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China at the International Monetary Fund: Continued Engagement In Its Drive for Membership and Added Voice at the IMF Executive Board

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1. Indroduction

In 2005, then Deputy Secretary of State Robert B. Zoellick made comments to the National Committee on the United States and China Relations in New York that had set the stage for a multitude of criticism against China and its engagement with the international economy. Zoellick said: "China is big, it is growing, and it will influence the world in the years ahead. For the United States and the world, the essential question is how will China use its influence? To answer that question, it is time to take our policy beyond opening doors to China's membership into the international system: We need to urge China to become *a responsible stakeholder* in that system. China has a responsibility to strengthen the international system that has enabled its success."[2]

Catapulting from Zoellick's speech, pundits have argued that China has not been active or engaged, or as infamously conceptualized as failing to be a 'responsible stakeholder', in the International Monetary Fund (IMF). Yet, as this paper argues China's historical desires to retain its prominent role during the Cold War and current ambitions to increase its IMF quota level, demonstrates that China has been keen to be an active player in the IMF. By examining the history of Chinese engagement with the IMF, we get a very different picture than that described by analysts who have continued to feed upon, what will be argued is an erroneous, 'responsible stakeholder' argument noted above.

This paper looks at the Chinese government's international involvement in both trying to retain its prominent seat at the IMF during a time of anti-Sino sentiment during

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2 Robert B. Zoellick Whither China: From Membership to Responsibility? Remarks to the National Committee on the United States and China. Relations, presented in New York City, September 21, 2005.] http://www.disam.dsca.mil/pubs/INDEXES/Vol%2028_2/Zoellick.pdf. Emphasis added.

the Cold War and its continued quest for increased quota levels to have added prominence at the IMF Executive Board in the current period of a global shift of economic power from the ‘West to the rest’. The case demonstrates how China negotiated its position in light of two key periods in its international history. At the same time, China has consistently demonstrated its desire for international respect of its position that was commensurate with its role and history in the international economic system.

China’s forced departure from the International Monetary Fund during the early years of the Cold War and its recent and continued quest to gain power at the IMF has not received adequate focus in academic literature. It would be a surprise to some that in fact China attempted to reinstate itself at the IMF throughout most of the Cold War period. In contrast to contemporary arguments that China is not an engaged member of the IMF, this chapter uses extensive archival material and process-tracing to demonstrate that the historical account shows how the Chinese government continued its engagement with the international monetary system during its relative ostracisation of the Cold War days as well as show the Chinese government have pursued involvement in IMF governance through its quest for more voice and votes at the IMF’s highest decision-making body.

2. Attempts at Returning China’s “Rightful Place” at the IMF helm

As described and analyzed by Helliener (2012), Chinese officials pressed to have a strong quota at the Bretton Woods Conference in the 1940s. China’s prominence at Bretton Woods was then reflected in the fact that it was assigned the fourth largest quota and voting share in the IMF and World Bank. This position guaranteed it a seat on the Executive Boards of the IMF and World Bank. A prominent position it would find itself fighting for again throughout the Cold War and into the 1970s. With the fourth largest Bretton Woods voting share- after the US, UK, and USSR- the Republic of China (ROC) had sufficient quota to appoint a seat at the IMF Executive Board. Despite the

Communist Party control over mainland China and the establishment of the Peoples' Republic of China (PRC) in 1949, the United Nations and accordingly the IMF, continued to recognize the Kuomintang government in Taiwan of ROC as the official government of China. As the Central Bank of China office moved to Taipei, so did the IMF-Chinese relationship. This would not change until the mid-1970s after intense debate and discussion within and outside of the IMF.

With the commencement of the IMF executive board in 1946, the ROC appointed an Executive Director - a position it held until 1960. With general increases in quotas in the 1950s, the ROC no longer had one of the top five quota contributions at the IMF and lost its right to appoint a board seat. However, it had sufficient quota as one of the largest contributors to elect its own Executive Director in 1960 and held the seat without a constituency until 1966. From 1966 to 1970, the ROC held an elected executive board seat, but with the support of Korea and Vietnam; similarly, from 1970 to 1972, the Philippines also joined the China-led constituency.

Throughout the 1950s, the PRC had made repeated attempts, requests, and motions at annual meetings and at executive board meetings to unseat the ROC and re-instate its 'rightful place' at the Executive Board. Specifically, through Czechoslovakia, Finland, Poland, India and Yugoslavia, the PRC repeated their objections to the Kuomintang government's role at the IMF board. Officials from the PRC had also protested against the Kuomintang government directly to the IMF throughout this time. For the next twenty years, the disputed status of the Chinese representation at the United Nation meant that other UN organs like the IMF were paralyzed to change.

On 25 October 1971, the UN General Assembly agreed to give the PRC government the right to represent China at the UN and accordingly expel the Kuomintang representatives from the UN Security Council. The IMF was now in a predicament, one that it aptly labelled the "China problem" in its internal correspondences among management. Fund management agreed that the question of membership and the board seat could be legally decided as an internal matter within the Executive Board itself- but which became the site of international politicking. The IMF Management and Executive Board came to the conclusion that the UN position was not to be viewed as a decision, which the IMF must implement. Rather, the UN-Fund agreement allowed the IMF to have more leeway in its decisions and it could take the UN position as an informal recommendation.[3]

The IMF and the World Bank would similarly take a coordinated approach to the ‘China problem’. The Bretton Woods’ legal teams went to New York and met with the UN Secretary General representatives to discuss the Chinese problem. The meeting reaffirmed longstanding views in the Bretton Woods organizations that the IMF and World Bank were free to decide internally on the issue of membership, but that they were required to consider UN decisions and deliberations. The World Bank’s General Counsel Aron Broches, known as one of the "fathers" of the World Bank and a key participant in the 1944 Bretton Woods Conference, argued that the two organizations “...let the dust settle down a little first” before making a decision.[4] The World Bank was also in a bit of a bind because it had lent $100 million to the ROC and had a further commitment of disbursements of another $200 million. Moreover, if the Fund decided to proceed and cease Taipei’s membership, the World Bank’s article of agreements would then require it to follow suit within three months.[5]

The IMF simulated UN voting on the matter to see how the ‘dust would settle’ on Chinese membership in its Executive Board. In trying to simulate an IMF Executive Board vote on the China issue, the Fund replicated UN voting using the Fund’s quotas and found that the PRC would be blocked by a thin margin and support for continued the ROC representation of China would prevail. The differences in IMF and UN voting

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[3] IMF. “Representation at the 1961 Annual Meeting” Office Memorandum from Joseph W. Lang to Mr. Horne. 3 July 1961, p.3. IMF Archives.
[4] IMF Archives. Deputy General Counsel Gerstein. “Representation of China” 29 October 1971. P. 1.
[5] See *IBRD*. Article VI, Section 3.

outcomes was explained by virtue of the fact that a number of IMF members were not members of the UN (such as Germany and Vietnam) and that a number of UN members in the socialist world who were supportive of the PRC were not members of the Fund.[6] IMF Management decided on an order of preferences. First, Management preferred to continue Taiwan's membership in the Fund and to follow a 'transformation' strategy, where China's representation would become in effect Taiwan. Second, failing to get a majority of votes in favour of the ROC, then Management would ask Taiwan to withdraw. It was further noted that the PRC would not likely meet IMF conditions of membership and so this would save the communists the "embarrassment" of "violations almost from the outset". Moreover, Fund management knew that it was difficult to remove Taiwan from the IMF when Taiwan was still meeting its obligations to the Fund; however, the IMF could consider 'the doctrine of loss of statehood' as another possibility.[7]

Through individual discussions with directors, the Fund management notified the PRC that if they assumed Taiwan's position, then the former would have the obligation to repurchase any outstanding gold and also repurchase 75% of its quota. In addition to these financial obligations, the PRC would need to meet the terms of the Articles of Agreement, which included disclosing economic data and seeking approval of exchange rate policies. This posed a challenge because the PRC was unlikely to be willing or capable of meeting Fund obligations of membership. Moreover, if the PRC claimed that the Taiwan presence was a problem of representation and not membership, then it would be difficult for the Fund to demand member obligations to the articles without the threat of seeking compulsory withdrawal; this could then aggravate international political matters further. [8]

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[6] IMF Archives. W.L. Hebbard (IMF Secretary) to Managing Director. "Hypothetical Fund Voting Base on Pattern of UN Voting on China Representation" 29 October 1971. P.1

[7] IMF Archives. Gerstein. "Memorandum for Files" 2 November 1971. P1.

[8] IMF Archives. Joseph Gold. "Memorandum for Files" 10 November 1971. P1-3.

The IMF was not able to legally remove Taiwan's membership because it was meeting the terms of its obligations with the IMF.

"They [Executive Directors] stressed that the decision was likely to be taken by Foreign Offices and not Treasuries or Central Banks, and it would be difficult for the Foreign Offices to distinguish between the UN and the Fund. Some emphasized, therefore, that it would be necessary to dwell on the political and not the financial problems that would follow from the automatic recognition of the PRC as the member."[9]

IMF Management chose to ignore a letter the received from the PRC to strip the ROC of its membership.[10] Management went on to argue that the UN letter was in reference to the "UN and its related organizations" and that this did not include the specialized agencies "…let alone the completely autonomous Fund and Bank".[11]

On a number occasions, Taiwan's Ambassador Wong reaffirmed his government's desire to remain a member of the IMF.[12] This would be an uphill battle, Deputy Managing Director Frank Southard advised, because it was felt there was support of the PRC in the international political community. Southard discussed with Ambassador Wong possible ways of blocking a PRC attempt to unseat Taiwan. At one point, it was suggested that the Taiwanese reapply with a new application for new membership; this, however, would not prevent the PRC from laying claim to the old membership and the board seat.

The issue of quota remained a thorny one, but the Taiwanese claimed they would be willing to remove their claim to represent the mainland. This would, however, result in a decline of quota to under $100 million, which greatly disturbed Ambassador Wong. The Taiwanese agreed to consult with other Fund members to see if they would have success

[9] IMF Archives. Joseph Gold. "Memorandum for Files" 10 November 1971. p.3.
[10] IMF Archives. Managing Director Gordon Williams. "Kittani Telegraph re China" 17 January 1972. p.1.
[11] IMF Archives. Managing Director Gordon Williams. "Kittani Telegraph re China" 17 January 1972. p.1.
[12] IMF Archives. Frank Southard. "Meeting with Mr. Hau and Ambassador Wong" 9 December 1971, p.1.

with a new membership application.[13] China's quota in the Fund had not changed in any of the quota reviews since the original quota of $550 million; more importantly, this was paid in full by Taiwan in 1970, well after the creation of the PRC (a point refuted by the PRC who claim that the quota paid and the gold contributed is an asset of the PRC). However, the calculated quota included assumptions made about both the mainland and Taiwan together before the 1949 Communist Revolution. Moreover, China's currency subscriptions to the IMF were made in Taiwanese Yuan and not RMB Yuan.

On 15 June 1972, Mr. Hsu representing the Republic of China had resigned. So the seat, formerly held by Republic of China, lay empty and 'China' was not represented. Meanwhile, the People's Republic of China's Minister of Foreign Affairs had informed the UN Secretary General that multilateral treaties signed by the 'defunct Chinese government' would be determined on a case by case basis.[14] The IMF had not received any instruction from either the PRC government or the United Nations on what to do. Despite this, the Fund was worried that the PRC would propose 'censure of the IMF and IBRD for non-compliance with the UN Resolution."[15] On the heels of the 1973 Annual Meetings in Nairobi, the PRC's Minister of Foreign Affairs, Chi Peng-Fei wrote to the IMFs Managing Director Johannes Witteveen in September. Peng-Fei reminded the Managing Director (MD) that the ROC was one of the founding members of the IMF and World Bank at the Bretton Woods meetings.

The Fund's Deputy Managing Director and the World Bank's Vice President went to the United Nations in New York, in November 1973, to get the PRC's clarification. In the meeting, the Bretton Woods management asked how the Beijing authorities would address the issue of quotas in the Fund. Chinese Ambassador Wang Jun-Sheng complained that the two organizations had continued well beyond their mandate to

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13 IMF Archives. Frank Southard. "Meeting with Mr. Hau and Ambassador Wong" 20 January 1972, p. 1-2.

14 Based on letter sent 25 September 1972 by PRC Foreign Minister to UN Secretary General.

15 IMF Archives. Frank Southard. "Discussion of China in the Administrative committee on coordination" 26 October 1972, p.3.

recognize the Taiwanese representation and that the PRC had already made their position clear in cables to the two organizations.

This was to no avail, and nearly three years passed and Fund management continued to report to the board that he had yet to hear from the PRC. The IMF staff continued with business as usual and continued to refer to the ROC as ‘China’ in all of its reports. Progress came when the annual IMF-World Bank meeting was set to take place in Manila in October 1976. In the previous summer, it had been reported that the PRC was pressuring the Pilipino President Ferdinand Marcos to break diplomatic ties with Taipei in exchange for the PRC’s support of the Philippine's application to join the Non-Aligned Movement.[16] Specifically, the Pilipino government was asked to cease issuing Taiwanese individuals’ entry visas into the Philippines. The ROC Embassy raised their travel concerns with the IMF and the World Bank; the issue posed a new problem for the IMF and the World Bank. Would the Taiwanese officials who were still technically representing China at the Annual Meetings be barred from entering Manila? At the same time, the People’s Republic of China had pressured the Pilipino Minister of Finance and prominent business leader, Cesar Virata, to deny the Taiwanese entry into the country. Virata was also directed by the Philippine Foreign Minister to not refer to Taipai as China in the annual meetings.[17] The Philippine government inquired if it could refer to the ROC as Taiwan as way out of the diplomatic dilemma it faced. Fund and World Bank management raised the ROC travel concerns and its own objections with the Pilipino government: “...if there were any restrictions on any bona fide 1976 Annual Meetings Participants entry into the Philippines, I could state unequivocally that the gavel would not go down in calling the meetings to order at scheduled. That I felt quite sure the position would be that no change could be made in the name of the member or any

[16] Wideman, Bernard. “Marcos Listens to the Peking Tune,” *Far Eastern Economic Review*. No. 31 (July 30, 1976): 28-29.
[17] IMF Archives. Cesar Virata. “Letter to Johannes Witteveen” 13 September 1976. p.1.

member without the change being made by the member concerned...its legal name with the Fund and the Bank ...is listed as 'China'..."[18]

After threatening to cancel and move the meeting elsewhere if the ROC officials were not granted entry visas or if Pilipino airlines refused them entry on board, the Philippines' Ministry of Foreign Affairs issued a carte blanche for all attendees of the IMF meetings to be allowed entry into the county. The potential diplomatic roe was defused, but the PRC would begin its strongest campaign to unseat Taiwan.

In anticipation of the Annual Meetings in Manila, the People's Bank of China President Mr. Chen Hsi-Yu sent the IMFs Managing Director yet another cable that nearly mirrored PRCs letter to Witteveen three years earlier. Again, stating that Taiwan had illegally occupied China's seat for 20 years and added that if Taiwan were to use any IMF quota belonging to China proper, then the PRC would "reserve the right to recover the losses arising from any illegal disposal". [19] The PRC had publicized the contents of the cable with Fund member governments in hopes of stirring the pot at the annual meetings. The Managing Director responded that in the meeting with the PRCs UN Ambassador three years prior, he had asked the PRC government to clarify their intentions with regards to safeguarding the IMF interests and that membership involved rights and obligations. Without receiving a PRC response, Mr. Witteveen was not given any clarification on how to proceed. [20] The PRC and IMF stalemate looked like it would continue, but the Executive Board would take the onus to remove the locus of discussions beyond Management.[21]

In a restricted session at the 3 December 1976 Executive Board meeting, Executive Directors generally expressed their dissatisfaction with Management in resolving the

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[18] IMF Archives. Johannes Witteveen. "Letter to Chen Hsi-Mu, President of the People's Bank of China" 30 September 1976. p.1.

[19] IMF Archives. Chen Hsi-Yu. "Cable to Mr. H. Johannes Witteveen, Managing Director" 30 September 1976. p.5.

[20] IMF Archives. Johannes Witteveen. "Letter to Chen Hsi-Mu, President of the People's Bank of China" 30 September 1976. p.1.

[21] In November 1976, the IMF staff drafted a first cut at studying the PRC economy.

China representation problem. The Nordic constituency called for the immediate termination of Taiwan and that the MD invite the PRC to resume in its place at the board. They also felt that the technical matters impeding PRC membership should be overlooked for now and that perhaps discussions should move from the Finance Ministries and Central Banks and to the Foreign Ministries instead. Agreeing with the Nordic position were the French, the Zambian-led African constituency, the Dutch-led constituency, the Egyptian-led Arab constituency, and the Indian-led constituency. In contrast, the United States supported Management's position that before PRC membership in the Fund is accepted, the new member needed to assume all of the rights and obligations of membership. Australia noted that it did not recognize the PRC, but some of its constituency members did and so the matter needed to be further thought through. Germany also noted the problem that the PRC still owed $250million to the World Bank and so safeguarding resources would be threatened if a vacuum were created. Both Canada and the UK took a middle stance: wanting to see PRC membership quickly but wanting to safeguard IMF resources. With the meeting about to end at an impasse, the Egyptian director asked that the IMF Executive Board take a formal vote on the matter, but the US Executive Director Sam Cross did not favour a formal vote and asked that the board reconsider and apply its traditional consensual voting process instead. It was agreed that a vote would be postponed as directors had time to consult with their capitals.[22]

Many Executive Directors asked Fund Management to send a letter to the People's Bank of China President Chen Hsi-Yu and inquire about 'their intentions' with the IMF. Subsequently, Witteveen wrote: "I wish to express the willingness of the International Monetary Fund to engage in any further discussions with your Government that it may desire. These discussions can be held at whatever time and place are convenient for your

[22] IMF Archives. Executive Board Minutes. "China- Relations with the Fund- EBM 76/159" 3 December 1976. p.1-14.

Government"[23]. The response of Chen Hsi-Yu was vague and repetitive of previous positions, but welcoming further discussions in the PRC's UN office in New York. Again, Chen Hsi-Yu pointed out the illegality of the Republic of China and claimed it would take legal action of Taiwan's removal of funds from the IMF in its name. Indeed, Fund staff and management had proposed to return the gold deposited by Taiwanese to them; the board approved the decision in January 1977. The decision to initiate the transfer to the PRC, however, was put on hold for the time being.

Senior IMF staff members met with PRC officials on 31 March 1977 in New York. The PRC officials continued to insist that the IMF first expel Taiwan and then it would make a decision about its membership. The PRC officials were, however, surprised to find out that Taiwan's SDR 550million quota was held in Taipei.[24]

The PRC government started to use interlocutors to speak with Fund officials and staff on the PRC membership question. First in December 1978, the IMF's Geneva Office was paid a visit by a former member of the Chinese permanent mission to Geneva and a member of the UNCTAD secretariat. Mr. Wu claimed to approach Fund staff on a 'personal capacity'. He inquired about ways "...there could not be some 'back-door' settlement of Taiwan's debts to the IBRD and any repurchase owed to the Fund". Mr. Wu also wondered how other socialist countries were abiding by Fund Articles of Agreement and operational policies. It was clear to Fund staff that "Mr. Wu's interest in talking with us was not exclusively promoted by intellectual motives...[and] likely that the Chinese Government is in the process of examining the financial advantages that China could obtain from a normalization of membership in the Fund and the Bank in the not too distant future." [25]

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[23] IMF Archives. Johannes Witteveen. "Letter to Chen Hsi-Mu, President of the People's Bank of China" January 7, 1976. p.1.

[24] IMF Archives. David Williams. "Discussion with Representatives from the Permanent Mission of the People's Republic of China" April 1, 1977. p.1.

[25] IMF Archives. Frenando A. Vera. "Letter to Mr. Dale" 14 December 1978. p.1-3.

Less than one month later, the former Attorney General of Ghana and UN Legal Council of a UN Committee, Mr. Asante, called Joseph Gold of the IMF's Legal Department Director to inquire about what would be the Fund's position on PRC membership and meeting the Articles of Agreement if China were not to use Fund resources. Mr. Gold duly noted that using of Fund resources was not a requirement of membership; but that members needed to accept the terms of continuous surveillance and that an exchange of economic information and data was a part of a member's obligations to the Fund. [26]

To pre-emptively prepare for US President Carter meeting with Teng Hsiao Ping in early February 1979, the IMF's new Managing Director de Larosiere decided to hold a meeting.[27] At a 12 January 1979 meeting, the Managing Director met with the Deputy Managing Director, US Executive Director Cross, Legal Counsellor Gold, Asian Department Director Tun Thin to discuss the status of China and a number of concerns and issues were again raised. The legal counsellor was most concerned with ensuring the PRC accepted the obligations of membership. There was specific concern that the PRC would repudiate ROC's obligations to the Fund, particularly because SDR 30 million were to be repurchased by Taiwan and another SDR 77million was forthcoming to the Fund with the scheduled quota increases.[28] Cross suggested convincing the Taiwanese to 'repurchase' and then 'to purchase' these funds to cancel any obligations to the Fund. The US director added that this would likely be the best solution at the Board. The MD wanted to avoid cancelling of China's membership because it would not allow the transfer of SDR allocations to the ROC. As for gold holdings, the legal counsellor argued

[26] IMF Archives. Joseph Gold. "Memo to Managing Director" 5 January 1979. p.1.

[27] Witteveen announced his departure as MD on August 31, 1977 and de Larosiere assumed the MD position on 16 June 1978.

[28] In January 1978, the Fund treasury had done an unofficial calculation of the PRC's quota using the 6th General Review of Quotas formulae and found that the Chinese would have SDR 1.5billion or 5% of the total Fund quota at the end of March 1978. IMF Archives. Memo. People's Republic of China- Quota Estimates" 3 January 1978. p.1. However, in further study one year later, the staff argued that the PRC quota should not be higher than Japan's.

that the frozen gold holdings belonged to the PRC- without a doubt. The PRC, nevertheless, would object to the gold sales as it continued to claim that all IMF assets in the name of China belonged to the PRC only and not to the ROC. [29] The ROC's loan of $275 US from the IBRD, however, was likely not going to be absorbed by the ROC either.

Outside of the Fund, US relations with China continued to warm as a number of senior visits by business interests started to engage China. US Congressional Research Service conducted a report on the PRC economy for Summer 1979. US Treasury Secretary Michael Blumenthal visited Beijing in late winter of 1979 and the topic of IMF membership was on the top of agenda. Walter Mondale also visited Beijing in August 1979 to improve US-Chinese relations. In January 1980, US Congress authorized the US-China trade agreement. A few months later, People' Bank of China officials also met with Federal Reserve officials in Washington, DC. The PRC was taking its calls to join the Fund with greater confidence and arranged to meet Fund officials.

An IMF working group was devised to respond to the expected PRC mission. Three areas of IMF concern were identified: 1) the issue of PRC quota and representation at the Executive Board; 2) required PRC cooperation on releasing necessary data for surveillance and IMF consultations; 3) the question of gold restitution to the ROC (totalling 25 million ounces) and outstanding ROC debt. [30] In a closed meeting of management and directors from the US, UK, France, Japan, and Germany, they discussed the prospect of Chinese membership at the Fund. The MD wanted powerful members' views on whether the Fund should try to meet a July 1st deadline on quota allocation and estimate the new PRC quota based on acquired data from a Fund mission or to give the PRC the quota of the ROC and take more time to determine the PRC quota. The

[29] IMF Archives. Office of Managing Director. "China" 12 January 1979. p.1.
[30] IMF Archives. Office of Asian Department. "China-membership" 3 March 1980. p.1; 2.

Executive Directors at the meeting agreed to take a cautious approach and not promise the PRC anything or to create a deadline. [31]

On 13 March 1980, the IMFs Managing Director received a letter from Mr. Cao Guisheng indicating that China "…wishes to assume its role in representation [of] China in the International Monetary Fund…[and it] will exercise all the rights and meet all of the obligations of China as the member of the International Monetary Fund and the participant in its Special Drawing Rights Department under the Articles of Agreement of the International Monetary Fund." [32] .

An IMF staff delegation went to Beijing from 26 March through to 4 April 1980.[33] The Fund delegation prompted the PRC's Foreign Affairs Minister to send a formal request for membership to the IMF Managing Director on 1 April. While the Fund staff were on their mission to the PRC, the ROC bank's Martin Wong sent a letter to the MD, asking for the restitution of gold that was entitled to Fund members in 1976. Wong called for a board meeting to discuss the matter and wanted this to occur before the mission returned from Beijing. Mr. Wong reminded the Board that since the Fund recognized the ROC as the representative member of China in 1976 and since the ROC was the member that contributed the gold in the first place (in 1970), it should be returned to the ROC and not the PRC. The statement concluded that if the Fund was not prepared to immediately return the gold to the ROC, then it would be advisable to set the gold aside in an escrow account until an international legal arbitration at the International Court of Justice could effectively settle the matter. [34] Clearly the Fund staff brought Mr. Wong's letter to the attention of PRC authorities while in Beijing. The PRC authorities then rushed to get its formal request for IMF membership to the Executive Board before

[31] Mr. Martin Wong, of Taiwan, contacted the Tun Thin to inquire about the restitution of gold and to request the opportunity to respond to PRC positions and views on Fund membership. IMF Archives. Office of Managing Director. "China-membership" 11 March 1980. p.1-3.

[32] IMF Archives. Office of Managing Director. "China-membership" 13 March 1980. p.1.

[33] This included David Williams, Morris Goldstein, Mark Allan and Francois Le Gall.

[34] IMF Archives. Office of Managing Director. "Statement by Mr. Wong of the ROC on the Restitution of Gold to China" 31 March 1980. p.1.

the board was set to meet on 4 April to discuss Taiwan's request for a restitution of gold. At an impromptu Executive Board meeting for 5:15pm on 31 March, called by the Acting Managing Director, the question of how to deal with this potential conflict of requests was discussed.

At the meeting of the executive directors, Fund officials updated the directors of concurrent talks happening in Beijing and the expected PRC acceptance of Fund terms for membership. The US Executive Director, Sam Cross, took a lead at the board meeting arguing that while his government welcomed the PRC's membership application and PRC acceptance of Fund obligations, Cross also cautioned that the Fund needed more time to digest the PRC's application and in particular its financial obligations. Cross advised that the Fund withhold its decision on the restitution of IMF gold and on the question of China's seat at the board. Most of the attending executive directors agreed with the US director, echoing their concerns over the PRCs board representation and its membership application. The US Executive Director added that if the US Congress were to find out about the PRCs impending membership to the Fund, this might have "deleterious effects" on pending US replenishments of funds to the International Development Agency (IDA). Cross was implying that anti-PRC elements in Congress could use the accepted PRC membership in the IMF as a justification to not fund the IDA. Many of the directors wanted to postpone the meeting on Taiwan's request for gold restitution and to also postpone any decision on China's membership, quota and more importantly its potential seat at the board. The directors were also keen to hear from the staff mission to Beijing before decisions were made at the board. [35]

Nearing the end of the IMF staff delegation's meeting with PRC officials in Beijing, the IMF and PRC signed a joint memorandum where the PRC reiterated its commitment to meet IMF obligations and to all of the decisions and principles noted in the Articles of Agreement. The memo also asked that the IMF's arrangements with Taiwan therefore be

[35] IMF Archives. Executive Board Minutes. "China" 31 March 1980. p.1-7.

eliminated. The PRC officials also agreed to the quota allocation of SDR 550 million, but pointed out that "the present quota was obviously too low and not representative of China's position in the world economy, and there was a strong case for an increase in China's share in Fund quotas" and then stated that once its membership was approved, China will request an increase in its quota at the executive board. As for China's seat at the executive board, the PRC official agreed to pursue this at the upcoming annual meeting of governors in October 1980. [36] Reflecting on the Beijing mission, Asia Department's Director Tun Thin noted that "the [IMF] mission found them [PRC officials] determined to work toward active collaboration within the Fund in the context of their goal of modernizing their economy" [37]

While it appeared that there was consensus at the IMF board and among the IMF staff that the People's Republic of China would soon be welcomed into the IMF family, there was far from consensus on what to do with China's gold in the IMF. The legal department had clarified that if the PRC assumed IMF membership- and this was placed for final discussion at the IMF board for 17 April- then after this date the gold will naturally go to the PRC. However, if the board decided on the restitution of the gold before membership was transferred to the PRC (in other words by 17 April), then the Fund board could determine the fate of whether Taiwan or the PRC should get the gold.[38] The United States, represented by Sam Cross, lobbied board allies in Washington, DC to support a plan that allowed Taiwan to receive most of the gold and to show their support at a now scheduled 14 April meeting on the issue. It appeared that some of the board members who were lobbied by the US director had informed the Chinese authorities in Beijing a few days prior to the 14 April meeting. The Chinese embassy officials called

[36] IMF Archives. "Memorandum- China" 4 April 1980. p.1-5.
[37] IMF Archives. "Buff Statement by Mr. Tun Thin" 7 April 1980. p.2.
[38] IMF Archives. "Statement by the Director for the Legal Department at the China Executive Board Meeting" 4 April 1980. p.1-3.

Mr. Cross at home, in addition to George W. Miller, US Secretary of the Treasury, to object to the US proposal.

Mr. Cross presented the US alternative solution to the question of gold restitution to Taiwan. He suggested that Taiwan receive $250 million worth of gold restitution (or 470, 708 ounces) while Taiwan would also pay $157 million to cover its outstanding loans and another $21 million of the original cost of the gold. Consequently, Taiwan would take 40% of the profit of gold restitution and the remainder of the profits would go to the PRC. This would give the PRC a reserve position of approximately $136million immediately upon entering the Fund.[39]

The ROC Taiwanese authorities agreed to Cross' proposal, but seven other board members disagreed with 30.63% of voting power; a remaining six had either abstained or not intervened. With eight board members holding 42.47% of voting power supporting the US proposal outweighing those who objected, the Fund secretary announced that the US proposal would be adopted. The Executive Board, in an unusual manner, asked that the Fund not issue a press release on the decision.[40] At a subsequent meeting, Tun Thin noted that authorities in Beijing did not want the Fund to announce that it had distributed the gold to Taiwan. Fund directors agreed that "the matter was a delicate one" and avoiding the press was appropriate. At a 17 April meeting of the Executive Board, there was a unanimous support for the PRC membership in the IMF and making Beijing the official representative of China at the Fund with a quota of SDR 550million.[41]

Immediately following its receiving its formal membership into the Fund, Chinese authorities in Beijing were anxious to increase its quota and hence its relative power in the organization. The Managing Director advised the Chinese authorities that it was a very tight timeline to complete a Fund staff mission and report back to the IMF in time for the Fall annual meetings. Moreover, it appeared that the Chinese government had

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[39] IMF Archives. Executive Board Meeting "China" EBM/80/72. 14 April 1980. p.1-13.
[40] IMF Archives. Executive Board Meeting "China" EBM/80/72. 14 April 1980. p.1-13.
[41] IMF Archives. Executive Board Meeting "China" EBM/80/75. 7 April 1980. p.1-13.

some internal difficulty in releasing necessary information for the June staff mission. The Chinese officials had asked the Fund to label this data as 'secret' and asked Executive Directors to treat the information with the utmost discretion. [42] The ad hoc committee of the board, chaired by Belgian Executive Director Jacques de Groote, met on 5 August 1980 and agreed to allow China to increase its quota to 1200 million SDR prior to the Fall meetings. The board approved the increase of China's quota in September and this subsequently allowed China to increase its quota to 1800 with the seventh annual review after the Fall meetings.

3. China's Return to the IMF Board: the Renewed Quest for Increased Voice and Quota

After China assumed its seat at the Executive Board in 1980, China slowly adapted to the liberalized international economic system. In one setback, "China introduced an internal settlement rate on foreign exchange without notifying the IMF."[43] Twice in the 1980s, China used credit from the IMF's General Reserve Account, 450 million SDRs worth in 1981 and 600 million SDRs in 1986.[44] By the latter half of the 1980s, China's open-door policy invited foreign investment and promoted market and private-led development in its economy.

Throughout the 1990s, China's economic ascendance was being felt. In 1992, the IMF ranked China as the third largest global economy following the United States and Japan. According to the Chinese government, in 1994 China's currency was no longer a fixed exchange rate and the official renminbi (RMB) was floating for the first time since

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[42] IMF Archives. Formal Minutes of Discussion between Mr. Hubmer Neiss and Mr. Shang Ming. 8 July 1980. p.1.

[43] Qu, Bo. "Dynamic Engagement: China's Preference to the International Monetary Cooperation." *Princeton University*. The Trustees of Princeton University, 3 May 2010. Web.: 19 Oct. 2012. <http://www.princeton.edu/~pcglobal/conferences/GLF/qu_glf.pdf>

[44] "China and International Monetary Fund." *PERMANENT MISSION OF THE PEOPLE'S REPUBLIC OF CHINA TO THE UNITED NATIONS OFFICE AT GENEVA AND OTHER INTERNATIONAL ORGANIZATIONS IN SWITZERLAND*. 19 Apr. 2004. Web.: 19 Oct. 2012. <http://www.china-un.ch/eng/zmjg/jgjblc/t85557.htm>.

1949.[45] A couple of years later, China claimed it accepted the IMF's *Article VIII* obligations and achieved current account convertibility [46]

At the turn of the century, the IMF was declared irrelevant, corrupt, mismanaged, and undemocratic. While the IMF would face repeated crises of purpose and legitimacy throughout its modern history, the aftermath of the Asian crisis would raise the awareness of Chinese leaders of the need to reform the IMF. In 2005, China's Governor to the IMF stated that: "…the two institutions [IMF and World Bank] should reform their own governance structure, increasing participation of developing countries in decision making. In doing so, the increasing strength of developing countries as a whole should be reflected, and the views of all member countries expressed in a balanced way, to ensure that the policies of the two institutions will be in the interest of the vast developing countries as well as the world at large. At the same time, the two institutions should also stick to their development mission and professionalism, and resist any attempt or practice to politicize their businesses."[47]

While calling on IMF reform, China - in addition to many emerging market economies in Asia who were traditional IMF borrowers - had strong macroeconomic indicators and policies, yet continued to call for a shift in power from the developed countries to many of the emerging market economies. Indeed, many of China's neighbours were able to turn to private capital markets and private commercial banks for their financing needs and the call to reform the IMF was not borne of need, but of desire to invest in the long-term health of the international monetary system.

At the IMF-World Bank annual meetings in Singapore in 2006, the IMF attempted to address calls for reforms. In particular, modest changes to IMF quotas were suggested to

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[45] "China profile." *BBC*. 25 Sept. 2012. Web.: 19 Oct. 2012. <http://www.bbc.co.uk/news/world-asia-pacific-13017882>.

[46] Qu, Bo. "Dynamic Engagement: China's Preference to the International Monetary Cooperation." *Princeton University*. The Trustees of Princeton University, 3 May 2010. Web.: 19 Oct. 2012. <http://www.princeton.edu/~pcglobal/conferences/GLF/qu_glf.pdf >.

[47] http://www.imf.org/external/am/2005/speeches/pr13e.pdf

give more decision-making weight to China and other selected emerging market economies. China, in addition to Korea, Mexico, and Turkey, had received larger quotas, but still remained grossly underrepresented. Undoubtedly, there was Chinese disappointment in the reform process. The legitimacy crisis in the IMF and World Bank would continue to grow and China, as well as the other emerging market economies, grew increasingly disenchanted with the IMF. At the 2007 IMF-World Bank general meetings, China's Governor to the IMF reiterated China's long-standing view of the issues: "We believe that the increasing share of the developing countries in world GDP and their significant contribution to world growth should be duly reflected in the voice and representation in the decision-making of the BWIs [Bretton-Woods institutions]. The developing countries can no longer be excluded from major decisions or remain severely underrepresented in international institutions such as the BWIs… Therefore, the BWIs should actively reform their own governance, reflect the improvement of the economic positions of the developing countries, and demonstrate in a balanced manner the interests of the different members so as to design policies in the interest of the developing countries and long-term global development." [48]

The onset of the financial crisis in mid-2008 brought to light the perception that there could be a deep shortfall in IMF liquidity to meet the potential financing needs that advanced and developing economies alike were experiencing as a result of the financial crisis. With only $250 billion available in the IMF coffers at onset of the global crisis, the Fund itself was about to face a major financing shortfall. As the search for an IMF capital infusion brought limited fruit beyond the commitment of traditional powers' contributions, world leaders agreed to not only commit to finding financial resources for the Fund, but also to expend energy into the IMF reform process. As US Treasury Secretary Timothy Geithner noted, "…we are not going to walk away from the worst financial crisis since the Great Depression and leave unchanged and leave in place the

[48] http://www.imf.org/external/am/2007/speeches/pr34e.pdf

tragic vulnerabilities that created this crisis".[49] Consequently, the G20 meeting in London resulted in improved commitment to reinvigorating the IMF by building legitimacy and in the slow by steady of infusion of money into the Fund. Moreover, increasing China's prominence in the IMF was deemed to be an essential linchpin of reinvigorating the Fund.

The importance of addressing the IMF legitimacy gap, it was argued, was directly linked to problems that precipitated the 2008-2009 international financial crisis. Many argued that Asia's amassing of foreign exchange reserves was directly linked to the growing global imbalance in the international financial system. In essence, Asian countries amassed this wealth, as opposed to recycling it into the international financial markets, because Asian countries wanted a self-insurance policy against economic and financial crises. As a result of the 1997-1998 Asian crisis, many countries in the region had both doubted the IMF capability to effectively warn against crises and, more importantly, they doubted the commitment of the Fund to meet their liquidity needs in times of crisis.

Seeing the 2008 international financial crisis as moment in which the ailing system could be reformed, stakeholders argued for a remodelling of the international financial architecture that would address the needs of Asian rising powers like China. These IMF reforms are predominantly governance reforms and included reallocating IMF quotas and votes to give rising powers, like China, more decision-making power and to bring in more liquidity into the organization. China also petitioned and gained a prominent seat in IMF management. Min Zhu, was appointed a special advisor to the IMF managing director in February 2010. This reflected the growing strength of China in the world economy and recognition of China's prominent role in representing Asia and many emerging market economies. Later, Zhu was appointed to the position of Deputy

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[49] AQI United Press International http://www.upi.com/Business_News/2009/09/25/Economic-Outlook-G20-supplants-G8/UPI-84851253855512/

Managing Director of the Fund. Zhu would be the first Chinese senior manager at the Fund.

Another key aspect of governance reforms involved reconfiguring the Executive Board by increasing the representation of rising economies. These reforms made headway in G20 meetings in Pittsburgh. With a G20 consensus to keep IMF quotas as a reflection of contribution to the world economy, the case remained that rising economic powers were still highly underrepresented in quota strength and therefore in political strength at the IMF. China's Assistant Finance Minister Zhu Guangyao recommended balancing the IMF by transferring voting weight from the developed countries (which had 57% of voting rights at the IMF and 56% voting rights at the World Bank) to the developing countries (which respectively had 43% and 44% of voting rights at the Bretton-Woods Institutes). China and the remaining BRICs[50] proposed that the IMF transfer 7% of traditional powers' quota share to the rising powers.[51] In response, the G20 offered a shift of 5% of quotas from overrepresented countries to underrepresented countries. Implementation of the 2008 quota revisions was set to be implemented by January 2011, then delayed to January 2013.

Responding to the G20 commitment, China's Governor reminded IMF Governors in 2009 of what this shift really meant: "IMF should continuously improve its governance structure in order to ensure its legitimacy and representativeness. IMF should set up an automatic adjustment mechanism for its quota in mid-term and long-run in order to timely reflects the evolving weight of each member in the global economy. As the core institute of international monetary system, IMF should start to work on the reform agenda for international monetary system, with a view to fundamentally fix its intrinsic defects, and provide a stable monetary environment for global growth and financial stability". [52]

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[50] In economics, BRIC is a grouping acronym that refers to the countries of Brazil, Russia, India and China, which are all deemed to be at a similar stage of newly advanced economic development.

[51] Reuters. "China wants moves on IMF voting at G20- officials" 15 September 2009.

[52] http://www.imf.org/external/am/2009/speeches/pr08e.pdf

As China's Governor noted, the IMF Executive Board has its inherent limitations. The board's outdated composition and overly broad scope of activities have often garnered criticism from many stakeholders, not least of which is China. Pointing to the over-representation of European states on the Board, proponents of Executive Board reform suggest eliminating appointed seats reserved for the largest contributors and then shrinking the size of the board to make room for non-European countries. [53] Since reform discussions in Singapore through to the G20 meetings, the issue has been how to shift Executive Board seats from some of the non-borrowing members to emerging market economies. China and other BRICs have argued, for example, that it is undemocratic to have the BRICs contribute significant amount of funds to IMF liquidity without a corresponding share of decision-making power. Reshuffling chairs and quota shares, as Ted Truman has argued, would allow greater involvement of disaffected members and thereby improve the governance, legitimacy, and policies of the international monetary system. If China successfully increased its quota to reflect the fact that it is the world's third largest economy, then it would unseat the British or the French in the 'quota pecking order'.[54]

China has actively sought to help advance a shift of decision-making power at the board to new emerging market economies like itself. As Martin Edward noted, "China has taken the podium at the IMF/World Bank joint meetings to stress the importance of additional fiscal consolidation in the developed world and additional financial sector reform."[55] In 2010, at the IMF-World Bank general meetings, the Chinese Governor reiterated the point that: " Only with the completion of the quota reform would broader governance reform be based on a solid foundation, and the overall legitimacy,

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[53] Truman, "Rearranging Chairs and Shares"; IMF. *Committee on IMF Governance Reform*.

[54] See Arnott, Sarah. "Emerging Economies battle for more voting rights at IMF" The Independent. 28 September 2009.

[55] Martin S. Edwards "China an Active and Stable Force in Multilateral Organization" 2 June 2011. Http://www.chinausfocus.com/china-an-active-and-stable-force-in-multilateral-organziations/

accountability, and effectiveness of the IMF be credibly secured".[56] China has also contributed money to the IMF to help boost its coffers after the international financial crisis. China, in addition to Russia, India, South Korea and Brazil, agreed to contribute funds to the IMF through a newly invented mechanism: the temporary purchase of SDR-denominated securities or quasi IMF bonds.[57] Through purchases of these bonds, IMF capital was raised by an added $150 billion. China purchased the largest share of $50 billion IMF bonds and many other rising powers had each purchased $10 billion.

Promoted by the Chinese governor and made popular in several academic and policy circles, the use of SDR denominated bonds renewed interest in the use of the SDR as a reserve currency.[58] This was an issue further studied by the IMF staff and considered at the Executive Board. In many ways, China's contribution to the SDR bond system was a measure of good faith in renewing the IMF and its legitimacy, but the need to reform the governance structure through added voice and votes was deemed to be a necessary means of renewing the IMF in the longer term. Without added voice in IMF (and World Bank) decision-making organs, the Chinese would be hesitant to commit to increasing the IMF's capital. Unsatisfied with relatively modest quota gains, the BRIC nations led by China were quick to assert their new-found influence in the IMF by demanding any further expansion of IMF resources be tied to additional governance reform.

On another matter of concern to the Chinese, is the idea of having a selection process for an IMF Managing Director based on merit and encompassing non-European

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[56] http://www.imf.org/external/am/2010/speeches/pr47e.pdf

[57] Russia originally pledged a similar amount, but did not end participating in this particular program. Instead the country signed a bilateral loan agreement.

[58] Zhou Xiaochuan (2009), "Reform of the International Monetary System". Beijing: People's Bank of China.; Rodrik, Dani (2009), "Why Don't We Hear a lot More About SDRs?" Debate: Macroeconomics, a Global Crisis Debate, VoxEU.org, 4 February; Williamson, John (2009), "Why SDRs Could Rival the Dollar", Peterson Institute Policy Brief, Number 09-20. Also see: *Recommendations by the Commission of Experts of the President of the General Assembly on reforms of the international monetary and financial system* 19 March 2009 http://www.un.org/ga/president/63/letters/recommendationExperts200309.pdfP.11

candidates. Some have pointed to the value of having an Asian leader head the organization as a real measure of goodwill and desire to regain legitimacy in the eyes of rising powers.[59] Arvind Subramanian even suggested that naming Zhou Xiaochuan of China as IMF Managing Director would be more effective than raising quotas by any significant margin. [60] That said, when the sudden election of Christine Laggard was put forward in 2011, the Chinese and other once vocal advocates of a merit based selection process were decidedly silent.

4. Conclusion

The January 2011 target deadline to implement IMF reforms had passed without success and the likely extension to January 2014 will as well. The implementation of the reform proposals would increase Chinese voting power from 3.8 percent to 6.0 percent. As of September 2013, the IMF reforms were ratified by 102 countries which have 65.9% of IMF voting strength. To implement the quota changes, the IMF needs to get 85% of total votes. Argentina and the United States have yet to ratify the quota reforms in national legislatures. With more than 15% of the Fund's voting power, the United States can block all reform efforts with its inaction. In an anonymous quote to the AFP, a person at the IMF noted that "A group of US lawmakers is extremely hostile toward the IMF".[61] Until the US elections in November 2012, the reform package appears to be at a standstill.

The resolve of China and other emerging market economies to see a change in the IMF Executive Board composition through European consolidation continues to be tested. At the 2011 BRICS meeting, the communiqué noted this disappointment: "We are concerned with the slow pace of quota and governance reforms in the IMF. The

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[59] Arvind Subramanian "IMF Beyond Istanbul" Peterson Institute for International Economics 30 September 2009 http://www.iie.com/publications/opeds/oped.cfm?ResearchID=1302

[60] Subramanian "IMF Beyond Istanbul" 2009.

[61] Jeremy Tordjman "US proves stumbling block in IMF reform" AFP. 23 August 2012 http://www.google.com/hostednews/afp/article/ALeqM5g180IZSig55YTo8TcPnS6GeCENCA?docId=CNG.a32a7060b9271897f678cfb3450d3e7b.b91

implementation of the 2010 reform is lagging. We must also move ahead with the comprehensive review of the quota formula by January 2013 and the completion of the next review of quotas by January 2014. This is needed to increase the legitimacy and effectiveness of the Fund. We reiterate our support for measures to protect the voice and representation of the IMF's poorest members."[62]

The case of Chinese involvement in both its attempts to take its rightful place at the Executive Board during the Cold War and its proposals to reform the IMF after the turn of the century reflects the Chinese desires to be an active member of the Fund and its desires to retain respect for its growing position in the world economy. History and contemporary study of events tells us that unlike the popular notion that China is not a responsible stakeholder in governing the global economy, the Chinese are actually active diplomatically and politically to gain prominence in the IMF.

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[62] http://www.brics.utoronto.ca/docs/110922-finance.html