RISE OF CHINA IN THE INTERNATIONAL MONETARY SYSTEM AND IMPLICATIONS FOR OTHER ECONOMIES

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Respected Shri K.Subramanian, Chairman of the session,

I feel deeply privileged to speak at the Chennai Centre for China Studies today on a subject of considerable contemporary relevance – "The Rise of China in the International Monetary System and Implications for India and Other Economies". I had read about the seminal work being done in the Chennai Centre for China Studies and contacted Commodore Vasan on email if I could contribute to the Centre's efforts by presenting my research work at the C3S. Commodore Vasan readily agreed to give me this opportunity for which I am grateful. Today, I see in the audience, retired and serving senior officials whom I had greatly respected in my years in civil service, men and women who have contributed immensely to the cause of National building and institution building over decades, and I am deeply humbled to speak in your presence.

Mr. Chairman, as an avid reader of the Hindu, I have read your Literary Review column regularly and the critical analysis and pro-poor ideas that you espouse. Thank you for chairing today's session.

My interest in China's economy developed from my first visit to Beijing, Shanghai, Xian, Shanxi, Hong Kong, Dalian and Macau in 2001 with the Indian delegation led by the External Affairs Minister for talks with his Chinese counterparts. Thereafter, I had opportunity to visit China heading Government of India delegations from Ministry of Textiles for cotton and cotton yarn exports related issues. In my years at the International Monetary Fund, I interacted closely with the Chinese Executive Director office in Washington DC and watched their economic progression.

I will divide my paper into the following: the the Dai Xianglong years from 1995-2002; the Zhou Xiaochuan years from 2000-2017; China's economic reforms; China's response to the Global Financial crisis 2008-2010; Renminbi Internationalization; China's influence at the IMF and International Institutions and lastly Financial Geopolitics – the implications for India and other economies.

Introduction

The rise of China as an economic super power, the second largest economy in the world, the largest in purchasing power parity, contributing to 1/3rd of global growth and 15 percent of global exports represents the greatest economic transformation the world has seen in the last 30 years. Successive waves of reform have reduced poverty and catapulted China to middle income country status, accompanied by an infrastructure boom with an array of roads, airports, high-speed rail systems, high-rise buildings and other infrastructure. Over 600 million people were lifted out of poverty, life expectancy and literacy have increased significantly. The growth model was based on high investment, relatively inexpensive labor, productivity enhancing foreign direct investment and strong global demand.

Table 1: China – The 1991-97 Economic Cycle (in percent change)

	1991	1992	1993	1994	1995	1996	1997
GDP	9.2	14.2	13.5	12.6	10.5	9.6	8.8
Fixed Investment	13.2	26.2	36.7	14.4	11.5	11.8	9.3
Fiscal Balance	-2.2	-2.3	-2.0	-2.7	-2.1	-1.6	-1.8
Consumer Prices	3.4	6.4	14.7	24.1	17.1	8.3	2.8
Domestic Credit	20.2	22.8	38.9	26.1	22.5	21.5	16.3

Source: People's Republic of China: 2004 Article IV Consultation – staff report; staff statements and Public Information Notice on Executive Board Discussions (www.imf.org)

Since the initiation of economic reforms, China's economic growth has been marked by periods of cyclical surges in economic activity and inflation followed by periods of retrenchment, with 2 cycles in 1980s ending in hard landings. **Particularly notable is the 1986-90 cycle, which began with the relaxation of monetary and fiscal policies**. Inflation rose to 19 percent in 1988, and efforts to curb inflation meant growth slowed sharply. **The 1991-97 cycle was initiated by a rise in central and local government spending and easing of bank credit**. By 1992, an investment boom was witnessed with GDP growth exceeding 14 percent. Liberalization of food prices and public sector wages led to massive inflation. **Inflation peaked at 24 percent in 1994**.

China adopted policy measures to cool the economy. These steps included an increase in interest rates, tightening central bank credit to banks and limiting investment approvals. China eventually achieved a soft landing of the economy with inflation in single digits by 1996 and reduced food prices. The credit boom of 1991-97 cycle led to weaknesses in financial sector, rise in non-performing loans in the banking system as banks had funded State Owned Enterprises with little regard for credit risk.

The Asian Financial Crisis

The East Asian financial crisis left China largely unaffected. The Chinese economy fared well. GDP growth was marginally lower than the previous years of 9 percent, inflation was at a 5-year low, exports grew at 20 percent contributing to a US $ 40 billion trade surplus, foreign direct investment was US $ 45 billion and foreign exchange reserves reached US $ 139 billion by the end of the year.

Yet in the region there was gloom. Severe economic recession was witnessed in the crisis hit countries of East Asia further aggravated by the Russian crisis and the financial strain in Latin America. As global recession threatened, China called concerted global action for strengthening the architecture of the international financial system. China recommended that the IMF should establish a mechanism for monitoring short-term capital flows and movements of speculative capital. They also supported strengthening of the Fund's early warning system based on enhanced information disclosure and transparency.

Dai Xianglong said that the Chinese Government had taken a highly responsible stance during the Asian Crisis and turbulence in the international financial markets. Further he said that great efforts were made to preserve the financial stability in the Hong Kong SAR. He said:

> "First China sustained its rapid economic growth. Against the backdrop of a substantial slowdown in exports of Asian Countries, we have adopted a vigorous fiscal policy and increased money supply appropriately to expand infrastructure investment. Secondly China has maintained the stability of the RMB exchange rate. Thirdly China has taken measures to expedite structural reforms and to prevent and reduce financial risks."

Despite the optimism of Dai Xianglong, there were several critiques. Nicolas R. Lardy[1] said that China's financial and banking system suffers from inadequate central bank independence and lax regulation of commercial banks. Three of the four largest banks did not event report their consolidated balance sheets. Non-performing loans are classified by lenient standards than international norms and there existed losses due to fraud, corruption and other lending irregularities.

Despite these vulnerabilities it was felt that China was not affected by the Asian financial crisis as the currency was not convertible for capital account transactions. China's capital flows were largely for direct investment with a long term horizon. There was hardly any exposure of foreign capital flows to bank deposits, bonds, stocks or any other financial assets which could be sold in the market instantly.

The 1998 Asian crisis focused on the need for fundamental structural reform in China – money losing State owned enterprises and weak banks. Efforts in this direction included reorganization of regional branches of the People's Bank to reduce political interference and

[1] Nicholas R. Lardy., "China and the Asian Financial Contagion" Foreign Affairs July/ August 1998 pg 78-88

injection of 270 billion RMB into the four largest state owned banks. The classification of non-performing loans was aligned more closely with international standards, and the central bank tightened supervision and regulation of banks and financial institutions.

The Dai Xianglong Years

Dai Xianglong served as the 10th Governor of the People's Bank of China from 1995 to 2002. It was in his tenure that the reorganization of the People's Bank of China (PBC) was undertaken. The PBC removed all its provincial and municipal branches which were headed by local politicians and established regional branches to strengthen independence of the Central Bank. Reform of Commercial Banks was pursued with the establishment of 4 asset management companies to purchase the non-performing assets of wholly state-owned commercial banks thereby reducing the commercial banks' non-performing loans. The PBC established a supervisory council in each commercial bank, adopted international loan classification and accounting standards and recapitalized the banks.

Dai Xianglong focused on stabilizing the balance of payments and the RMB exchange rate. To boost domestic demand, the PBC undertook 9 interest rate cuts in Dai's tenure earning him the moniker "the governor who cuts interest rates." Strong growth and strong export performance were witnessed all through his tenure – above 7 percent growth and 20 percent growth in export performance.

Dai Xianglong's[2] views on the role of the international reserve currency, fund surveillance and capital account liberalization represented a roadmap for future Chinese policy makers. He said that

> "The current financial system cannot solve the balance of payments imbalance, which has repeatedly been the cause of the international financial crises. To solve the problem of an international reserve currency, the international community should consider the additional allocation of SDR's and create conditions to increase their use, and strengthen the Fund's function of providing liquidity to its members."

China also considered that regional financial cooperation to be a helpful complement to the existing international financial system. Economic integration in the Asian region was represented by the Chiang Mai initiative. China became an active participant in financial cooperation based on currency swap arrangements introduced among ASEAN countries and China, Japan and Korea. In 2002, as a net debtor and low income country China made contributions to reducing debt burdens of HIPCs and the poorest Nations.

The Zhou Xiaochuan Years

Zhou Xiaochuan served as the 11th Governor of the People's Bank of China from 2003 to 2018. He was consistently ranked as the most influential policy makers of his generation and

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[2] Dai Xianglong., Statement at the Fifty-Third Meeting of the Interim Committee of the Board of Governors of the International Monetary System, September 26, 1999 Washington DC (www.imf.org)

oversaw China's transition as the second largest economy in the world. A man praised for his intellect and diplomacy, Governor Zhou is called "China's most able technocrat."

Zhao Xiaochuan's long tenure can be divided into 3 distinct phases

(a) The 2002-2007 period wherein he strove for exchange rate flexibility, capital account liberalization and reform of the banking system at a time when China had favorable medium term prospects for maintaining strong growth and continuing its integration into the global economy.

(b) The 2008-2010 in which period China had to formulate a response to the global financial crisis and put in place policies for rebalancing of growth towards private consumption. It was a period when China urged the IMF to consider the inclusion of the RMB in the SDR basket to improve the attractiveness and liquidity of the SDR as a reserve asset.

(c) The 2010-2017 in which period China pursued policies of Renminbi Internationalization and financial sector reform. In 2010, the IMF rejected the RMB's attempt to enter the SDR basket. But China did not give up and intensified its push. Finally in November 2015, the IMF accepted the RMB into the SDR basket, assigning it 10.92 percent of the total weight, below the US Dollar, the Euro, but above the Yen and the Pound Sterling.

China: Selected Economic Indicators 2000-2015

INDICATORS	**2000-2007**	**2008-2010**	**2011-2014**	**2015-2017**
Real GDP	10.5	9.8	8.1	6.8
Consumer Prices	1.7	2.8	3.2	1.8
Unemployment Rate	3.9	4.2	4.1	4.1
Current Account Balance	4.4	5.9	2.1	1.9
Gross Official Reserves (billions US $)	1018	2445	3606	3146
Nominal GDP (billions RMB)	16466	36018	56812	81344

Sources: 2017 Article IV Consultation for the People's Republic of China (page 43) and Modernizing China: Investing in Soft Infrastructure edited by Lam and Schipke, 2017 (page 27)

Exchange Rate Flexibility and Capital Account Liberalization

On January 1, 1994 China introduced a market based, unified and managed floating exchange rate system. Under the new system, certain banks were authorized to sell and purchase foreign exchange. On December 1, 1996 the renminbi became convertible for current account transactions. In the inter-bank-market the PBC limited the daily movement against major currencies, +/- 0.3 percent around a daily announced reference rate. For capital transactions, exchange controls were applicable. China imposed restrictions on domestic investments by qualified foreign institutional investors, restrictions on foreign borrowing plans of government departments, controls on FDI and investments on derivative transactions for purposes of speculation.

Post the Asian Financial Crisis, China[3] adopted an exchange rate policy that fostered economic and financial stability while maintaining healthy, rapid economic growth. It was felt that exchange rate reforms and institutional reforms were integral parts of the overall reform endeavor and it was important to identify proper sequencing to carry out both these reforms. Full renminbi convertibility was a stated goal, and it was to be achieved through a gradual and deliberate approach. The reform of the exchange rate was to be carried out in tandem with a gradual approach to capital account liberalization given the weaknesses in the financial system.

On June 21, 2005 China instituted a reform of the renminbi exchange-rate regime by moving to a managed floating exchange rate regime based on market supply and demand and with reference to a basket of currencies. This reform step had profound significance for maintaining macroeconomic and financial market stability. The Chinese government took measures to cultivate and develop foreign exchange markets. Hedging instruments were developed. Enterprises were given incentives to retain more foreign exchange and some relaxations in capital account restrictions were given. The RMB exchange rate moved in both directions against the US dollar. By March 31, 2006 the RMB had appreciated 3.2 percent against the dollar. The real effective exchange rate of the renminbi rose by 8.1 percent in 2005.

Banking Sector Reforms

The Chinese authorities placed banking sector reform at the center of their overall policy agenda. Recapitalization and restructuring of the Bank of China, the China Construction Bank and the Industrial and Commercial Bank of China were pursued. China injected US $ 45 billion into recapitalization of Bank of China and China Construction Bank. Moneys were transferred from international reserves to Central Huijin Investment Company, to finance recapitalization. A Central Banking Regulatory Commission (CBRC) was established. Performance assessment indicators, external oversight and strengthening corporate governance of banks were pursued.

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[3] Statement by Zhao Xiaochuan Governor People's Bank of China at the International Monetary and Financial Committee Dubai dated September 21, 2003

The period 2003-10, China strengthened bank's balance sheets, internal control systems, governance and credit risk management in state banks. Chinese government provided financial support to restore capital adequacy and full provisioning for NPLs. Shortly thereafter, the operating profits of Bank of China and China Construction Bank improved. China allowed foreign ownership of Banks with Bank of America and HSBC procuring stakes in Industrial and Commercial Bank of China and the Bank of Communications respectively. The CBRC took steps to monitor large exposures and introduced a deposit insurance scheme.

China also focused on the activities of the Agricultural Bank of China (ABC) and the Regional Credit Cooperatives (RCC). Given the huge scale of operations and exposure to the agricultural sector, restructuring of the ABC and the RCCs was pursued.

By 2006, China was witnessing strong GDP growth of 10 ¼ percent, fixed investment was nearly 30 percent, trade surplus had surged to US $ 135 billion, foreign exchange reserves reached US $ 895 billion. It was expected that GDP growth would easily exceed 10 percent, rural incomes would continue to rise and consumer credit facilities expand. Inflation was below 2 percent. China was undertaking a range of reforms in the banking sector, fiscal sector reforms like adoption of VAT, higher social sector allocations for health, education and pensions while accelerating the development of capital markets.

Financial Sector Reforms

The Financial Systems Stability Assessment (FSAP) of China's Financial sector was undertaken as part of the Article IV consultations by the IMF in 2011. The FSAP underscored the importance of careful sequencing of Financial Sector Reforms to be undertaken given the interconnections between the reform processes. The five major areas covered by the FSAP included exchange rate flexibility, monetary policy framework, improvements in regulation and supervision, financial market development, interest rate liberalization and capital account liberalization. There were serious concerns of a growing mountain of debt, shadow banking practices and massive stock market swings.

Then came the Global Financial Crisis of 2008-10, which changed the world's perception of China's economic miracle.

China's response to The Global Financial Crisis 2008-2010

The Global Financial Crisis of 2008-2010 confronted China with the question of international currency that will secure global financial stability and facilitate world economic growth. China felt that issuing countries of reserve currencies were constantly confronted with the dilemma between achieving their domestic monetary policy goals without carrying their international responsibilities. Zhao Xiaochuan[4] pleaded for reform of the international monetary system that yielded win-win results for all stakeholders.

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[4] Zhao Xiaochuan: Reform of the International Monetary System dated 23/3/2009 (www.pbc.gov.cn)

> "Special consideration should be given to giving the SDR a greater role. The SDR has features and potential to act as super-sovereign reserve currency. More over an increase in SDR allocation would help the Fund address its resources problem and the difficulties in the voice and representation reform. The scope of using the SDR should be broadened, so as to enable it to fully satisfy the member countries demand for a reserve currency."

Persisting with its call for reform and future mandate of the IMF, China pressed ahead for immediate quota and voice reform. At the 12th Meeting of the IMFC at Istanbul, Dr. Yi Gang[5] said that

> "The current financial crisis, which originated in developed countries, has resulted in substantial losses for countries of the world. The failure of major international financial institutions to issue timely early warnings highlights the consequences of its misfocused surveillance. Only through the acceleration of fundamental reforms will the major financial institutions be able to discharge the mandate assigned to it by member countries. The persistently misaligned quota shares and underrepresentation of emerging market and developing countries hamper Fund governance and even-handed surveillance. It is critical that the Fund complete in a timely manner the reform objective announced by the G-20 leaders, namely a shift of atleast 5 percentage points of the quota shares in favor of emerging market and developing member countries. Building on quota reform, we support the broader reform of Fund governance. Emerging Market and Developing Countries should also have greater participation in management and staff."

In 2009 the world heard China's voice in a period of crisis as it represented the only country with a significant current account surplus and trade surplus and a double-digit growth.

China's response to the Global Financial Crisis 2008-2010 was quick, determined and effective. It comprised of 3 broad strands – a major fiscal stimulus, an extraordinary credit expansion and re-pegging the renminbi to the US dollar. There was an increase in spending on capital projects and a 31 percent increase in credit. Growth picked up in 2nd quarter of 2009 and reached 9.1 percent, inflation remained modest, and reserve accumulation was rapid, reaching over US $ 40 billion/ month. The balance of payments saw dramatic changes with a fall in export volumes and foreign direct investment. There was an export rebound and by July 2009 exports were above their pre-crisis level with particular strength in electronics and light manufacturing. China's fast paced recovery had significant positive trade spill-overs to the global economy. The economic recovery enabled further reform of the renminbi exchange rate regime. On July 19, 2010, the People's Bank of China announced a return to the managed float exchange rate regime.

2011 SPILLOVER REPORT

[5] Statement of Dr. Yi Gang, Deputy Governor of the People's Bank of China at the 12th Meeting of the IMFC Istanbul dated 6/10/2009 (www.pbc.gov.cn)

In 2011, the IMF formulated a spillover report that highlighted the significance of China's influence on the world economy. The report said that as the world's most central trader, China's capacity to both transmit and originate real shocks was rising, clearly China had an important stake for the world in its stability. Its export oriented growth model was seen as a source of stresses and economic rebalancing was essential. Currency appreciation was important to the process of rebalancing. A failure to rebalance the growth model would imply unprecedented increases in export market share.

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Going Global urges Chinese firms to take advantage of the booming world trade to invest in global markets. Going Global seeks to move the Chinese economy to an innovation-driven economy and has 2 high profile initiatives – Belt and Road and Capacity innovation.

The Belt and Road Initiative or the Silk Road Economic Belt and the 21st century Maritime Silk Road is a China centered regional connectivity network which is financed by AIIB upto USD 160 billion (one trillion yuan) comprises of 6 land corridors, the largest of which is the China-Pakistan Economic Corridor which costs USD 62 billion in infrastructure projects to modernize Pakistan's transportation network, energy infrastructure and economy. There is a maritime silk road to foster collaboration in South East Asia, North Africa, Oceania and through South China sea, South Pacific Ocean and the Indian ocean area.

The IMF recommended that China's transition to a sustainable consumption-based growth is desirable benefiting the global economy and reducing longer term risks, even if it entails a medium term slowdown. However, the IMF said that given its size, openness, high investment rate, high import content of its investment and exports, a slowdown in China is likely to have strong global spillovers. The negative spillovers will weigh on global growth but the effects will vary with the country's level and type of exposure to China. China's rebalancing away from investment has contributed to a slowing demand for and prices of commodities. Financial spillovers from China are on the rise through strong trade linkages and rapidly rising financial linkages.

Renminbi Internationalization

From 2011, China facilitated a gradual increase in the international use of the renminbi. 28 bilateral currency swap agreements signed, developing offshore RMB markets were developed and RMB clearing banks in 14 countries and regions. There was a buildup in renminbi deposits in Hong Kong SAR and an increase in issuance of renminbi denominated "dim-sum bonds". There was also a relaxation of capital controls to allow the return of offshore renminbi to mainland China. The expansion of the international use of the RMB has occurred largely in the Hong Kong SAR which has an open capital account, highly regarded legal system and strong regulatory oversight provided by the Hong Kong Monetary

Authority. The Bank of China acts as the clearing bank and a payment infrastructure has been created. Sales of renminbi financial products were also conducted in London as part of the plans to expand the offshore renminbi business to other financial centers.

At the 3rd Plenum of the 18th CPC Central Committee[6] in 2013, it was announced that China would seek to "speed up the process toward capital account convertibility." China introduced partial or full convertibility on 35 out of 40 items on the IMF's classification of capital accounts. Zhao Xiaochuan says that China has adopted the concept of managed convertibility, while retaining capital account management in four items, which are widely adopted by most countries.

The RMB was officially included in the SDR currency basket on October 1, 2016. The Chinese authorities felt that it was a significant milestone in the process of RMB internationalization and an acknowledgment of the progress in China's economic development, reform and opening up. They also felt that it's a step that would help increase the stability of the SDR and improve the international monetary system. China published its foreign reserves, balance of international payments and international investment positions in US Dollar and SDR terms and issued SDR denominated bonds in China.

On December 22, 2017 the monetary authorities of Japan and China approved allowing Japanese Corporations to issue RMB based bonds – the Panda bonds in China. That said, Japan remained reluctant to join the RMB internationalization.

Despite China's efforts for RMB internationalization, the dollar will remain the preeminent global reserve currency. The structure of political and legal institutions and the limited financial market development make it difficult for the RMB to become a major reserve asset. Despite China's efforts, the RMB's use in international transactions fell by about 30 percent between 2015 and 2016.

Quota and Governance Reforms at the IMF

On December 18, 2015, the United States Congress approved the 2010 Quota and Governance Reforms of the IMF. The Managing Director of IMF said:

> "The United States Congress approval of these reforms is a welcome and crucial step forward that will strengthen the IMF in its role of supporting global financial stability. The reforms significantly increase the IMF's core resources, enabling us to respond to crisis more effectively and also improve IMF governance by better reflecting the increasing role of dynamic emerging and developing countries in the global economy."

Following the Quota and Governance Reforms, the Fund's quota resources increased to about SDR 477 billion from SDR 238.5 billion. More than 6 percent of quota shares shifted to

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[6] Statement of Zhou Xiaochuan, Governor of the People's Bank of China at the 31st meeting of the IMFC Washington DC dated April 18, 2015

dynamic emerging market and developing countries from over-represented member countries. China became the 3rd largest Member after United States and Japan. However the Chinese authorities continue to feel that the 2010 Quota and Governance reform has not significantly closed the gaps between calculated quota shares and their actual weight in the global economy. Hence China has called for continued reform momentum in completing the 15th general review of quotas within the agreed time.

China's Influence in the IMF

China wields considerable policy influence in the IMF post the IMF quota and governance reforms implemented in 2015. China's influence on the IMF Executive Board has grown significantly and no important decision on the Executive Board can be taken without an indication of China's consent. China issues gray statements on almost all topics coming before the Executive Board. It has a presence in the IMF management. Zhu Min was appointed as Special Advisor to the Managing Director from May 3 2010 to July 25, 2011 and then was appointed as the 4th Deputy Managing Director.

Tao Zhang was appointed as the 4th Deputy Managing Director of the International Monetary Fund on August 22, 2016 having served as Executive Director on the IMF from 2011 to 2015. Tao Zhang represents the elite Chinese bureaucracy well versed with the Fund's program design, review and execution. As Deputy Managing Director Tao Zhang has the institutional support, the stature and credibility to influence IMF decisions.

Tao Zhang's positions as Acting Chair and Deputy Managing Director have been highly supportive of Low Income Countries. In a Conference in Port of Spain he assured the Caribbean Prime Ministers of the IMF's deep commitment to helping Caribbean countries in navigating the challenges of low oil prices. Further he has supported the international community and the IMF to provide assistance and encouraged IMF staff to refine their recommendations to make policy more effective in addressing LIC's development needs.

Tao Zhang identified several African countries namely Chad, Mozambique, Republic of Congo, Ghana and Mauritania as countries with elevated debt distress and advised them to undertake fiscal adjustment programs to deliver stronger economic performance. He has assured IMF support for advising low income countries on how best to balance borrowing to finance development and manage debt related risks, roll out the revised low income debt sustainability framework and strengthen technical assistance in critical areas such as public debt reporting and management. As Acting Chair and Deputy Managing Director Tao Zhang has pressed for timely completion of reviews and disbursements.

China's Presence in International Institutions

China's influence in international institutions is at an all-time high. It has strategically positioned itself to set-up new international institutions where it wields considerable influence. China has a voting share of 6.09 percent in the International Monetary Fund and 5.5 percent in the Asian Development Bank. It is the 3rd largest member in both institutions. Further China is a member of the African Development Bank, the Caribbean Development

Bank, the Inter-American Development Bank and the European Bank for Reconstruction and Development.

China has also tried to create alternate international institutions – the Asian Infrastructure Investment Bank (AIIB) was established in Beijing in 2014 with 21 member countries of Asia under the Presidency of Jin Liquin. By April 2015, the membership of AIIB has increased to 61 member countries. By April 2015, the membership of AIIB has increased to 61 member countries. The AIIB has just concluded its 2018 Annual Meetings at Mumbai with the theme "Mobilizing Finance for Infrastructure Innovation and Collaboration." The AIIB is financing a USD 329 million loan for improvement of rural roads of 1060 villages in Gujarat. Further the AIIB is financing a USD 150 million investment in a fund to make private equity investments in India's infrastructure sector with Morgan Stanley as Fund Manager and another USD 100 million in India's new National Infrastructure and Investment Fund. The AIIB has financed its first project outside Asia – a USD 210 million project in Egypt for a solar power park.

China also established the BRICS New Development Bank in July 2015 and established a contingent reserve arrangement to address short-term balance of payments crisis. China successfully hosted the 2016 Hangzhou Summit of the G20 leaders. The Hangzhou consensus of the Leaders of G20 was based on a vision to strengthen the G20's growth agenda forging synergy in fiscal, monetary and structural policies; promoting global trade through greater openness and inclusive growth.

Financial Geopolitics

(a) Trade Wars

The Foreign Affairs[7] says that the "increasingly prominent view in China that the United States (along with the West more broadly) is in inexorable and rapid decline". The Chinese think tanks and media constantly debate whether the United States is a declining power, and no consensus has emerged. The world continues to see China as a developing country still trying to catch up with the United States not only economically but also in-terms of higher education and technological know-how. The power gap between the two countries is still significant.

The United States seeks to address its trade imbalance with China, which currently stands at US $ 372.5 billion.

The United States seeks to address its trade imbalance with China, which currently stands at US $ 372.5 billion. On April 4, 2018, the United States[8] published a list of US $ 50 billion worth products from China that would be

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[7] Foreign Affairs., "Did America get China Wrong? – The Engagement Debate" by Wang Ji, Stapleton Roy, Aaron Friedberg, Thomas Christensen and Patricia Kim, Joseph S. Nye Jr, Eric Li, Kurt M.Campbell and Ely Ratner., March/April 2018 www.foreignaffairs.com

[8] Foreign Affairs., "Trump's Trade War Escalates" by Allison Carnegie June 25, 2018 www.foreignaffairs.com

hit with 25 percent tariffs. On April 5, 2018 China announced a US $ 50 billion list of US goods for possible tariff hikes in a spiraling technology dispute with Washington DC. Further the United States threatened to place tariffs of 10 percent on US $ 200 billion of Chinese goods following the retaliatory action by China. Trade hostilities between the United Stated and China continue to escalate The United States says China is violating its free trade commitments by pressurizing foreign companies to hand over technology to potential Chinese competitors in exchange for market access.

History shows that trade threats did not work in the past. In 1990, the United States threatened China with raising tariffs, deterred trade and investment if China did not improve its human rights policies. China now represents 15 percent of the global exports and the United States reliance on China has grown considerably. Further, China is in a position to retaliate. There is a fear that the United States may not be able to impose sanctions consistent with the WTO regime and may end up eroding the system of trade that was built after decades of consensus building.

(b) Currency Wars[9]

A decade of exceptional monetary expansionary policies after the Global Financial Crisis 2007 has taken its toll on the legitimacy of the current global monetary order led by the United States. The US led global financial institutions of IMF and World Bank are increasingly dependent on the financial contributions from China and Emerging Market Economies.

With the Euro in decline following the crisis in several euro area countries - Greece, Portugal and Ireland, and Brexit, the institutions for stabilizing the euro zone economy remain elusive. Although the narrative emerging from the European Central Bank has been that from 2017 the economic recovery has been robust and returning to normal, there are serious doubts if Germany alone with its large current account surplus can continue to play the role of a regional hegemon in Europe pulling Europe’s economic upturn. The Italian and French economies have not yet returned to economic growth of pre-2007 crisis levels and there are concerns regarding the sustainability of European banking systems.

Conclusion

China’s unprecedented financial clout is visible in the International Monetary System. The journey traversed is remarkable and the RMB’s inclusion in the SDR basket of currencies is

[9] James Rickards., “Currency Wars: The Making of the Next Global Crisis”., Penguin Publishers 2011

representative of China's rise in the international monetary system. From merely supporting the IMF's various policy measures, China's positions have become far more strident following the IMF's Quota and Governance Reform. In 2017, it has called on the IMF to continue its quota and governance reforms to ensure that the IMF is strong, quota based and well resourced. It has further said that the IMF should continue improving its surveillance capacity. China has said that the IMF should enhance its research and put forward suggestions on key and common challenges faced by member countries and provide early warning signals. Further China has said that the IMF should press ahead with international monetary system reforms to address the deficiencies in the international monetary system. There remains a huge domestic economic policy agenda, which China needs to address, and the implications of its policy decisions will have a lot of impact on the global economy.

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