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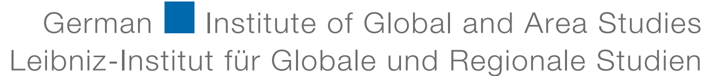

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Productive Power and Policy Change in Global Finance: An Analysis of China's Financial Policy Framing in the Bretton Woods Institutions

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Abstract

Against the backdrop of China's increasingly influential role in global finance and the debate on the emergence of a "Beijing Consensus," this paper examines whether the ideology that China promotes in the Bretton Woods institutions is conducive to the initiation of financial policy change at the international level. Drawing on Barnett and Duvall's (2005) conceptualization of productive power, Snow and Benford's (1988) framing theory and Freeden's (1996) understanding of ideology, the paper develops a theoretical framework for the analysis of international policy framing. Following an overview of China's rise in global finance, it identifies the core elements of the ideology that has been promoted by Chinese government officials in the Bretton Woods institutions since the onset of the global financial crisis. The paper argues that China's ruling elites will only be able to initiate a shift in the global consensus on acceptable financial policies if the frames that they propagate succeed in striking a balance between ideological continuity and change.

Keywords: China, productive power, ideology, international financial system, Bretton Woods institutions

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Article Outline

1 Introduction
2 Productive Power and Policy Change in Global Finance
3 China on the Rise in Global Finance
4 China's Financial Policy Framing in the Bretton Woods Institutions
5 Conclusion
References

1 Introduction

China has in recent years emerged as an increasingly influential player in the international financial architecture, a process that has been significantly accelerated by the global financial crisis. Due to its role as an engine of global economic growth and an international creditor, the country has become one of the core members of the world's major international financial institutions and economic forums – such as the International Monetary Fund (IMF), the World Bank (WB) and the Group of Twenty. Having achieved tremendous economic success despite refusing some of the main prescriptions of the Washington Consensus,[1] China now has a chance to put its mark on the international financial system at a time when many Western economic dogmas are being increasingly called into question.

1 A term coined by Williamson (1990).

In the wake of these developments, there has been much debate about the emergence of a "Beijing Consensus" or a "China Model," with numerous authors attempting to shed light on the specific features of the Chinese development experience and the lessons that can be drawn from it (Huang 2011; Kennedy 2010; Naughton 2010; Williamson 2012; Zhao 2010). However, almost no attention has been paid thus far to the actual policies that China's leaders are promoting in the international financial institutions.[2] Moreover, both the framing of these policies and the implicit ideology that China's ruling elites are advocating have remained unexamined. Against the backdrop of these research gaps, this paper analyzes how China's leaders frame their financial policy preferences at the international level. Since China's ruling elites are operating in an environment characterized by a high degree of institutional continuity, this paper argues that they will only succeed at initiating a shift in the global consensus on appropriate financial policies if the frames that they propagate succeed in striking a balance between ideological continuity and change.[3]

Drawing on Barnett and Duvall's (2005) conceptualization of productive power, Snow and Benford's (1988) framing theory and Michael Freeden's (1996) understanding of ideology, the second part of this paper develops a theoretical framework for the analysis of international policy framing. The third part then provides an overview of China's rise in global finance in order to explain why Beijing currently stands a significant chance of being able to initiate a shift in the consensus on appropriate financial policies within the global financial community. The fourth part analyzes the speeches given by Chinese government officials at the meetings of the International Monetary and Financial Committee (IMFC) and the Development Committee (DC) between April 2007 and October 2012 and identifies the core elements of the ideology promoted therein. This paper thus attempts to provide an answer to the question of whether or not the financial ideology that China propagates in the Bretton Woods institutions is conducive to the initiation of financial policy change at the international level. The concluding part summarizes the main findings of the analysis and reflects upon the implications that an emerging ideology with Chinese characteristics might have for the future development of the global financial architecture.

2 Productive Power and Policy Change in Global Finance

Countries becoming increasingly influential within the IMF and the WB stand a good chance of being able to develop a form of power that has tended to be neglected in the traditional international political economy literature to date (Chwieroth 2012). As emergent core members of institutions that wield significant influence over the global consensus on appropriate fi-

2 For an analysis of China's financial policy framing at the international level as well as its implications for domestic legitimacy, see Holbig (2011).

3 A similar point has been made by Holbig (2009), as well as by Bondes and Heep (2012).

nancial policies, such countries are in a position to initiate a shift in the traditional understanding of development economics by engaging in an exercise of power that Barnett and Duvall (2005) have labeled as "productive."

In contrast to more conventional conceptualizations of power, productive power is understood as the ability to construct meanings and to define identities and, therefore, to circumscribe the realm of the conventional and socially acceptable. In the words of Barnett and Duvall, "productive power concerns discourse, the social processes and the systems of knowledge through which meaning is produced, fixed, lived, experienced, and transformed" (2005: 55). The exercise of productive power thus allows actors "to shape collectively shared beliefs, or social facts, about what counts as a policy problem as well as what counts as the menu of legitimate and feasible solutions to that problem" (Chwieroth 2012: 2). In the realm of finance, the exercise of productive power plays a particularly important role due to the necessity of gaining the trust of market participants in order to ensure policies' sustainability (ibid.). In this sense, Kirshner has argued "that in a hypothetical menu of five economic policies, each of which was plausible from the standpoint of economic theory, if three were perceived to be illegitimate, they would not in fact be sustainable, solely for that reason" (2003: 13).

Productive power can be exercised through the provision of examples that inspire emulation, yet it can also rely on rhetorical strategies to challenge traditional understandings and initiate shifts in meanings. For this reason, the framing perspective that was originally developed in social movement theory provides a useful analytical tool for the examination of productive power. As Edelman has argued, "the social world is […] a kaleidoscope of potential realities, any of which can be readily evoked by altering the ways in which observations are framed and categorized" (1993: 232). Snow and Benford have accordingly defined frames as "interpretative schemata that simplif[y] and condens[e] […] the 'world out there' by selectively punctuating and encoding objects, situations, events, experiences, and sequences of actions" (1992: 137). Frames thus "define problems," "diagnose causes," "make moral judgments" and "suggest remedies" (Entman 1993: 52).[4]

By establishing conceptual connections both within individual frames and across clusters of frames concerned with the same types of problems, frames determine the meanings of "essentially contestable" (Freeden 1996: 57) economic and political concepts that allow for a variety of different interpretations depending on their conceptual context. Following Freeden's (1996) understanding of ideologies as groupings of decontested concepts, it can thus be argued that frames reproduce existing ideologies – or initiate shifts in traditional ones – by establishing new conceptual connections (Bondes and Heep 2012). For this reason, it is argued here that the notions of productive power, frames and ideology are closely linked with each other – since productive power can be exercised by promoting shifts in ideologies through the propagation of innovative frames. Studies of productive power exercises can

4 This explanation of framing draws on the work of Bondes and Heep (2012).

thus draw on the analysis of frames to identify those ideologies on the rise that may come to shape collectively held beliefs concerning the range of appropriate policies within a certain issue area.

It has been suggested that the success, or resonance, of frames as well as ideologies crucially depends on their connection with the beliefs and values of the audience (Bondes and Heep 2012; Holbig 2009; Noakes and Johnston 2005). This holds particularly true in environments that are characterized by a high degree of institutional continuity. In the arena of international institutions, such continuity is very common due to their tendency to preserve the conditions that prevailed at the time of their establishment. In the case of the IMF and the WB, institutional continuity is mainly guaranteed through the veto power of the United States – as the dominant power at the time of the institutions' inception – and due to the establishment of English as the institutions' single working language, which has resulted in the dominance of graduates from Anglo-Saxon universities among the professional staff (Stern and Ferreira 1997; Woods 2003). Due to this high degree of continuity, the promotion of alternative ideologies within the Bretton Woods institutions is dependent on them being connected to these institutions' "ideological stock," so as to be able to strike a balance between ideological continuity and change and thus to prevent the alienation of the institutions' traditional stakeholders.

3 China on the Rise in Global Finance[5]

Preceding the analysis of China's financial policy framing that will be provided in the next section, this section gives an overview of the country's rise in global finance in order to explain why Beijing currently stands a good chance of being able to initiate a shift in the global consensus on appropriate financial policies by engaging in the exercise of productive power.

Since the beginning of the reform period initiated at the end of the 1970s, China has established itself as an economic powerhouse – both in terms of its gross domestic product and its role in international trade. As a result of these developments, the country has become increasingly integrated into the global financial architecture. Due to surpluses in both the current and the capital account, China has accumulated an enormous stockpile of foreign exchange reserves and thus turned into a major creditor country (Chin and Helleiner 2008). Despite Beijing's increasingly important role as a provider of funds in the global financial architecture, its leaders have long refrained from assuming a proactive role in the Bretton Woods institutions. However, against the backdrop of the recent global financial crisis, this traditional restraint on the part of China's authorities has now come to an end (Chin and Thakur 2010).

China's more assertive stance in the IMF and the WB is a reflection of the fact that the crisis has exposed serious weaknesses in the neoliberal financial systems of the industrialized

5 This part draws on Heep (forthcoming).

world – as characterized by the increasingly loose regulation of financial institutions that are operating in an ever more closely integrated international financial system. In the words of two WB economists, "the crisis has shaken the confidence of industrial and developing countries alike in the very blueprint of the financial and macropolicies that underlie the Western capitalist systems" (Demirgüc-Kunt and Servén 2010: 92). Equally importantly, the crisis has underlined the ongoing power shift from the West to emerging market economies in general and China in particular, with the latter becoming ever more important engines of global growth and potential providers of the funds that are urgently needed by distressed economies in the West.

On the other hand, China was also seriously affected by the crisis. While the country's highly regulated banks were only exposed to a very limited extent to the toxic assets that plunged the financial world into chaos, the global credit crunch caused a slump in Chinese exports that threw millions of workers into unemployment and thus posed a serious challenge to the party-state (Overholt 2010). At the same time, in the face of a depreciating US dollar and inflationary pressures resulting from the liquidity flood caused by the Federal Reserve's policy of quantitative easing, China's leaders were at the time highly concerned over the fall in the value of the country's foreign exchange reserves (Dyer and Beattie 2009). Against the backdrop of these developments, China's leaders have displayed a growing degree of assertiveness and unleashed harsh criticisms of the global financial architecture, while at the same time repeatedly drawing attention to the advantages of a financial system with Chinese characteristics.

Also as a reaction to the global financial crisis, the Bretton Woods institutions have accelerated their ongoing governance reforms in a bid to maintain their legitimacy in the light of the continuing power shift in the global economy, thus allowing China to become the third biggest shareholder in both the IMF and the WB. However, China's growing power within the Bretton Woods institutions does not only derive from an increase in its voting shares; the country has also bolstered its institutional financial clout by providing both the IMF and the WB with funds that have not been awarded by additional votes.[6] In the case of the IMF, China provided 50 billion USD to the New Arrangements to Borrow (NAB), the third biggest contribution after those made by Japan and the United States (IMF 2012a). Besides, China also donated small amounts of funds to the International Development Association (IDA), the WB's soft loan facility for the world's least developed countries (IDA 2011).

Last but not least, China's representation among the staff and management of the Bretton Woods institutions has improved significantly in recent years. Only one year into the global financial crisis, the WB appointed Justin Yifu Lin, a prominent Chinese economist closely as-

6 In both organizations, member countries' quotas are determined according to their weight in the global economy. These quotas determine the members' mandatory contributions and are reflected in their voting share. However, member countries can also provide additional financial resources that are not mirrored in their voting share, but which may nevertheless still increase their influence within these institutions (Woods 2003).

sociated with the Chinese government, to the position of chief economist and senior vice president. China's representation among the IMF's professional and managerial staff increased from 2 to 3 percent in the first three years of the global financial crisis (IMF 2011). Moreover, Zhu Min, a deputy governor of China's central bank, was appointed as special advisor to the IMF's managing director, Dominique Strauss-Kahn, in 2010. In the following year, he was promoted to the position of deputy managing director. These appointments took place against the backdrop of a growing interest within the Bretton Woods institutions to learn from the development experiences of countries that have refused to follow the neoliberal paradigm of the Washington Consensus.[7]

With significant increases in its voting shares, its provision of funds on a voluntary basis and its improving representation among the institutions' staff and management, China has significantly strengthened its clout in the Bretton Woods institutions – organizations that continue to dictate policies to countries in need of financial support and thus maintain a high degree of influence in the global financial system. Moreover, Beijing appears to be in a position to offer a new economic model to follow since it has embarked on a successful development path without following all of the neoliberal policy prescriptions of the Washington Consensus. The Chinese party-state has adhered to some of the main tenets of neoliberal development economics by maintaining fiscal discipline and promoting China's integration into the world economy, at least as far as trade and foreign direct investment are concerned. At the same time, however, the country has significantly diverged from the policy prescriptions of the Bretton Woods institutions by maintaining an unusually high degree of control over its domestic financial system and by allowing the state-owned sector to continue to play a significant role in the country's economy.

China's financial system stands in particularly stark contrast with the tenets of the Washington Consensus. Refusing the prompt to liberalize, China's authorities have developed a system of "financial repression" that is characterized by a dominant banking sector, state ownership of the most important financial institutions and administrative controls of interest rates.[8] Due to highly restrictive capital controls and a quasifixed exchange rate regime, this system has remained largely isolated from international financial markets. Against the claims made by the proponents of neoliberalism, China's financial architecture has not prevented the country from maintaining impressively high growth rates. Quite on the contrary, the high degree of control that the party-state musters over the country's financial system has allowed it to promote its export sector by resisting currency appreciation pressures, to support state-owned enterprises and to withstand the global economic downturn following the global financial crisis by providing a massive stimulus to the domestic economy.

7 See, for example, the statements of Zoellick (2010) and Strauss-Kahn (2010).

8 The term "financial repression" was introduced into the economic literature by McKinnon (1973) and Shaw (1973). For a detailed analysis of China's financial system, see Walter and Howie (2011).

At a time when the world is searching for alternative economic models, China thus stands a good chance of being able to use its newly gained position in the Bretton Woods institutions to exercise productive power and thus to initiate a shift in the international consensus on appropriate financial policies. The Chinese party-state could embrace this opportunity to recast the financial environment in line with its own interests to further the country's development. At the same time, it could try to establish itself as an ideological leader, so as to strengthen its legitimacy by appealing to the nationalistic feelings of a domestic audience eager to see the country play a more prominent role on the global stage. In order to seize this chance fully, however, China's leaders will have to engage in the active and continuous promotion of alternative financial policies and give voice to China's development experiences. Moreover, since they are forced to operate in an environment characterized by a high degree of institutional continuity, China's authorities will have to frame their preferred financial policies in a way that manages to strike a balance between ideological continuity and change – and which thus does not alienate the traditional stakeholders in the realm of global finance.

4 China's Financial Policy Framing in the Bretton Woods Institutions

Having provided an overview of China's rise in global finance, we will now turn to the analysis of China's financial policy framing in the IMF and the WB. The following analysis is based on the English-language speeches delivered by Chinese government officials at the Annual and Spring Meetings of the IMFC and the DC. The time period covered ranges from April 2007 – when the problems in the US subprime mortgage market that would later trigger the global financial crisis began to attract the attention of the global financial community – to October 2012 – when the Eurozone's sovereign debt crisis was high on the agenda of international financial policymakers.[9]

The Spring and Annual Meetings of the IMFC and the DC provide the members of the IMF and the WB with the opportunity to give voice to their views on the international monetary system and the policies that they consider appropriate for the support of developing countries. In contrast to most other speeches delivered within the Bretton Woods institutions, those given at these meetings can be accessed online and are thus available to the general public. While the IMFC advises the IMF's Board of Governors with regard to the latter's management of the international financial system, the DC counsels the Boards of Governors of both the IMF and the WB on development issues. The membership makeup of the two committees mirrors the composition of the IMF's Executive Board, wherein the IMF's biggest shareholders each appoint a member while the remaining countries form groups that then elect their representatives. China's IMFC statements in the period from 2007 to 2012 were de-

9 The speeches made by Chinese officials at the IMFC meetings in April 2009, October 2011 and April 2012 are not included in the analysis since they are currently not available to members of the public.

livered either by the governor or one of the deputy governors of its central bank, the People's Bank of China (PBOC), while the country's DC statements were given either by the minister or vice minister of finance. The following analysis of these speeches was undertaken on the basis of frame analytical methods, and thus determined central frames and concepts over the course of multiple rounds of open coding (Scheufele 2003).

In the speeches given at the Annual and Spring Meetings of the Bretton Woods institutions since the onset of the global financial crisis (studied here up until October 2012), China's leaders have engaged in diagnostic as well as prognostic framing activities.[10] In other words, they have not only identified the problems confronting the global economy and singled out those responsible for these difficulties, but have also depicted the ideal global economic situation that the world's leaders should strive for. Furthermore, they have suggested the measures that should be applied so as to bring the global economy back on to the right track. Singling out the slowdown in global economic growth as well as continued economic uncertainty as the problems calling out for the most decisive action, they have accused developed countries in general and the United States in particular – as the issuer of the leading reserve currency – of being responsible for the outbreak of the crisis and for its persistent repercussions for the world economy. To realize the ultimate objectives of restoring economic growth and reestablishing economic stability, they have thus argued that the closer supervision of these countries' financial policies is an absolute necessity.

While China's authorities shared their concerns (in the speeches scrutinized) over the global economic downturn in the wake of the financial crisis with the majority of the global community's policymakers, they portrayed the continued uncertainty facing the world economy as an equally grave problem that urgently needed to be resolved. Highlighting the dangers of "escalating uncertainty" (Yi 2008: 1) resulting from the US subprime crisis, "oil prices [that] remain uncertain" (Hu 2007: 1) and the "uncertainty of […] exit policies" (Zhou 2010a: 1) of the world's leading central banks, they closely linked the problem of uncertainty with volatile international capital flows, fluctuating exchange rates and persistent inflationary pressures that exacerbated the difficulty of domestic economic policymaking in a world of perpetual and incalculable change.

Uncertainty – understood as the cognitive equivalent of instability – was thus depicted as one of the major drawbacks of the neoliberal international financial system. In line with this portrayal of the problems hampering the global economy, China's leaders envisaged a situation that would be characterized by sustained economic growth as well as by financial and economic stability – allowing for sound domestic policymaking, the goal toward which all of the global financial community's efforts should be directed. To this end, they argued that stability was not only "of the utmost importance" (Yi 2008: 3) for China's development, but also for the flourishing of the global economy as a whole.

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10 On the differentiation between diagnostic and prognostic framing, see Snow and Benford (1988).

Concerning the question of the main culprit for the outbreak of the crisis, Chinese officials provided a straightforward answer in which they presupposed a simple dichotomy between the economically advanced countries on the one hand and the developing world on the other. Repeatedly highlighting that the crisis "originated in developed countries" (Yi 2009: 3), they portrayed developing countries as "victims of the crisis" (Li 2009: 1) that had to suffer from the loosely regulated financial systems and irresponsible monetary policies of the advanced economies in general and the United States in particular. Within this context, it is given to understand that China needs to be considered part of the developing world due to its low per capita gross domestic product – even though its "overall trend in economic development looks good" (Zhou 2010b: 9).

Chinese officials pointed out that while developed countries had struggled to find a way out of the doldrums in the wake of the crisis, emerging market economies had implemented "bold reforms […] before and during the crisis to establish sound macroeconomic policy frameworks" (Zhou 2010b: 1) and thus succeeded in maintaining robust growth. However, it was argued that the success of the developing world was compromised by the financial policies of the major advanced countries that "increased the instability of international capital flows, and, hence, the difficulty of short-term capital flow management for emerging market economies" (Zhou 2010a: 1), thus "putting the resilience of their macroeconomic policies to the test" (Yi 2008: 1). Emerging market economies were thus characterized as adaptive, hardworking and dynamic members of the global political economy whose efforts to secure economic growth were being repeatedly impaired by the West's inappropriate responses to the economic downturn – responses that had increased global financial volatility and thus constrained the ability of emerging market economies to engage in effective economic policymaking.

However, Beijing not only criticized the leading economies of the developed world, but also accused the IMF of having accommodated the West's financial practices and turned a blind eye to the inherent risks thereof for global financial stability. In the words of PBOC governor Zhou Xiaochuan:

> the Fund did not pay adequate attention to – nor did it make timely analysis of – the impact of the U.S. sub-prime meltdown on external stability. It underestimated the severity of the crisis and failed to present effective policy advice to deal with the negative impact on international financial markets and the global economy.
>
> Zhou Xiaochuan (2008: 1)

The IMF's failure to fulfill its duties in the early stages of the crisis was blamed on its "misfocused surveillance" (Yi 2009: 3) of misaligned currency exchange rates and on its determination to persuade developing countries to introduce more flexible currency regimes that would bolster the competitiveness of the advanced economies' export sectors. China's officials argued that as a result of this misguided focus, developed countries with flexible exchange rate regimes had effectively been excluded from the IMF's oversight even though the

"inappropriate fiscal, monetary, and financial sector policies of the developed countries, particularly those of reserve currency issuers, are more damaging to global economic growth, employment, trade, and the international monetary system, and the remedies for such failures are more difficult" (Zhou 2010b: 4). The IMF was thus portrayed as a highly biased institution that had been engaged in rebuking developing countries on behalf of the advanced economies instead of providing for global financial stability for the benefit of all nations.

To restore global economic growth and reestablish economic stability, China's officials called on developed countries in general and the countries issuing the major reserve currencies in particular to "take the primary responsibility for stabilizing global financial markets" (Zhou 2008: 2). The advanced major economies were urged to monitor capital flows and ensure the stability of the major reserve currencies' exchange rates so as to protect the developing world from the plight of perpetual financial volatility. Pointing out that "the most fundamental problems at present are the slow progress of developed countries in repairing and reforming their financial systems, and the continued reliance on government stimulus packages for financing," Beijing also requested that "those developed countries with flagging economic recoveries" restore fiscal discipline and "rebuild sound financial systems" (Zhou 2010b: 1).

China's advice to the developing world, on the other hand, was to "pay close attention to the monetary policy trends of major central banks and diversify and improve their own monetary policy tools," as well as to "strengthen monitoring and management of cross-border capital flows" in order to prevent further suffering induced by the fluctuations in the developed world's financial markets (Zhou 2010a: 2). While the major advanced economies were thus requested to limit the damage that their erroneous policies had caused, the developing world was encouraged to further improve its monetary policy toolkit so as to reduce its vulnerability to the financial capitalism of the West. At the same time, the Bretton Woods institutions were urged to strengthen their support for developing countries given that they have turned into "important forces for maintaining global economic growth […] and attaining recovery from the crisis" (Li 2009: 1). Within this context, China's officials encouraged the WB to "respect the country-specifics and ownership of developing countries" and to take a "clients-chosen development path as the primary base for its operations" (Xie 2010: 1) instead of continuing to operate on the basis of economic dogmas whose flaws had been revealed by the global financial crisis.

In line with their criticism of the IMF, China's leaders called on the IMF to rethink the policies that had contributed to the outbreak of the crisis and to revise its focus on the flexibilization of currency exchange rates, with greater emphasis placed instead on their stabilization (Heep forthcoming). Even before the onset of the crisis, Beijing had argued that "it is well known that the concept of exchange rate misalignment is subject to theoretical weaknesses, their estimates highly unreliable, and therefore [they] could [sic] not serve as criteria or premises for surveillance" (Hu 2007: 3). In light of the experience of the crisis, China's government officials accordingly prompted the IMF "to focus on strengthening surveillance

over the systemically important countries, particularly those issuing major reserve currencies" (Zhou 2008: 4), so as to achieve a higher degree of exchange rate stability and to prevent reserve currency issuers with "weak financial policy discipline" (Yi 2008: 4) from bringing "excess global liquidity and disorderly capital flows" (ibid.) into vulnerable emerging markets.

While the IMF was urged to "actively undertake studies on such challenging topics as [the] management of cross-border capital flows and global liquidity" (Yi 2011: 5) in the short term, it was also advised "to give sufficient thought on [sic] improving the framework and principles of the IMS [international monetary system]" (ibid.) in the long run and to take PBOC governor Zhou's (2009) proposal to fundamentally reform the international financial system by strengthening the role of the IMF's special drawing rights into consideration. Alongside this, the IMF was requested "to strengthen surveillance of the fiscal policies of developed countries, particularly the evolution of developed country sovereign risks and their impact on international market interest rates, exchange rates, and international flows, on public and private sector financing in developing countries, and on global inflation and the real economy" (Zhou 2010a: 4) in order "to support [the] efforts of emerging market and developing countries to preserve economic and financial stability" (Yi 2011: 2). Chinese officials thus called on the IMF to transform itself from a representative of the financial interests of the major advanced economies into a promoter of global financial stability, so as to further the development of vulnerable emerging economies.

As this frame analysis illustrates, the ideology that China's leaders currently promote in the Bretton Woods institutions centers on the importance of stability in the realm of global finance as the necessary precondition for the possibility of there being effective economic policymaking at the domestic level. While this ideology considers economic integration in the areas of trade and foreign direct investment as conducive to economic growth, and thus as highly desirable, the volatile world of internationalized financial markets is primarily deemed to be a threat to the capacity of the ruling elites to secure domestic policy autonomy and maintain control over the development of the political economy at home. While this ideology represents a significant shift away from the paradigms of neoliberalism, China's exercise of productive power in the Bretton Woods institutions is not directly targeted at discrediting established financial policies; in the short run, it aims, rather, to widen the spectrum of financial policies considered socially acceptable.

Instead of prompting the global financial community to reestablish a comprehensive network of capital controls, China only requests the better monitoring of speculative capital flows, which would allow international financial institutions to issue appropriate warnings to the developing world – which should have every right to establish capital controls for the sake of their own self-protection. Similarly, China does not advocate that the global financial community should reestablish a worldwide regime of fixed exchange rates but only demands a higher degree of exchange rate stability, particularly between the leading reserve currencies. China also calls on world leaders to accept the choice of emerging markets to in-

sulate their economies from excessive exchange rate volatility by maintaining currency pegs. In the face of the Bretton Woods institutions' high degree of institutional continuity, China's leaders have thus embarked on the cautious exercise of productive power with the aim of stabilizing the party-state's international operating environment and strengthening the ruling elites' domestic policy autonomy. Over the course of time, success in these two domains may well allow the party-state to redefine what is considered conventional and socially acceptable in the realms of international finance.

Against the backdrop of China's increasingly influential position in the Bretton Woods institutions, the IMF has already come to endorse some of the financial policies promoted by Beijing. In a staff position note published in February 2010, a group of IMF economists reconsidered the IMF's stance on capital controls, arguing that:

> if the economy is operating near potential, if the level of reserves is adequate, if the exchange rate is not undervalued, and if the flows are likely to be transitory, then use of capital controls – in addition to both prudential and macroeconomic policy – is justified as part of the policy toolkit to manage inflows.
>
> (Ostry et al. 2010: 5)

Despite the numerous qualifiers listed by the authors, their embrace of capital controls as a legitimate tool in the struggle for financial stability constitutes a significant change from the IMF's approach prior to the outbreak of the global financial crisis (Heep forthcoming).

At least equally important in the context of ideological shifts in global finance is the Integrated Surveillance Decision (ISD) that was adopted by the IMF's Executive Board in July 2012 – a measure that was explicitly endorsed by Beijing as well (Yi 2012). Aimed at integrating bilateral and multilateral surveillance in the context of an increasingly integrated global economy, the ISD "allows the IMF to discuss with a member country the full range of spillovers from its policies when they may have a significant impact on global stability" (IMF 2012b: 2) and "rebalances the treatment of domestic and exchange rate policies and stresses the contribution of the overall mix of policies to a country's domestic and balance of payment stability" (ibid.). Judged from the Chinese perspective, the IMF has in recent times thus significantly amended its preoccupation with exchange rate misalignments and remedied its neglect of the potentially dangerous spillovers to the developing world from the financial markets of advanced countries.

5 Conclusion

With the unfolding of the global financial crisis, the Chinese party-state has steadily emerged as an increasingly important player in the international financial architecture and as a core member of the Bretton Woods institutions. Having achieved impressive economic success despite its refusal to follow some of the main dogmas of the Washington Consensus, the

country now stands a chance of being able to put its mark on the global financial system at a time when many neoliberal notions have become increasingly questionable. Against this backdrop, this paper has drawn attention to how Beijing's newly gained prominence in the IMF and the WB allows China's leaders to engage in the exercise of productive power and thus to change conventional understandings regarding socially acceptable financial policies. Arguing that productive power can be exercised by promoting shifts in ideologies, achieved through the propagation of innovative frames, this paper has drawn on the analysis of China's financial policy framing in the Bretton Woods institutions between April 2007 and October 2012 as a way to identify the contours of the Chinese ideology that may come to shape collectively held beliefs concerning the range of appropriate policies in the realm of international finance.

The paper's frame analysis has shown that China's leaders propagate an ideology that depicts volatile capital flows and exchange rates as a threat to domestic policy autonomy and which thus promotes financial stability as the necessary precondition for effective economic policymaking and the maintenance of control over the domestic political economy. Despite their country's remarkable rise in global finance, though, China's leaders have thus far exercised restraint and shied away from calling for radical reforms – such as the worldwide reestablishment of capital controls or the reintroduction of fixed exchange rate regimes. Operating in an environment characterized by a high degree of institutional continuity, China's leaders have chosen to be cautious in their exercise of productive power – thus requesting only the closer supervision of international capital flows and a reduction in the exchange rate fluctuations of leading reserve currencies, while at the same time repeatedly highlighting the need for a fundamental reform of the international financial system in the long run.

In light of China's subtle challenge to the Washington Consensus, the IMF has already taken a more positive stance on the implementation of capital controls as a means of financial system protection and has shifted the focus of its surveillance from exchange rate misalignments to the dangers of financial spillover effects. Should Beijing succeed in retaining its crucial role in global finance and continue to exercise productive power in this realm, it will not come as a surprise if a more regulated international financial architecture more suited to the accommodation of the Chinese party-state's urge to maintain control over its domestic political economy emerges in the not-too-distant future.

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