

THE MAJOR INITIATIVES OF CHINA

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Abstract

This paper will analyze the effort of china to restrain the U.S. hegemony in financial sector. As we know that United States hegemony is very powerful with its alliances around the world. However, the rise of China become extraordinary issue that some of the scholars predict it can decline the U.S. hegemony. Therefore, China seeks to gain more roles in international world by establish some economic initiatives such as Asian Infrastructure Investment Bank that include in China's project to restrain the U.S. hegemony in structural power.

Keywords:

China; United States; Hegemony; World Bank; International Monetary Fund;
Asian Infrastructure Investment Bank; World's Economy

Introduction

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 along with its big influence in two biggest international economic institutions in the world which are the World Bank and IMF. Yet, in the early 21st century, the critics of the process and regulation in the World Bank and the IMF are more widespread that mostly caused by the action and policy of those Banks which seem unfair to the Third World countries and even symbolize hegemony of the Western countries, especially United States (Baylis & Smith, 2007).

The People's Republic of China, one of the members of the World Bank and IMF, felt that it couldn't have bigger role in those two international institutions because not as one of the Western countries. 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 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 paper will examine the efforts that China does to tackle down the United States hegemony and as the balancer of U.S. hegemony.

The Major Initiatives of China

China is well known as the world's largest developing country nowadays. Since opening up to foreign trade and investment and implementing free market reforms in 1979, China has been among the world's fastest-growing economies, with real annual gross domestic product (GDP) growth averaging nearly 10% through 2014. In recent years, China has emerged as a major global economic power. (Morrison, 2015) China's phenomenal economic growth is driving its emergence as a great power. The leadership in Beijing understands the link between economic strength and geopolitical weight. It realizes that, if China can continue to sustain near double digit growth rates in the early decades of this century, it will surpass the United States as the world's largest economy which measured by GDP (Layne, 2008).

The leadership in Beijing indicates that they are rational actor which is 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). To get more benefits, the government policy in China changes their country's indicator to be industrialized one. They open for global market by exporting their product to almost countries in the world, create investments in other countries, and allow investments in domestic with some strong policies. China's foreign policy, by making market

oriented such as economic cooperation and trade, give chance for China to influence the world.

After the 2008 global economic crisis, China doubled down on its efforts to shape its region, using its economic strength to build connectivity and institutions consolidating the Eurasian landmass. It launched the "One Belt, One Road" initiative, created the Asian Infrastructure Investment Bank and the BRICS New Development Bank, and negotiated the Regional Comprehensive Economic Partnership (RCEP), as opposed to the U.S.-sponsored Trans-Pacific Partnership. China has also strengthened efforts to shift its economy towards higher value-added goods in order to increase its global competitiveness. This goal was embodied in China 12th Five-Year Plan (Aggarwal & Newland, 2015).

China also promoted the use of the renminbi, the official currency of the People's Republic of China, as an international currency and promoted regional trade. 10 years ago, most of China's neighbors traded more with the United States than with China. Today, China is the largest trading partner of all its neighbors. Faced with Western sanctions, Russia looks to China to buy the energy and commodity exports on which it depends. Even the United States, China's main strategic competitor, is economically tied to China in fundamental ways (Menon, 2016). Moreover, the secret for the next 10 years, as General Qiao Liang framed it, is for China to overhaul its economy which is in progress, and internationalize the Yuan (Escobar, 2016).

From liberal perspective, the emergence of China by using economic sector is a good way. Rather than using aggressive way such as war and military, the economic actions of China can create cooperation with other states. International trade and economic cooperation to gain national interest, according to liberal idea, is an indicator that China rises peacefully. Seeing the effort of China which is focused on economic growth to gain more roles in international arena, liberal believes that China will not use military force to hegemonies the regions although the military of China nowadays is well-developed.

China can influence and moreover change the international economic system that is currently dominated by the Western countries, especially United States, because nowadays China is the emerging strong power. China has three structure of Structural Power Concept which are production structure, financial structure, and knowledge structure that can counter the power of the United States that also holds the World Bank and IMF. Starting in knowledge structure, China gives alternative of Washington Consensus which is Beijing Consensus. In production structure, by applying Beijing Consensus, China change to be industrialized one and open for global market by exporting their products. Because the production structure is become stronger, the financial structure of China also stronger which can be seen in China's GDP that can reach 10% for two decades and make China become the lender for developing countries.

Establishing strong connections and showing capability to provide more public good to the whole world, Chinese President Xi Jinping, in the 2014 APEC meeting, stated that Beijing launched "Silk Road Fund" in order to establish new multilateral infrastructure lending bank that connect China with other countries and also as the progress towards Free Trade Area of the Asia-Pacific (Goodman & Ratner, 2014).

China already has initiative to establish "competitor Bank" of the World Bank and IMF namely AIIB or Asian Infrastructure Investment Bank with an initial Chinese contribution of \$47 billion. The China-led Asian Infrastructure Investment Bank has officially approved 57 nations as prospective founding members, including most of Western Europe. There are 12 NATO countries among AIIB's founding member states, UK, France, Netherlands, Germany, Italy, Luxembourg, Denmark, Iceland, Spain, Portugal, Poland and Norway, along with three of the main U.S. military allies in Asia, which are Australia, South Korea and New Zealand (Berke, 2015).

The AIIB is the first Asian-based international bank to be independent from the Western-dominated Bretton Woods institutions that establish in Beijing, 2013,

with a mission to finance infrastructure projects in the Asia-Pacific region. Countries accepted as AIIB founding members will have the right to set the rules for the bank (Huang C. , 2015).

China's push for the AIIB originated from China's frustration toward the existing international financial institutions, such as the IMF or the World Bank, that favor the West through voting rights distribution and head post appointments, as well as the ADB, which holds Japan as the largest shareholder and has traditionally maintained Japanese presidents. It could be a part of China's national strategic plan to raise its stature in the international financial system to match its status as the number two country in the world by GDP (Ito, 2015).

Western countries cannot blame China that has initiative to establish alternative or competing institutions such as AIIB because its voice is unfairly blocked in the World Bank and IMF even though China pass the quota reforms voting with its economic power level increase in those Bank. All the biggest shareholders in the World Bank and IMF are the Western countries.

On Monday, June 29th, 2015, China launched an infrastructure bank for Asia that put Beijing at the center of its development. It was also a landmark event in Xi's bid to extend China's reach across Asia and shape an international global financial order that better reflects Beijing's interests. Finance Minister Lou Jiwei meant this ceremony was to deepen regional cooperation, boost Asia's infrastructure and support the global economic recovery (Denyer, 2015).

In Asian Infrastructure Investment Bank, China said that 75 percent of AIIB shares will be reserved for Asian countries. China has also promised that the AIIB will follow the same international standards as other lending institutions like the IMF when it comes to environmental concerns and labor rights. China wants to keep AIIB become "lean and efficient" rather than weighted down by bureaucratic procedures. China founded AIIB precisely to get around those issues (Tiezzi, 2015).

According to liberal perspective, the Asian Infrastructure Investment Bank is one of liberal idea about international organization or institution. Back to the reason of China to gain more roles by using economic growth, the China's economic initiatives to develop the biggest international bank in Asia namely AIIB will increase the chance of cooperation and build more infrastructure for the developing countries in the world, especially in Asia Pacific. Liberal believes that international politics is not only struggle for power by using military means, but also create cooperation ability that international organization has, in order to reduce the chance of conflict.

Moreover, there is concern about China's intentions within the broader context of its economic and geopolitical rise. The AIIB signals that China intends to play a larger international role. The AIIB seems to indicate that China is interested in focus more on challenging U.S. hegemony by seeking to undermine and replace the post-World War II international architecture rather than act like a responsible stakeholder by further integrating itself into the existing world order (Lipsky, 2015). However, China should be careful in its way to reshape global economic order. When China can develop AIIB successfully within its members, the global economic system will change automatically and the position of the World Bank and the IMF as the world's fund borrowing will replace simultaneously, even though its needs time more than a decade.

The AIIB is meant to be a multilateral development institution that will focus on infrastructure needs in Asia. There is no question that this is a deserving cause. Asia's large population, rapid growth, and integration with the global economy all generate demand for better infrastructure. This type of competition has two implications for the AIIB. First, to remain relevant, aid organizations must be accountable to their stakeholders. If the AIIB is seen as being overly dominated by China, other members will turn their attention elsewhere, depriving the organization of resources, attention, and skilled staff (Lipsky, 2015).

Second, maintaining governance and accountability standards in development aid is already extremely difficult, particularly when dealing with relatively successful developing countries that can pick and choose from a wide range of multilateral, bilateral, and private financing sources. For this reason, the entry of the AIIB as an additional funding source in Asia is unlikely to make a significant difference in social and environmental standards (Lipsy, 2015).

The AIIB will likely give China some important advantages similar to what the United States and Japan enjoy, respectively, in the World Bank and ADB. However, China will also be constrained by other members of the institution. The structural advantages that China enjoys in the AIIB will be beneficial only insofar as other members take the institution seriously and provide funding, skilled staff, and coordination. If the institution is perceived as being unfair or nontransparent, it will become nothing more than a shell organization through which China disburses bilateral foreign aid (Lipsy, 2015).

To put it differently, China has a basic choice. It can create an AIIB that is mutually beneficial, reflects the broader concerns of its members, and perhaps modestly over represents Chinese interests. If, instead, China seeks to dominate the AIIB, the institution will shrivel into irrelevance. In the former case, U.S. membership in the AIIB will provide an opportunity to influence and shape the trajectory of an institution that will make a meaningful contribution to economic development in Asia. In the latter case, there is no meaningful threat to U.S. interests anyway (Lipsy, 2015).

The initial consensus, mostly expressed by the developed countries, was that the AIIB would be “a bank of China, by China and for China,” and would not be accepted as an international financial institution. It is because when the AIIB was first proposed in October 2013, China was prepared to establish its headquarters in Beijing, appoint a Chinese president, secure capital up to 100 billion dollars, and establish China as 50% holder of AIIB shares. Since then, China has continuously modified the core architecture of the AIIB, such as lowering its own

shareholder percentage, and has attempted in various ways to call for nations to join the AIIB (Ito, 2015).

From all those explanations, the Asian Infrastructure Investment Bank is expected to be lean, clean and green to extend China's regional reach and boost in creating a more integrated Asia-Pacific economy, by enlisting them in a project to build infrastructure across the continent under a New Silk Road initiative (Denyer, 2015). Rather than thinking the Asian Infrastructure Investment Bank (AIIB) as a treat to replace the IMF and World Bank formation in which the United States holds unique veto power, the world is better to think it as the adding fund help to build infrastructures for the developing nations, especially in Asia- Pacific.

China's Effort to Attract the U.S. and Japan to Join AIIB

The frustration of China towards the existing multilateral institutions that limit its global ambition and prevents China and other emerging economies from playing greater role in international political economy, even though China has been generally cooperative with and supportive of the Bretton Woods institutions, make China create initiative multilateral economic institution which is AIIB that will help to rectify the situation and boost China's status as a global power.

Along with AIIB, China also proposed "One Belt, One Road" that consists of Silk Road Economic Belt and 21st Century Maritime Silk Road. "One Belt, One Road" is a far reaching economic development plan and focuses on improving trade, infrastructure, and connecting in this region. In addition to the economic benefits, the AIIB and OBOR will significantly facilitate the movement of goods, services, and people across national borders (Zhu, 2015).

At the time of the IMF and World Bank Spring meeting in Washington in April, 2015, there was much media attention over the Asian Infrastructure Investment Bank (AIIB) proposed by China. Both the IMF and the World Bank have publicly welcomed the AIIB as a sign of increase in funding for infrastructure needs in Asia, but hope that the Asian Infrastructure Investment Bank will cooperate well with these existing international institutions (Ito, 2015).

The announcements of the United Kingdom, Germany, France, and Italy that they would join the AIIB came as a surprise to both the Japanese and United States' governments. The fact that the United States was unable to stop the formation of the AIIB, not to mention prevent the British from joining the bank, points to a diminishing level of economic and diplomatic influence on the part of the United States. It could be said that the international finance system has reached a major turning point (Ito, 2015). Until now, United States did not want join the AIIB. Although United States hopes to create good relations with AIIB, the United States seems not intend to embrace and support the Asian Infrastructure Investment Bank. Especially for the U.S. which has declined to join the Asian Infrastructure Investment Bank and been leading what many allies and others see as a failed campaign against it.

Similar with the U.S. as its ally, Japan decides not to join as a charter member in order to negotiate the MOU. Japan has several reasons regarding its decision, which are AIIB limited the participation of Western countries that effectively locking in China as the undisputed leader, the potential for a conflict of interest if the AIIB will fund projects within China, and the potential of China to use AIIB for political purposes (Ito, 2015). Even though the AIIB was conceived of by China as an alternative to existing international development banks, such as the World Bank and the Asian Development Bank, China still worry that the AIIB can pursue China's position as the most important global player in Asia.

To counter the rejection of the United States towards AIIB, Chinese President Xi Jinping meetings with the U.S. President Barack Obama during his first state visit to the United States on 25th September 2015 in the South Lawn of the White House. An official fact sheet on U.S.-China economic relations, issued after this meeting, notes that the United States welcomes China's growing contributions to financing development and infrastructure in Asia and beyond (Panda, 2015).

The U.S. officials had declared a truce in their campaign over China's new Asian infrastructure bank, according to Shawn Donnan, in the *Financial Times*, reported on the shifting U.S. position on the AIIB after Xi Jinping's visit. Moreover, the U.S. also makes China having a commitment that the AIIB and any other new and future institutions it was involved in would abide by the highest international environmental and governance standards. The AIIB's governance standard is one of the U.S. primary concerns when its allies started joining the institution (Donnan, 2015).

The fact sheet notes that both countries resolve to further strengthen the World Bank, Asian Development Bank, African Development Bank, and Inter-American Development Bank by enhancing their financial capacity, reforming their governance, and improving their effectiveness and efficiency. Though the AIIB was not mentioned explicitly in the statement, the introductory language suggests that Washington is easing its tone on the AIIB (Panda, 2015). It is a good thing and a progress that Washington is coming around and softening its position towards AIIB. China still opens the door for the U.S. membership of the AIIB. It is also valid for Japan if Japan finally wants joins the AIIB.

The unwillingness of the United States and Japan to join the AIIB will be the challenge for China to run AIIB effectively. The United States and Japan remain non-committal to the AIIB, although that is an improvement from their previous firm opposition. The AIIB will probably function well without the participation of the United States and Japan. But the participation of these two countries is important for China since it will help improve the new bank's credit rating and give it added legitimacy (Zhu, 2015). Although the United States, along with Japan, represent two notable economies that chose not to join the AIIB, China considers the AIIB as a new forum for improving relations with Japan and the United States. Because of that, China will need to work harder to encourage the United States and Japan to join the Asian Infrastructure Investment Bank in the future.

Conclusion

Emerging from the ashes of World War II and successfully become the winner in the Post-Second World War as the dominant world power, the United States has been the most powerful state in the world for several decades and plays dominant role in the World Bank and the IMF. Yet, China's economy is growing rapidly that boosted by well-developed technology and strong military capability; place China as the fastest growing economy in the world. More than 25 years, the growth rates of China's economy have been surprising. China actions', standing as a leader and a lender within the developing world, is to reassure the international community that China's rise is peaceful. Asia in particular owes China a debt of economic gratitude for saving region from the worst effects of the global financial crisis in 2008.

The establishment of Asian Infrastructure Investment Bank or AIIB as "competitor Bank" of the World Bank and IMF can be stated as a response to frustrations because United States blocking an important agreement to increase the resources of the IMF and give emerging market nations a greater share in decision-making. Established in Beijing, 2013, the AIIB is the first independent international bank from the Western-dominated Bretton Woods institutions that has officially approved 57 nations as prospective founding members.

To expand China's regional achievement, we hope that the Asian Infrastructure Investment Bank is responsible to maintain its principle which is lean, clean, and green. With the lean, clean and green principals, along with a New Silk Road project, the AIIB has enlisted to build infrastructure across the continent in order to create a more integrated Asia-Pacific economic cooperation. Even though China with its AIIB is still far away to lead global financial order, AIIB can be acknowledged as a step forward to restrain the U.S. hegemony in financial sector.

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