial structure, and knowledge structure. Structural Power bond politics and economics in which there must be politics in economics process and stated that power as something required in maximizing the state's role in the international political economy. The power determines how the action will be undertaken to achieve the goal.

From those four structures, in analyzing by using the concept of structural power, this thesis concern on the production structure, financial structure, and knowledge structure. The structural power of China in the term of production shows that the state that has ability to determine the mode of production can achieve prosperity and use its power to consolidate and maintain the political power, establish rules and regulations as well as build political institutions (Strange, 1988). China, which want to get more roles in international relations, changes their country's indicator to be industrialized one and open for global market by exporting their products. Furthermore, in the financial structure, since opening up to foreign trade and

investment and implementing free market reforms in 1979, China's GDP growth averaging nearly 10% for two decades. Simultaneously, with loans and financial aids, China becomes the lender for the developing countries which can strengthen its power in the regional area and still pursue for international arena.

While in the knowledge structure, knowledge can be used to maintain and develop the excellence of state. By opening their knowledge about globalization and how the world's work, China starts to make some initiatives to play as global player in international arena. Through its initiatives, China wants to solve the wealth gap between the developing countries and the developed countries. Those initiatives such as Beijing Consensus as the alternative of Washington Consensus, is proven create China as the world's fastest growing economic country and seated China as global player in international politics to be considered. From those all explanations about China's structural power, the opportunity of China to restrain the U.S. hegemony in financial sector is wide open if China keep struggle endlessly and seriously.

#### **D. Hypothesis**

The effort of China to deal with the hegemony of United States' structural power in financial sector is playing a leadership role in the economic and financial dimensions by initiating the development of the China-led AIIB or Asian Infrastructure Investment Bank.

## **E. Method of Research**

This thesis would be completed with relevant data and/or information. Library research such as journals, books, e-books, and articles will be used as well. The author searches the source from the internet and library in Universitas Muhammadiyah Yogyakarta. The terms used to conduct this thesis are China, World Bank, IMF, economy, hegemony, and world's economy.

This thesis is addressed to some important elements such as the policy makers, economists, and at minimum to open the eyes of young generation to think about how the world's economic works and how it should be done. This thesis also can give better knowledge about China as the rising power in Asia Pacific in economic arena. Hopefully, this thesis can become a source to other researches about China's economic in the future.

## **F. Research Purposes**

The research purposes of this thesis are:

1. To provide information about the China's responsibility and the expectation from other states about China's rise,
2. To provide deeper information about the World Bank and the IMF and find out about the challenges of China in gaining more roles in economic world, and
3. To find out and explain China's efforts in balancing the U.S. hegemony in the World Bank and the IMF.

## **G. System of Writing**

Chapter I: This chapter provides the introduction of the thesis. This chapter includes background, research question, theoretical frameworks, hypothesis, method of research, research purposes, and system of writing.

Chapter II: This chapter provides China's responsibility and the expectation from other states about China's rise. The outlines of this chapter are the responsibility of China to the underdeveloped countries after China's rise and the expectation and fear from Western countries about the rising of China.

Chapter III: This chapter provides explanation about the hegemony of the United States and the existing international institutions which are the World Bank and the IMF. This chapter also explains about the challenges of China to gain more roles in economic world.

Chapter IV: This chapter provides explanation of China's effort to restrain the U.S. hegemony. The outline of this chapter is a deeper explanation about the major initiative of China which is Asian Infrastructure Investment Bank and how China's effort to attracts the U.S. and Japan to welcome AIIB as partner.

Chapter V: This chapter provides the conclusion of the thesis.