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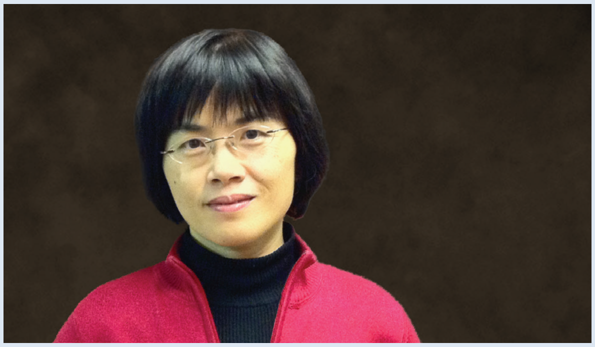

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ACRONYMS

ABMI	Asia Bond Market Initiative
ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
APT	ASEAN plus Three
ASEAN	Association of Southeast Asian Nations
BRICS	Brazil, Russia, India and South Africa
CMI	Chiang Mai Initiative
CMIM	Chiang Mai Initiative Multilateralized
CRA	Contingent Reserve Arrangement
EX-IM bank	export-import bank
G20	Group of Twenty
IMF	International Monetary Fund
NDB	New Development Bank
PBoC	People's Bank of China
RMB	renminbi
TPP	the Trans-Pacific Partnership
TTIP	the Transatlantic Trade and Investment Partnership

EXECUTIVE SUMMARY

As part of a shift toward a more activist foreign policy, China has accelerated its engagement in minilateralism, which is the gathering of a sub-group of countries within or outside a multilateral institution to solve a problem when the multilateral institution is unable to reach agreements among its members. This paper examines China's minilateral diplomacy in the financial area. Although China has been involved in regional financial cooperation for the last 15 years, its recent minilateral initiatives, such as the New Development Bank (NDB), the Contingent Reserve Arrangement (CRA) and the Asian Infrastructure Investment Bank (AIIB), are far more China-centred. What are China's motivations? Will these minilateral schemes undermine the traditional multilateral institutions? This paper argues that the Chinese government seeks to use financial minilateralism to stimulate reform of global financial institutions, provide financial public goods for its regional neighbours and fellow developing countries, as well as directly promote China's economic and political interests. China's financial minilateralism is not meant to overthrow the existing multilateral institutions, but this could change depending on the interaction between how the world responds to China's new activism and the domestic political dynamics in China. Western countries should understand and accommodate China's aspirations and encourage China to keep its minilateralism open.

INTRODUCTION

In the early 1990s, after the Tiananmen Square Incident and the fall of communism in Eastern Europe and the former Soviet Union, the Chinese government faced serious challenges at home and abroad. Deng Xiaoping prescribed the foreign policy strategy of "taoguang yanghui, yousuo zuowei" (keeping a low profile while trying to accomplish something). What he meant was that China should work hard to develop its economy rather than seek international leadership and that it should make a difference in international affairs as permitted by its capabilities (Wang 2011a). For years, Chinese foreign policy followed the first half of Deng's formulation closely, avoiding getting deeply involved in or taking a strong position on international issues outside the immediate national interests of China. China's participation in various aspects of global governance lagged behind its growing economic capabilities (Wang and French 2013). But in the last few years Chinese policy makers and analysts have begun to rethink the virtue and value of keeping a low profile (Chen and Wang 2011). Chinese foreign policy has shown greater assertiveness on some issues, as manifested in its tougher approach to territorial disputes with neighbouring countries and its demand for a new type of great-power relations with the United States (Perlez 2013). It has also become more active in participating in global economic governance (Wang and French 2014). There is a notable shift in China's conduct of foreign policy from "keeping a low profile" to "trying to accomplish something." This paper examines one aspect of China's new activism in its foreign policy — its growing engagement in financial minilateralism.

Minilateralism refers to the gathering of a sub-group of countries within or outside a multilateral institution to solve a problem when the multilateral institution is unable to reach agreements among its members. It has been a salient trend in economic diplomacy in recent years (Naim 2009; Brummer 2014). For instance, as the Doha Round of negotiation under the World Trade Organization remains too stagnant to reach a new multilateral trade agreement, different groups of countries have come together to push for liberalization among themselves. The Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP) are prominent examples.[1]

Financial minilateralism is not new. It includes various sub-global financial cooperation schemes such as the Group of Seven and the Group of Twenty (G20). Nor is it unprecedented in Chinese foreign economic policy. In 2000, China joined neighbouring countries in launching the Chiang Mai Initiative (CMI), a series of bilateral currency swaps to provide support for countries faced with liquidity crises. China was also a major force behind the Asia Bond Market Initiative (ABMI) in 2002, which aimed to promote regional bond market development. Later, China played an important role in expanding the CMI, turning the bilateral swaps into multilateral arrangements known as Chiang Mai Initiative Multilateralized (CMIM). Today, CMIM is a regional pool of foreign reserves of US$240 billion.

However, within the last year China's engagement in financial minilateralism has accelerated. In July 2014, China, along with the other BRICS countries (Brazil, Russia, India and South Africa), established the NDB. With an initial subscribed capital of US$50 billion and authorized capital of US$100 billion, the new bank aims to mobilize resources to invest in infrastructure and sustainable development projects in member countries and other developing countries. Alongside the NDB, the BRICS also created a CRA of US$100 billion. The stated goal of the CRA is to help members deal with short-term balance-of-payment pressures and reduce financial instability caused by liquidity problems. In October 2014, China and 20 other countries signed a memorandum to establish the AIIB. According to China's proposal, the bank will have an initial registered capital

1 Some scholars use the term "plurilateralism" to refer to sub-group cooperation (see, for example, Cerny 1993; Reich 1997; Baker 2000). Chinese scholars have used the term "xiao duobian" or "shaobian" to refer to "minilateral" (see, for example, Ye 2014).

of US$100 billion and will focus on supporting the development of infrastructure in Asia and beyond.

Compared with the earlier regional financial arrangements — the CMI, ABMI and CMIM — the more recent initiatives of financial minilateralism — the NDB, CRA and AIIB — are far more China-centred and China-dominated. They have generated mixed reactions from different corners of the world. Some have welcomed it while others see it as undermining the existing international financial order. This paper examines China's motivations in participating in minilateral financial cooperation and discusses whether China's financial minilateralism poses a threat to the existing multilateral framework of global financial governance.

To anticipate the findings, China has three goals in pushing for minilateral financial cooperation schemes: to stimulate reform of global multilateral institutions; to provide under supplied public goods for member countries and other developing countries; and to directly promote China's economic interests and its political standing. China's leadership does not seek to overthrow the existing multilateral framework, but if China and other emerging economies are increasingly compelled to go outside the existing multilateral system to fulfill their needs and aspirations, their actions could weaken the established multilateral institutions of global financial governance.

REFORMING MULTILATERAL FINANCIAL INSTITUTIONS

China and other developing countries have often criticized the existing international financial system as being Western-dominated and unfair to developing countries. In particular, they have demanded that multilateral financial institutions give greater voice to the Global South. Western countries have taken some steps in accommodating this demand. The G20, which consists of the largest industrialized countries and a number of dynamic emerging economies, was established in 1999 after the Asian financial crisis. During the global financial crisis of 2008-2009, these meetings, which had consisted only of finance ministers and central bank governors, were elevated to include state leaders. Although the agenda of these summits has expanded to include more issues, economic cooperation and financial reform remain the major focus. Meanwhile, the World Bank and the International Monetary Fund (IMF) introduced "voice reform" to increase the representation of developing countries in accordance to their growing weight in the world economy. In 2010, agreements were reached at both institutions to shift votes from the developed to the developing countries, especially to the emerging economies.

However, these reforms did not go very far and have fallen short of the expectations of the international community. The first few summits of the G20 achieved substantive achievements, including coordinated stimulus packages in response to the global economic crisis and agreements on strengthening financial regulations. However, the more recent meetings have been characterized by disagreements and gridlock. Some worry about the G20's loss of momentum as a forum of global economic governance. At the World Bank and the IMF, the voice reform has not changed the imbalance of influence between the developed and the developing countries. The announced shift in voting power at the World Bank has been quite small and the actual shift has been even smaller, leaving developing countries, including China, seriously under-represented (Vestergaard and Wade 2013). At the IMF, the reallocation of votes has been held up by the United States.

China and other emerging economies have been disappointed at the slow pace of the reform at multilateral financial institutions. On the one hand, Chinese officials have continued to call for these institutions to carry out their promise of greater inclusiveness and better representation of developing countries (see, for example, Zhou 2014). On the other hand, they see the creation of alternative institutions as a way to "daobi" (apply reverse pressure) on these institutions to act (Lu 2013; Zhu 2014). A central theme in the official and popular Chinese discourse is to use minilateral initiatives as leverage to increase China's "huayu quan" (right to speak) in global institutions.

For instance, at a press conference in July 2014, the spokesperson of the People's Bank of China (PBoC) stated that the creation of the CRA is a milestone; it provides a platform for BRICS countries to participate in global economic governance and increase their influence and voice (Xinhua 2014a). At the ASEAN (Association of Southeast Asian Nations) plus Three (APT) foreign ministers meeting in August 2014, Chinese foreign minister, Wang Yi, pointed out that by implementing plans for an Asian financing system, monetary stability system and credit system, Asian countries will enhance their voice in global financial governance (Xinhua 2014b). Similar comments by policy analysts about the NDB and the CRA permeate the Chinese media (for example, Ding 2014). This official perspective seems to be shared by the public in China. A survey of Chinese netizens around the time of the establishment of NDB found that over 90 percent of respondents believed that the NDB would increase the voice of developing countries on finance (Y. Wang 2014).

Besides its active role in regional and BRICS financial cooperation, China is also a member of a number of other international financial groups, such as the G20, the Financial Stability Board and the Bank of International Settlement. PBoC's deputy governor, Yi Gang, argues that China's participation in these financial institutions has "clearly improved China's influence and voice on international financial affairs" (Yi 2011). At this stage, China has not offered a detailed blueprint of what a new framework of global financial governance might look like except that it will give greater weight to the developing countries, especially the emerging economies, and will help rebalance the political influence between the Global North and the Global South. The power redistribution, presumably, will lead multilateral financial institutions to adopt more favourable policies toward the developing countries.

PROVIDING "PUBLIC GOODS"

Another goal of China's participation in financial minilateralism is to provide a variety of "public goods," which are important to the region and to developing countries, but are thus far under supplied.[2] At the regional level, CMI/CMIM, ABMI and AIIB are designed to provide common financial security and encourage common economic development. The CMI and CMIM came about after the Asian financial crisis in the late 1990s. China and its neighbours were not only shocked by the devastating economic and political consequences of the financial crisis across the region, but they were also dismayed by the slow and inadequate assistance provided by the IMF to Asian economies struggling with balance-of-payment problems (Higgot 1998; Wade and Veneroso 1998). Although China initially rejected the Japanese proposal of an Asian Monetary Fund in 1997, it welcomed the establishment of the CMI in 2000, which had a much more limited scope of cooperation. Chinese leaders had by then recognized that regional cooperation was necessary for regional as well as national financial security and economic growth in the long run (Jiang 2010). In the next few years, China actively promoted the expansion of the CMI, which facilitated the multilateralization of the CMI in 2010.

In addition to the CMI and CMIM, another important step of regional financial cooperation was the launch of the ABMI by the APT in 2002. For years previously, due to the poor development of bond markets locally, East Asian countries channelled their savings into Western bond markets while borrowing heavily from international banks. Many analysts inside and outside the region pointed out that such an approach led to a waste of resources for East Asia. It also created the problem of "double mismatch," i.e., borrowing in dollars in the short-term for long-term projects that generate revenues in local currencies. This was in fact a main cause of the Asian financial crisis. The ABMI seeks to develop regional bond markets in order to better utilize the region's own financial resources and reduce its dependence on Western bond markets and associated exchange rate risks.

The AIIB, initiated by China in October 2014, is an attempt to fill a glaring gap in infrastructure financing in the region. According to a study by the Asian Development Bank (ADB), between 2010 and 2020 Asia needs US$8 trillion to finance its infrastructure development (ADB 2012). While infrastructure development is essential for long-term economic growth, the massive size of the projects and the slow returns make such investment unattractive to most private investors. Some of the countries — including China — have accumulated sufficient public funds to support infrastructure development, but many others are not so fortunate. Moreover, in the last few decades, developed country donors and multilateral development banks have steadily reduced their financing of infrastructure projects in the developing world (Chin 2012). There is a dire need for alternative sources of financing in this area. Chinese officials point out that the World Bank and the ADB have focused their attention on poverty reduction and provided very limited investment in infrastructure. They claim that the new bank will help developing countries in the region, especially low-income countries, to meet their infrastructure financing needs (Xinhua 2014c).

Like the AIIB, the NDB offers an alternative source of infrastructure financing for the emerging economies and other developing countries. In addition, Chinese commentators emphasize that the NDB will help promote the use of local currencies for trade settlement and investment among the emerging economies. Although the initial contribution from all member countries is to be made in US dollars, in the long run, China hopes to expand the use of the renminbi (RMB) and other BRICS currencies. From China's perspective, this would greatly reduce the exchange rate risks for trade and investment among the emerging economies (Xinhua 2014d).

Like the CMI/CMIM, the CRA provides an additional financial safety net for BRICS countries in times of liquidity crises. According to Chinese government officials, the CRA draws from the successful experience of the CMIM (Xinhua 2014a). If the CMIM came out of lessons of the Asian financial crisis, the CRA may in some ways be a reaction to the global financial crisis and the more recent European debt crisis. In the aftermath of the Asian crisis, the IMF was slow and arrogant with its response to Asian countries, prompting Asia to develop mechanisms of self-help. In contrast, following the European debt crisis the IMF provided generous support for Greece by bending

2 The term "public goods" is used loosely here to refer to goods that tend to benefit more than one country. Some of the goods provided by the financial cooperation initiatives are non-excludable and non-rivalrous (for example, prevention of financial crisis), while others do not meet these criteria (for example, infrastructure loans). The latter may be more accurately described as "club goods" (Buchanan 1965).

its own lending rules.[3] Although BRICS leaders have not explicitly related the creation of the CRA with the apparent Western bias of the IMF, such a connection seems quite plausible. Chinese officials state that the CRA is a helpful new mechanism to protect the financial stability of other emerging economies and indirectly serve the economic interests of China (Xinhua 2014a).

PROMOTING CHINA'S INTERESTS AND INFLUENCE

Besides the "reverse pressure" on reform of the global financial institutions and the provision of under supplied public goods for developing countries, another goal of Chinese initiatives in minilateral financial cooperation is to more directly promote Chinese economic interests and political influence.

On the development financing front, the NDB and AIIB both aim to invest in infrastructure projects such as energy and transportation, especially in developing countries. This is consistent with China's economic priorities. In the last decade or so, China's own development bank and export-import (EX-IM) bank have poured large sums of money into building power plants, railways, highways, ports and airports in Africa, Latin America and Asia (Bräutigam and Gallagher 2014). In 2013, the Chinese government unveiled its vision of two new "Silk Roads." One of them, the land-based "Silk Road Economic Belt" will go westward through Central Asia to Europe. The other, the "Maritime Silk Road" will extend southward across the Indian Ocean to Africa before turning north to meet the land-based Silk Road (Tiezzi 2014; Ye 2014). The Chinese government is seeking to build networks of highways and high-speed rail to link the Chinese economy with the economies along these paths to expand Chinese trade and investment in these regions (Sun 2014; Ye 2014). With China playing a leading role in both the NDB and the AIIB, it is likely to direct financial resources to such projects in the future, promoting China's growing economic interests overseas.

Infrastructure building is an area where China has both strong competitive advantages and excess capacities. The NDB and the AIIB will serve China's commercial interests in these areas. While Chinese leaders have often spoken of China's desire to share its success in infrastructure development with other developing countries to help them grow, policy analysts and commentators have stressed the benefits for China in this "sharing." Because of their experience and competitiveness, Chinese companies are likely to gain a large portion of the contracted work from these infrastructure projects. In fact, shortly after Chinese President Xi Jinping announced the proposal for AIIB, Chinese companies expressed great expectations for "a feast" of opportunities (*China Daily* 2013). Overseas projects will provide much-needed outlets for the built-up capacity in China. Officials and analysts alike have pointed to China's overcapacity in infrastructure development. As an influential Chinese commentator puts it, "This structural problem cannot be solved merely by increasing domestic demand; rather, China must look to the overseas markets to channel this overcapacity" (Hu 2013).

The NDB and the AIIB can also be instruments of China's currency policy in the short and the longer terms. In the short run, they could help reduce China's large unprofitable holdings of reserves. In the last decade and more, the management of the rapidly increasing foreign reserves has been a growing challenge for the Chinese government. Thus far, most of the reserves are invested in US treasury securities (valued at US$1.27 trillion in 2013) with low returns. Investment in infrastructure projects abroad could offer a partial solution to this problem (Tang 2014). In the long run, the NDB and the AIIB plan to increase the use of local currencies. China hopes to use both banks to expand RMB-denominated lending and thus promote the internationalization of the RMB (Xinhua 2014d).

On the monetary side, the CMIM and the CRA can serve China's economic interests and political influence in several ways. First, China recognizes that regional and global financial stability is vital for China's own economic growth. The Asian financial crisis and the global financial crisis have driven home the sensitivity of Chinese foreign trade and investment to financial upheavals abroad. Although China has built up vast foreign reserves for self-assurance, the Chinese government sees regional (and bilateral) swaps as extra layers of a safety net for other countries that are less capable of self-protection (Wang and Lu 2012).

Second, in ways parallel to the NDB and the AIIB, the CMIM and the CRA can help facilitate the adoption of the Chinese currency in the region and globally. Under the CMIM framework and elsewhere, China has signed a large number of currency swap agreements with other countries and administrative regions. Some of these are based on US dollars, but more and more of them are based on local currencies. Since 2008, China has signed or renewed 35 local currency swaps, totalling RMB 2.8 trillion yuan (about US$440 billion).[4] Chinese officials

3 In 2010, in response to the euro-zone debt crisis, the IMF introduced "systemic exemption" to its existing lending framework. The exemption allowed some countries to receive financing even if the IMF could not confirm that their debt was sustainable with high probability, as was the case with Greece. The rationale used for the exemption was to prevent contagion from Greece that would cause systemic instability in Europe and beyond. Observers in China and elsewhere view the exemption as inequitable because countries outside major currency unions are unlikely to qualify for it (House, Wang and Xafa 2014; H. Wang 2014).

4 Calculated from data provided by PBoC (www.pbc.gov.cn:8080/publish/huobizhengceersi/3135/index_2.html).

and analysts view these arrangements as conducive to the cross-border use of RMB for trade and investment. The internationalization of the RMB, in turn, will facilitate China's trade relations with other countries and support Chinese companies' "going out" strategy (ibid. 2012).

Besides these economic benefits, China's involvement in minilateral financial cooperation is also driven by potential political gains. In reviewing China's financial cooperation with regional financial institutions in Asia, Africa, Latin America and the Caribbean, deputy PBoC governor Yi (2011) states explicitly that these financial initiatives are "coordinated with the country's overall foreign policy strategy."

In fact, the economic calculations are likely to be secondary to the political considerations. After all, China has its own development bank and EX-IM bank which function in ways not dissimilar to the NDB and the AIIB when it comes to promoting Chinese economic interests abroad. About five years ago, these two Chinese banks overtook the World Bank in their magnitude of lending to developing countries. And China's own foreign reserves, at nearly US$4 trillion, dwarf both the CMIM and the CRA. When it comes to fending off the direct impact of financial crises on Chinese economy, it is unlikely that China will need to resort to borrowing from minilateral or multilateral institutions.

China's initiatives with regard to these and other financial institutions should be understood as part of the overall diplomatic strategy to improve China's global image and political influence. For instance, China's initial reaction to Asian regional financial cooperation was quite negative. But when it became clear that Southeast Asian countries supported some form of financial cooperation after the Asian financial crisis, Chinese policy makers changed their mind. They calculated that some kind of cooperative arrangement was going to happen with or without China's participation. China should thus support the CMI and in doing so improve its image as a responsible and reliable partner (Jiang 2010). More recently, China's continued financial cooperation with its neighbours and active engagement with other BRICS countries on financial matters are also in part motivated by its desire to be seen as a "responsible great power" (Huang, Tan and Lei 2013).

Financial minilateralism can also potentially take some edge off another aspect of China's more activist foreign policy — its going out strategy. Although the strategy was declared in the late 1990s, it was not until the last several years that China has dramatically increased its investment in energy and natural resource-rich countries around the world, especially in developing countries in Africa and Latin America. Not surprisingly, this has generated concern and alarm from various corners, ranging from governments concerned about China's geopolitical gains to civil society groups disturbed about China's disregard for human rights and the environment. By using minilateral institutions and initiatives, China may be able to ameliorate such negative reactions. Japanese commentators seem to be particularly cynical about the AIIB, arguing it is essentially Chinese banks dressed up as multilateral banks, serving China's interests (Asahi Shimbun 2014a; 2014b). Chinese officials have not highlighted this factor in their thinking, but have made subtle references to the pacifying effect of the bank. China's minister of finance suggests that it can ease the geopolitical tension in East Asia and facilitate joint development of the resources of the East and South China Seas (Lou 2014).

Last but not least, these minilateral financial arrangements provide grounds for China to test its leadership skills. As a rapidly rising power, China faces a steep learning curve as to how to turn its new economic weight into legitimate and effective leadership. The development banks and the reserve pools China has helped create promise to provide resources and protection for poorer and more vulnerable countries than China. In contributing to these institutions, China hopes not only to serve its own broader economic interests but also cultivate its political standing (Li 2012).

Compared with the earlier regional financial arrangements such as the CMI/CMIM and ABMI, the more recent minilateral schemes such as the NDB, the CRA and the AIIB are clearly more China-centred and China-dominated. In earlier regional financial cooperation, China faced a strong competitor in Japan. For instance, the ABMI's initial commitment amounts to a reserve of US$120 billion, with China and Japan each contributing US$38.4 billion. In the case of the Credit Guarantee and Investment Facility, an important component of the ABMI, out of the total of US$700 million, China pledged to contribute US$200 million, the same as Japan. In contrast, in the BRICS, China's economy is head and shoulders above the other members (see Table 1): its GDP is much larger than the combined GDP of Brazil, Russia, India and South Africa; its economic growth has been much faster than other countries; and its foreign reserves dwarf the combined amount of the other four countries. Within the CRA, China is by far the largest contributor, making up US$41 billion of the total pool of US$100 billion and enjoying close to 40 percent of the voting power. As for the NDB, its headquarters will be in Shanghai, which gives China both tangible and intangible advantages in the new bank. In the case of the AIIB, China is the original proponent and is set to contribute over 50 percent of the initial capital. A Chinese scholar noted, "As China's economic power grows, it's a natural process for China to play a bigger role in the region and to give more support to other countries. Now China has the ability to show the real money" (Bloomberg 2014).

Table 1: BRICS Economic Indicators (2013)

Country	Brazil	Russia	India	China	South Africa
GDP (US$ billion)	2,246	2,097	1,877	9,240	351
Economic growth rate (%)	2.5	1.3	5.0	7.7	1.9
Foreign reserves (US$ billion)	358.8	509.7	289.1	3880.4	49.7

Source: World Bank data.

It is interesting to note that even as China takes on a prominent role in minilateral financial cooperation, Chinese officials and scholars are hesitant to explicitly proclaim a leadership role for China. In their discussions of BRICS cooperation, there is apparent tension between the claim that China is an equal partner and the suggestion that China should take on the responsibility to guide and lead the group (see Lu 2013). While China's position in the CRA is overwhelming, its approach to the NDB is more egalitarian. Although China could easily have contributed much more capital than the US$10 billion every country is to contribute and thus have gained greater influence, it has refrained from doing so as a concession to the other member countries (Chen 2014). With regard to the AIIB, Chinese officials have indicated China is willing to take less than 50 percent of the shares in response to concerns of other countries over China's dominance (Xinhua 2014e).

CHINA'S MINILATERALISM AND MULTILATERAL FINANCIAL INSTITUTIONS

China's recent initiatives in financial minilateralism have generated mixed responses. Formally, the World Bank and the IMF have politely applauded the NDB and the CRA. The World Bank and the ADB have, in principle, welcomed the AIIB. At the same time, anxiety about the newer initiatives is easy to discern just below the surface in the Western media. Although not often spoken about openly, there are serious concerns that these new institutions undermine the liberal international economic order by providing alternatives to the existing multilateral financial institutions, such as the World Bank and the IMF, and thus weakening the latter's leverage on borrowing countries (Von Sant 2014). In the case of the AIIB, US government officials have actively tried to dissuade other countries from joining China in this initiative. The stated rationale is that a China-led infrastructure investment bank may not follow good governance practices or international labour or environmental standards (Perlez 2014). But the unstated concern has been about China's challenge to the US-led international order. In October 2014, Korea gave in to US pressure and did not attend the launch of the new bank. Commenting on this situation, a South Korean diplomatic source said, "While Korea has been dropped from the list of founding members of the AIIB this time around, it is still in a deep dilemma on what sort of strategic choices it has to make as China challenges the U.S.-led international order" (Reuters 2014).

Chinese policy makers and analysts are well aware that China's financial minilateralism is seen by many as a threat to the existing multilateral financial system. They have gone out of their way to calm such fears, emphasizing these new institutions complement the existing institutions and fill a gap in their operations (see, for example, Lu 2013; Zhu 2014; Ministry of Finance of the PRC 2014). Some Western analysts have argued that the NDB and the CRA are not strong enough to undercut the Bretton Woods institutions and system (for example, Steil 2014). They question the viability and sustainability of these new arrangements because there is not enough cohesion among the members (O'Neill 2013; Runde 2014) or because the BRICS are no match for the enduring economic and financial power of the United States (Schuman 2014; Mishra 2014).

Will China's financial minilateralism threaten the existing framework of global financial governance? To begin with, it is important to put the minilateral arrangements in perspective. Table 2 indicates that in terms of subscribed capital, the CMIM and the CRA are no match for the IMF, and the AIIB and the NDB are considerably smaller than the World Bank and even the ADB. Moreover, the traditional multilateral financial institutions enjoy higher credit ratings and are thus able to raise funds in the international capital market much more easily and cheaply than the new minilateral institutions. Besides, these new institutions are quite dependent on the rules and procedures of the traditional multilateral institutions. For instance, under the CMIM and the CRA, 70 percent of the lending to countries facing liquidity problems is linked to IMF programs for those countries. Furthermore, the fact that China hopes to use these minilateral arrangements to increase its voice in global multilateral institutions shows how much Chinese policy makers value the multilateral institutions. It is safe to say that China's financial minilateralism is not currently a threat to the existing multilateral financial governance structure.

Table 2: Minilateral Institutions in Comparative Perspective

Institution	CMIM	CRA	IMF
Subscribed capital (US$ billion)	240	100	922

Institution	AIIB	NDB	World Bank	ADB
Subscribed capital (US$ billion)	100	50	223.2	162.8

Sources: official data from each organization.

Note: The IMF figure includes member quotas and new arrangement to borrow.

However, this situation could change over time. If China's economy continues to perform well and if China's financial resources continue to grow, minilateral financial institutions centred around China are likely to become stronger and more influential.[5] A key factor determining whether and how much they will threaten the global financial governance framework in the long term is how Western countries react to the aspirations of China. As a leading scholar of international relations in China puts it, "If the international community appears not to understand China's aspirations…the Chinese people may ask themselves why China should be bound by rules that were essentially established by the Western powers" (Wang 2011b). Furthermore, these reactions will inevitably play into China's domestic division over the country's grand strategy and foreign economic policy. For some years there has been a debate in China between those who believe China should not challenge a US-led international system and those who argue China should do exactly that (Shambaugh 2011). Which line of thinking gets the upper hand partly depends on how the world reacts to China.

In the area of financial governance, if Western countries and the multilateral financial institutions they dominate acknowledge the legitimacy of China's (and other emerging economies') demand for greater representation, if they work together with the minilateral institutions China has cultivated and if they can persuade Chinese policy makers that they do not seek to thwart China's pursuit of more economic and political influence, China is likely to continue to support these multilateral institutions rather than to try to supplant them. In contrast, if the global financial institutions and their main stakeholders reject China's desires for inclusion and recognition and appear reluctant to accommodate China's rise as a financial power, their reactions could encourage the more assertive line of thinking in China.

At present, there are signs of both types of scenarios. On the one hand, partly in response to the demand of the developing countries, the IMF, the World Bank and the G20 are trying to make their programs more relevant to the needs of developing countries. Since 2008 the IMF has used an Exogenous Shocks Facility to provide larger amounts of funding faster to low-income countries with less demanding conditionality than in the past. In October 2014, the World Bank launched a new Global Infrastructure Facility that seeks to provide billions of dollars for infrastructure projects in developing countries. In November 2014, the G20 summit in Brisbane made infrastructure a major issue on its agenda. Chinese leaders should see these efforts as positive signals for reform at the multilateral institutions. Meanwhile, the US government has repeatedly claimed that it welcomes and supports the rise of China (White House 2014).

On the other hand, the reallocation of votes at the IMF still looks unlikely in the near future largely because of the opposition of the US Congress. Furthermore, China's ambition to exercise financial leadership through minilateral arrangements has run into palpable resistance from the United States and Japan. As noted before, Japan has expressed strong suspicions about China's intention in creating the AIIB, and the US government has tried hard to discourage other countries in the region from joining it. Meanwhile, the United States is deeply invested in its own minilateral initiatives such as the TPP and the TTIP. Just as the United States and some of its allies are concerned about Chinese minilateralism, China is suspicious of US-led minilateral projects (Institute of International Relations 2014). If such mutual suspicion continues to deepen, it will undermine multilateral cooperation globally.

CONCLUSION

For many years the Chinese government sought to "join the world" by learning and selectively following the international rules established by the West (Economy and Oksenberg 1999). Now China's relations with the world have entered a new stage, where China is actively trying to participate in the making of international rules. Its foreign policy strategy is gradually moving away from "keeping a low profile" toward "trying to accomplish something."

In the face of formidable obstacles of reforming existing multilateral institutions, China is gathering sub-groups of like-minded countries and developing a second path to increasing its (and their) voice and influence in global governance. The focus of this paper has been on minilateralism in the financial realm, but minilateralism is also visible in other issue areas. The Shanghai Cooperation Organization, the Forum on China-Africa Cooperation and the Conference on Interaction and Confidence Building

5 This, in turn, depends on financial and economic reforms in China and on China's successful management of the risks that come with a more open financial system. This is a tremendously complex issue, which cannot be adequately covered in this paper.

Measures in Asia are examples of minilateral arrangements beyond the financial area where China plays a leading role.

In order to ensure that this new trend in Chinese foreign policy facilitates rather than undermines multilateral cooperation at the global level, the international community should try to accommodate China's reformist agenda while at the same time encourage China to maintain an open form of minilateralism. The best way to do so is to keep Western minilateral arrangements open to China. Both China and the United States have claimed that their minilateral projects — such as the TPP and the AIIB — are open to the other and to new members. It is important to turn that rhetoric into reality.

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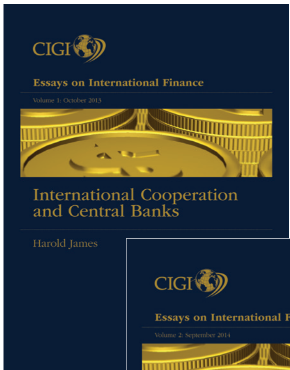

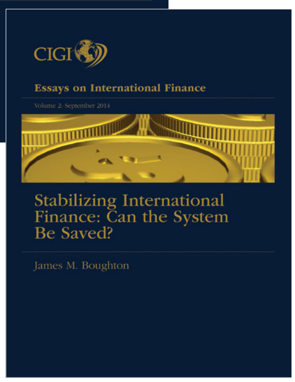

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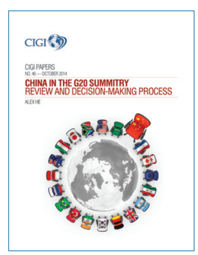

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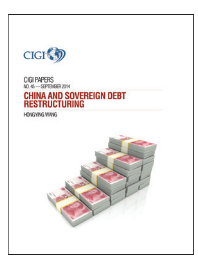

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