

IMF and China: A New Balance

by *Alessandro Arduino*

Key appointments to leading economic and political supranational bodies always provide useful insight into the dynamics of power between major states. From this point of view, the recent choice of former French Finance Minister Christine Lagarde to lead the International Monetary Fund deserves some reflection. Until recently, such a selection, at least in terms of Lagarde's nationality, wouldn't have raised eyebrows among the world's emerging economies. That a European is charged with running the IMF was an established and accepted fact, just as World Bank leadership usually went to an American.

China appeared to have little to say about the appointment of former French finance minister Christine Lagarde to the leadership of the International Monetary Fund. But what meets the eye isn't the complete picture. Beijing's relative quiet concealed a behind-the-scenes effort to gradually climb up the ladder of global influence. Lagarde's deputy is respected Chinese economist Zhu Min, a choice that seemed to acknowledge Japan's fall from Asian grace.



Chinese President Hu Jintao in a Cannes, France meeting with IMF Managing Director Christine Lagarde in November.

Xinhua / ZumaPress.com / L. Weibing

The IMF consists of 187 nations and plays a critical role in the financial monitoring, coordination and support of states in need. Lagarde was appointed to fill the vacuum created by the scandal that enveloped Dominique Strauss-Kahn, who was forced to step down in May.

Though the choice fit all the traditional norms, it suggested a kind of uneasiness among states whose economic clout is growing by the years, particularly the membership of the so-called BRIC group, Brazil, Russia, India, and China, which recently added an “S” with the inclusion of South Africa.

For years, the likes of China and Brazil have been poorly represented in the institutions most responsible for managing the global economy and controlling its regulatory mechanisms. Requests for greater representation by states like China and India reflects not only their growing economic weight, but also the increasing fragility of Western economies. The latter is the result of a number of interlocking factors, including the new instant nature of global ties, the volatility of speculation, the difficulties some economies have faced in terms of adjusting to the euro, and internal political problems related to the management of public debt.

In terms of Lagarde’s appointment, the decisive factor was Europe’s quickness to act. It chose and then rallied around a single candidate. By contrast, the leadership of BRICS countries were more erratic, proposing nominees from South Africa to Kazakhstan, all of them potentially viable but most lacking the political clout necessary to guarantee them any realistic chance of approval. Mexico, for example, advanced the name of respected economist Augustin Cartens, who previously held the position of IMF deputy managing director. Kazakhstan recommended Grigory Marchenko, the president of its central bank, but his only outside support came from Russia.

Examining the nomination process shows the extent to which China decided to avoid the spotlight. As a result, its new role as a fundamental player in the new world economic order was allowed to play out softly, in keeping with economic and political diplomacy. Astutely, it saw Zhu Min, a former deputy governor of China’s central bank and highly respected economist in his own right, elevated to the IMF’s no. 2 spot, deputy managing director.

The 59-year-old Zhu earned his masters at Princeton and a doctorate from John’s Hopkins. He has also been a special advisor to Strauss-Kahn on the workings of Asian economies.

China’s decision to lay back seemed supremely political. For now, Beijing is content to enjoy increased administrative and bureaucratic insight into how the IMF is managed, operates, and makes its choices. This look-and-see approach would allow the Chinese to prepare properly for follow-up appointments, and fits in with the Chinese culture of long-term planning.

Lagarde’s visit Beijing before her appointment underlined the importance and weight of the Chinese decision to support her candidacy. Furthermore, knowing China’s age-old skills in bargaining and negotiation, often well into the eleventh hour, it’s likely that Zhu Min ascension was not an original part of the European plan, but granted as a last-minute concession to Beijing.

One thing is certain: The entry of a Chinese into the IMF’s inner sanctum ended a longtime pattern of reserving that role for a leading Japanese figure, sanctioning a symbolic changing of the guard in Asia.

The vacuum left by Japan demonstrates not only that country’s ongoing economic decline, but also reflects a concomitant domestic political vacuum, particularly in terms of managing ties with the international community. Japanese Finance Minister Yoshihiko Noda did not propose a Japanese candidate and held off on supporting Lagarde until it became clear her election was assured.

China’s move within the IMF needs to be seen in terms of more wide-ranging efforts linked to the Chinese sovereign wealth fund, the CIC, and SAFE, the long arm of the Chinese Central Bank, both of which have their eyes on the euro and seek a progressive detachment from the U.S. dollar. Meanwhile, the financial crisis that led to the downgrading of the U.S. economy from triple-A by Standard & Poor’s has seen Europe move toward a shared de-

Russian Prime Minister Vladimir Putin and his Chinese counterpart Wen Jiabao shake hands during a November meeting of the Shanghai Cooperation Organization in St. Petersburg.

fensive position in an effort to avert a double dip recession. Despite the EU’s ongoing structural crisis, the appointment of Italy’s Mario Draghi to head the European Central Bank and Lagarde’s new position would seem to assure external support for EU economies in their time of continuing crisis.

The new IMF leadership represents a major break from the past. There’s Zhu Min’s role and Lagarde herself, the first woman to hold the position. Her network ties seem more closely tied to the political side than the economic. China hopes this unprecedented new balance will work to its advantage and help increase its influence and weight on international financial scene.

The presence of a Chinese no. 2 in the IMF must be seen in terms of Beijing’s wider strategy toward acquiring influence in international financial institutions. For example, Wei Benhua (a product of the Chinese State Administration of Foreign Exchange, SAFE) now heads the ASEAN+3 Macroeconomic Research Office, a body whose regional role includes managing a \$100 billion economic crisis fund. Wei’s appointment following that of Jin Liqun, the CIC’s front man, to chair the International Forum of Sovereign Wealth Funds, which represents all such funds.

Also in a multilateral context, China this year returned to the presidency of the SCO (Shanghai Cooperation Organization), an organization responsible for military, eco-



nomical and cultural cooperation in Central Asia. While the SCO’s Russian counterpart, the CSTO, saw its budget slashed by Moscow, Beijing has insisted it will not only guarantee but also increase funding to the Shanghai body, to which Russia belongs, over the next year. In addition, China has proposed the creation of a Central Asia central bank, to be called the SCO Development Bank, which would have initial capital \$10 billion, \$8 billion from China’s Central Bank.

The maneuvers can’t but help focus greater attention on Chinese efforts to shape economic trends in its region.

The strategy being implemented by Beijing of seeming not to be present and maintaining a low profile is based on a central tenet of Deng Xiaoping’s foreign policy. Deng, known as the Little Helmsman, embraced the phrase “Tao guang yang hui,” which roughly translated means “Mind our own business and be humble in world affairs,” and his outlook helped chart the course that still dictates Beijing’s economic strategies. Deng was determined that China never appears to be the dominant player in multilateral organizations or even in bilateral relations with neighboring countries. The thinking behind “Tao guang yang hui” actually dates back to the “Thirty-Six Stratagems” on war and conflict that were detailed in Sun Tzu famous book “The Art of War.”

In contrast to other famous texts on war and conflict, including the Indian “Artashastra” and Machiavelli’s “The Prince,” both of which recommended direct action toward attaining battlefield goals, the “Thirty-Six Stratagems” were instead designed to win wars without needing to fight military battles (among the recommendations: “Charm and ingratiate yourself to your enemy. When you have gained his trust, move against him in secret.”)

Considering China’s support of Lagarde as a piece of a mosaic that extends well past the immediate fortunes of the IMF itself, China’s approach to making itself heard becomes evident, at least in cultural terms. Its policies hinge on its ability to plan constantly and pursue long-term goals. Such planning and pursuing is supremely linked to patience and waiting.

It embraces concepts that are alien to the Western mind. But woe to those who mistake it for inaction. ●