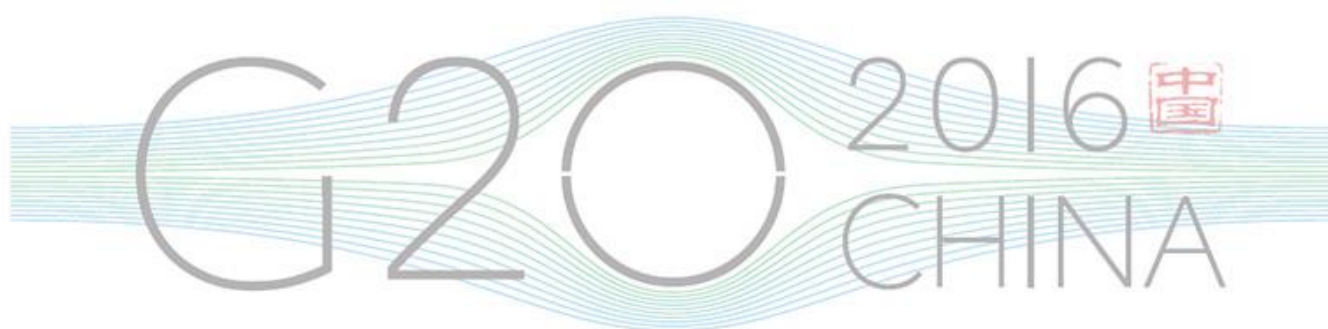


China's 2016 G20 Presidency: Trends, Issues, and Realistic Expectations

Ye Yu



Introduction

The G20 was established and elevated to the leader level in recognition of the need for major advanced and emerging economies to come together and bridge gaps in global economic governance. This paper explores the opportunities and challenges for China's G20 presidency next year. First, it details the economic backdrop that will underpin next year's G20 Presidency. It then outlines the G20's objectives and how the G20 emphasis has shifted over time from stability and crisis response to growth and long-term economic development. The last section looks at specific policy areas that China could address.



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I. The context of the Chinese 2016 Presidency

The weak and uneven recovery of the world economy is expected to continue, but momentum is shifting North. Most recently, the IMF has predicted that global growth of 3.3 per cent in 2015 will increase to 3.8 per cent in 2016.² Growth in advanced economies is expected to improve, while growth in emerging and developing countries is slowing down.³ Most significantly, the Chinese economy is expected to further adjust to a 'new normal' and growth is expected to decelerate to just above 6 per cent growth in 2016.⁴ The world economy continues to be threatened by risks and uncertainties, including monetary policy changes, volatile financial and commodity markets, prolonged uncertainty in the euro area, and geopolitical conflicts.

With regards to the trends of global economic governance, regionalisation continues in trade, investment, and development. Regional initiatives will remain the priority of major economies in the short and medium term. Leading trade economists predict that the Doha Round of the WTO is unlikely to conclude before 2020 and WTO engagement in supply-chain issues is unlikely before the Doha round concludes.⁵ The multilateral trade regime continues to fragment, for example through the Trans-Pacific Partnership (TPP), China-US Bilateral Investment Treaty, Regional Comprehensive Economic Partnership (RCEP), and Trans-Atlantic Trade and Investment Partnership (TTIP). The launch of the Asian Infrastructure Investment Bank (AIIB) and the BRICS New Development Bank (NDB) has created new regional and cross-regional development banks.

Despite the trend towards regionalisation, some major global summits will take place before the Chinese Presidency. These have the potential to generate momentum multilateralism: the post-2015 sustainable development goals (SDGs) will be adopted by the UN General Assembly in September, and the United National Framework Convention on Climate Change (UNFCCC) Conference of the Parties negotiations will be held in Paris in December. These summits could set some key milestones for future global cooperation. However, if outcomes disappoint, their

¹ Ye Yu is an associate professor of SIIS. This article has appeared in the Lowy Institute for International Policy, *17th G20 Monitor: From Turkey to China: what lies ahead for the G20 in 2016?*

² IMF, "World Economic Outlook Update", July 2015, <http://www.imf.org/external/pubs/ft/weo/2015/update/02/>.

³ The World Bank Group, "Global Economic Prospects: The Global Economy in Transition", June 2015, <http://www.worldbank.org/content/dam/Worldbank/GEP/GEP2015b/Global-Economic-Prospects-June-2015-Global-economy-in-transition.pdf>.

⁴ IMF, "World Economic Outlook Update", July 2015, <http://www.imf.org/external/pubs/ft/weo/2015/update/02/>.

⁵ Richard Baldwin, "WTO 2.0: Thinking ahead on global trade governance", *CEPR Policy Insight No 64*, 22 December 2012.

failures will shake public confidence in the multilateralism, the G20, and the ability of the world to negotiate outcomes on the pressing issues that the world faces.

II. The G20's goals: stability, growth, development

The G20's core mission is to foster strong, sustainable, and balanced global economic growth. Theoretically, there are three "wheels" to be kept in balance for the global economic system to run well: stability, efficiency, and equity. Corresponding to this tripartite division, the increasingly expanding and diverse G20 agenda items can be framed broadly as the pursuit of stability, growth, and development.

The stability agenda primarily refers to ad hoc macroeconomic coordination and the systematic reform of the international monetary and financial system. This includes IMF reform, and strengthening financial regulation and global coordination to manage the spillover effects of monetary policy changes. The G20 has to adapt to changing situations when managing crises, emergencies, and uncertainties such as financial market volatility.

The core focus of the growth agenda is the implementation of structural reforms that are intended to increase global supply and demand. Leaders acknowledged in Brisbane in November 2014 that the global economy is being held back by a shortfall in demand, so addressing supply constraints is key to lifting potential growth. Countries have committed to a wide range of regulatory and institutional policies that are supposed to boost consumption, increase trade, and lift investment, particularly through infrastructure and reform of labor markets.

The development agenda is the broadest. It aims to ensure that growth is more balanced, inclusive, and sustainable in the long term. A gradual shift has occurred in the argument on the balancing of efficiency and inequality, that is, rising social inequality is increasingly recognised as an obstacle for growth and development. The threat of environmental degradation and climate change is also at the top of the global development agenda.

In the immediate aftermath of the financial crisis, the G20 was fully occupied by the stability agenda. Its focus was on coordinating the rescue of the banking system, mobilising resources for insolvent sovereign countries in the Eurozone crisis in 2010, overhauling the global financial regulatory system, and pushing for reforms of international financial institutions (IFIs). The measures that the G20 collectively took to stimulate demand, the standstill on trade protectionism, and actions taken to make the financial system safer and strengthen global financial institutions have earned the G20 a good reputation. However, the financial regulatory reform process and unfinished IMF reform still leave a lot of questions unsolved.

As the world economy has started a weak recovery, the G20 agenda has correspondingly shifted from managing crisis to promoting growth and development. While multilateral trade efforts have delivered little progress, infrastructure investment has emerged as a new priority. The G20 has also focused on supply-side structural reforms. G20 countries have been tasked with different priorities; for example, China needs to ensure the markets play a decisive role in

allocating resources while the advanced economies have been asked to focus on fiscal consolidation.⁶ Driven by the need to mobilise more revenue, the US and European countries have very successfully globalised their efforts to crack down on tax havens through the G20.

While the UN remains the main channel for global negotiations on post-2015 development cooperation, aspects of the development agenda have spilled over into the G20 incrementally, especially regarding energy and climate change. Inclusive development is a highlight of Turkey's 2015 G20, with attention on the gender equality and small and medium enterprises. In order to streamline the development agenda, the Australian presidency of the G20 helped to bring about the G20 Development Working Group Accountability Framework in 2014.⁷

III. China's 2016 G20 Presidency: a chance to be a responsible global stakeholder

In recent years, China has become the second largest economy in the world and the largest trading partner of many countries. Despite China's global economic weight, it is still relatively negligible in its ability to shape the global economic order, and China is in many respects still a developing country with a defensive mindset on the spillover effects of many key economic issues. It is this obvious disparity that has led to calls for China to take on more responsibility within the G20.

G20 membership has already encouraged China to participate more actively in global economic governance. China has provided financial resources to shore up the world economy and supported consensus initiatives. China has worked together with the BRICS countries to push forward reforms of the Bretton Woods institutions in 2009, and with the US and Australia for G20 principles on Energy Collaboration in 2014. However, in some areas, such as in the G20's ongoing efforts on financial regulatory reform, China's role has been confined to following. In addition, during discussions on macro-economic coordination in 2010, China clashed with G20 efforts to set quantitative targets for its national trade surplus and other indicators.

There are high hopes that the 2016 G20 host year will give China a stronger sense of ownership over global economic governance, which will make China more willing to contribute to multilateralism, for the world's benefit. There are three forms of leadership in international institutions: structural, entrepreneurial, and intellectual.⁸ China needs to be more proactive intellectually and entrepreneurially.

The G20's basic function is to help manage the spillover effects of major economies' policies and protect the interests of smaller countries. China is now a significant player in the global economy and its domestic strategic choices may have important implications for other

⁶ OECD, "Economic Policy Reforms: Going for Growth", 2014, <http://www.oecd.org/eco/goingforgrowth.htm>.

⁷ G20 Development Working Group Accountability Framework, 5 September 2014, https://g20.org/wp-content/uploads/2014/12/g20_development_working_group_accountability_framework.pdf

⁸ Oran R. Young, "Political Leadership and Regime Formation: On the Development of Institutions in International Society", *International Organization*, Vol. 45, No. 3 (Summer, 1991), pp. 281-308.

countries. China will need to consider how its own policies might affect other parts of the world. The G20 host experience is a chance for the international community to encourage China to make decisions from a global perspective.

The G20 presidency also offers the potential for deeper and more open communications between China and the world. The G20 is not only an inter-governmental forum, but also a multi-level platform that can mobilise the whole of Chinese society to express their views and support for global economic governance. The 2016 Presidency presents the opportunity to better align unilateral, bilateral, and regional domestic Chinese strategies with the G20's global agenda, and puts pressure on China to implement its domestic reform agenda. At the same time, there is no solid consensus yet within Chinese society on the merits of China assuming a greater role in global economic governance. As a network, the G20 provides the opportunity for dialogue between Chinese think tanks, universities, companies, and individuals with their international counterparts, especially through the engagement groups. The significance of this should not be overlooked considering the misunderstanding and distrust that sometimes exists between China and the world.

Despite high expectations for the 2016 G20, it would be unwise to expect too much and the Hangzhou Leaders' Summit will have its limitations. China's leadership is complicated and ambiguous, and China still faces many domestic challenges that will take up the attention of policy makers. In particular, China is conscious about avoiding dual traps of a 'security trap', in which security tensions damage economic growth prospects, and a 'middle-income trap' in which it is unable to transform its economy in ways that sustain income growth.

There is also a risk that the US presidential election at the end of 2016 may loom large and be a political distraction for progressing substantive reform during next year's G20. There is a joke among some G20 circles that 'all G20 members are equal, although some are more equal than others', which usually refers to the importance of understanding the US position on agenda items. All major issues on the G20 agenda, including on finance, currency, tax, trade, and development are still very dependent on the attitude and role of the United States. In a time of increasing anti-globalisation sentiment, US presidential candidates usually choose to court domestic interests at the expense of the global agenda.

The G20 may see positive developments in global governance, but China will face challenges next year. China will need to take care to manage its priorities and be skillful in the way it negotiates with G20 members to build consensus.

IV. A G20 with vision: Chinese priorities for 2016

China's presidency will need to do three things: implement past commitments, push forward unsolved issues on the core economic agenda, and be ready to react to new global developments. This will require political will and innovative ideas rather than just adding to the long list of existing agenda items. Some of the possible areas that China can focus on in each of the stability, growth, and development agendas are explored below.

1. Stability agenda

(1) Financial regulatory reform

The G20 has made significant progress in responding to the causes of the global financial crisis over the past 7 years.⁹ However, financial regulatory reform has mainly been a trans-Atlantic negotiation with very little input from emerging and developing countries, including China. China and other emerging economies in the G20 could work on better engagement with the Financial Stability Board (FSB) and in assessing the impact of the new rules on the developing world.

(2) The global financial safety net

The G20 has put a lot of effort into pushing for a breakthrough in the 2010 IMF reforms, including during the Australian and Turkish Presidencies, without success. China is unlikely to be more persuasive in changing the minds of the US Congress, particularly during the election cycle. There has been strong rhetoric from the G20 and the International Monetary and Financial Committee about pursuing alternatives to IMF reform, but to date there is no feasible and pragmatic “Plan B”. IMF reform seems destined to remain in limbo in 2016.

Yet IMF governance will still remain an important issue for the 2016 G20 Presidency. The reform stalemate is causing a new headache for IMF reform negotiators: deciding on what to do about the \$369 billion in bilateral loans that is currently the IMF's second line of defense, and that will expire in late 2016 and 2017.¹⁰ Broadening the IMF's special drawing rights (SDR) currency basket to include the renminbi seems to be a compromise for both the IMF and China and symbolise some progress in IMF governance. But if the SDR addition is classified as “a change in the principle of valuation or a fundamental change in the application of the principle in effect”, the decision will need US approval to get through the 85 per cent majority vote.¹¹ If the renminbi is not deemed to meet SDR technical criteria in time for the 2015 review, another SDR review should be brought forward to 2016 or 2017, rather than waiting until 2020.

Tristram Sainsbury has advocated that China use its G20 presidency to be a champion of the IMF and to instigate negotiations for a new round of bilateral loans to bolster the IMF's firewall. This would demonstrate to the international community that China is serious about being a responsible global stakeholder.¹²

2. Growth agenda

2016 will be the half-way point of the 2014 G20 plan to increase global economic output by 2 per cent through structural reforms by 2018. The first IMF and OECD progress report on this growth target will be delivered to leaders in Antalya in November 2015. Chinese leadership needs to ensure that G20 members respond positively to the findings and actively search for

⁹ Malcolm D. Knight, “Reforming the Global Architecture of Financial Regulation, The G20, The IMF and The FSB”, *CIGI Papers No. 42*, September 2014.

¹⁰ Tristram Sainsbury, “US global economic leadership: responding to a rising China”, *Lowy Institute Analysis Paper*, forthcoming.

¹¹ IMF Articles of Agreement, 2011 edition, Art. XV.

¹² Tris upcoming Lowy Institute Analysis Paper

new policy commitments. China will need to be proactive about encouraging the implementation of G20 growth plans, which are important for G20 credibility.

There are three further ways that China can boost the growth agenda:

- Showcase a number of bankable infrastructure projects. Infrastructure investment unites G20 countries and there is a domestic incentive for China to encourage infrastructure investment as part of its 'Belt and Road' initiative. The challenge for the G20 will be to align public and private investor interests. A pipeline of bankable infrastructure projects may add value to the G20's Global Infrastructure Hub, the World Bank's Global Infrastructure Facility, and the two new multilateral banks.
- Set a vision for the global trade and investment regime. It is unlikely that the WTO will be revived in the short-term, and changes to the negotiating structure are essential. In 2016, China could direct the G20 to provide a vision for the future trade agenda, that is, planning a roadmap to WTO version 2.0. Justin Lin has proposed the G20 could initiate discussion on a Multilateral Investment Treaty for Development.¹³
- Promote innovation on the supply side. Structural reform and innovation is important for global growth. The G20 cannot seek commitments from its members on this divisive issue, but knowledge-sharing and better communication would be useful. For example, the Chinese "new supply-side school" outlines a plan for China to let the market to play a more decisive role in allocating resources through tax reduction, elimination of red tape, breaking industry monopolies, reforming state owned enterprises, and liberalising resource prices while reducing the cost of infrastructure and basic services.¹⁴

3. Development agenda

Links between the development agenda and the broader G20 agenda have generally been weak. Continuing Turkey's emphasis on development in 2015, China may seek to define a longer-term legacy by introducing a more systematic approach to development in the G20.

The G20 could formulate a roadmap and timetable for the implementation of the post-2015 Sustainable Development Goals and climate change negotiations. The G20 should not attempt to circumvent the role of the United Nations in these processes, but could take up the "relay baton" and use its comparative advantage of political leadership to ensure implementation.¹⁵ For example, Barry Carin of the Centre for International Governance Innovation (CIGI) has suggested the G20 could pick four or five critical goals of the 17 likely sustainable development goals, and drive these forward.

¹³ Justin Lin, "China's G20 Agenda – Calling for an multilateral investment mechanism aiming at development", 2015-7-23, <http://www.aiweibang.com/yuedu/caijing/39568633.html>. (林毅夫：中国的 G20 议程——呼吁一个以发展为目标的多边投资框架)

¹⁴ Lu Yu, "A Prescription for China's Economy from Supply School", *21st Century Economic Report*, 2013-6-29. (陆宇：供给学派的中国经济“药方”)

¹⁵ UNDP, SIIS and CCIEE, "Rebalancing Global Economic Governance", Chapter 4, June 2015, <http://www.siis.org.cn/uploadfile/2015/0701/20150701071216928.pdf>.

V. Conclusion

In 2013, Chinese State Counselor Yang Jiechi summarised the role of China in global economic governance as an “active participant, supporter, and contributor”.¹⁶ When China takes up the G20 presidency, its role as a contributor will be strengthened. China is not in a position to reverse the world's regionalising trends, but it does have the capacity to provide more strategic vision for the forum and to energise multilateralism.

¹⁶ Yang Jiechi, “China is a proactive participant, supporter and contributor of G20”, 2013-1-2, http://www.gov.cn/guowuyuan/2013-11/02/content_2584592.htm. (杨洁篪：中国是二十国集团的积极参与者、支持者、贡献者)