

Research Paper

Stephen Pickford and Zha Xiaogang

International Economics Department in collaboration with SIIS | March 2016

---

# Towards a More Effective G20 in 2016

## Chinese and UK Perspectives



SHANGHAI INSTITUTES FOR INTERNATIONAL STUDIES

上海國際問題研究院

**CHATHAM  
HOUSE**

The Royal Institute of  
International Affairs

## **Preface and acknowledgments**

This paper is part of a joint project with the Shanghai Institutes for International Studies (SIIS).

Founded in 1960, SIIS is a comprehensive research organization for the study of international politics, economics, security strategy and China's external relations. SIIS is dedicated to supporting China's modernization drive and Shanghai's economic development. Through its study of international affairs, SIIS undertakes comprehensive research on significant issues in contemporary international politics, economics and security.

This collaboration aims to strengthen cooperation between UK and Chinese think-tanks on global economic governance and develop policy proposals to inform China's G20 presidency in 2016. Financial support for this project has been provided by the UK Foreign & Commonwealth Office through its Prosperity Fund and is gratefully acknowledged.

Special thanks are extended to Professor Chen Dongxiao, president of SIIS, Professor Zhang Haibing, director of world economy studies at SIIS, and Dr Paola Subacchi, research director in the International Economics Department at Chatham House, for their support in the implementation of this project.

## Summary

- China is assuming the presidency of the G20 in 2016, at a time when the global economy is facing significant challenges: economic growth is continuing to slow, a number of emerging markets are in recession, commodity producers are experiencing severe difficulties and downside risks are increasing.
- The G20 has a critical part to play in addressing these problems. China, as G20 president, will bear a significant responsibility for ensuring action is taken. However, its economic size, development experience, foreign exchange reserves and expertise in infrastructure should stand it in good stead to carry out this role effectively.
- President Xi Jinping has said that China's priorities will be: boosting potential growth, improving global governance, promoting international trade and investment, and implementing the UN's 2030 development agenda.
- In developing concrete actions for the G20 to endorse, China should focus on three main areas: boosting global economic growth, supporting sustainable development and promoting equity.
- To boost global growth, the G20 needs to implement fully the actions agreed at the Brisbane summit. But they need to go further through support for infrastructure and deep structural reforms. They also need to reinvigorate the trade agenda and the institutions supporting it, in particular the WTO. In addition, the Multilateral Development Banks need to focus more on supporting growth.
- The G20 also has an important role to play in backing the UN's sustainable development agenda. Infrastructure and energy are key components.
- As well as closing the gap between rich and poor countries, the G20 can support greater international equity in a number of respects: greater cooperation on tax reforms and anti-corruption measures; strengthened global safety nets and mechanisms to support countries in crisis; and modernizing the governance of international financial institutions. Further reform of quotas at the IMF is needed to give greater voice to emerging countries.
- It is also time to revisit the G20's own role and structure to make it more effective, and to ensure that it drives forward wider reforms of global governance.
- This is a large and challenging agenda, but expectations are mounting that China can and will use its leadership status to ensure the G20 acts to address these issues, and demonstrate that the G20 remains the premier forum for international economic cooperation.

## Introduction

China is due to take over the rotating presidency of the G20 in 2016 at a time of significant challenges, both for the global economy and for the G20 itself.

The global economy is sluggish, with emerging markets facing their fifth successive year of declining growth, and external conditions are becoming more difficult. Commodity producers also face challenges as prices have fallen back to 2008 levels. Meanwhile, advanced economies are growing modestly at best, with recent signs of a slowdown, and some countries are at risk of stagnation.

The risks are also tilted to the downside, especially on the financial front. Risk premiums are at historically low levels, but sliding economic growth could cause these to increase significantly. In some emerging markets, excessive credit growth in recent years has led to high levels of private-sector leverage, and could result in large asset price fluctuations in non-performing loans. Additionally, concerns about the stability of some euro area countries remain. Policy developments in the United States also carry risks for global markets. On 16 December 2015 the US Federal Reserve began its long-anticipated tightening of monetary policy – raising its target for the federal funds rate from 0–0.25 per cent to 0.25–0.5 per cent – in a step that could lead to further financial market volatility and outflows of capital from emerging markets.

Many G20 countries are now better prepared for adverse shocks, and the G20-sponsored programme to strengthen financial regulation through the Financial Stability Board (FSB) has made banks more robust. However, the speed and severity of financial markets' reaction to equity price falls in China in August 2015, and responses in recent months to signs of economic slowdown, show the potential for further financial market volatility.

It is the responsibility of individual countries to implement many of the necessary policy responses. The IMF has stressed that macroeconomic policies should remain supportive of growth where possible, even though in many countries the limits of monetary policy action are being reached, and public and private debt levels remain excessive. Structural reforms continue to be the key to boosting growth potential in the longer term, and infrastructure investment has a significant role to play in strengthening output growth.

The G20 has a critical part to play in these efforts, given the importance of international linkages and policy spillovers; actions will be more effective if they are coordinated. The 2014 agreement at the Brisbane summit by its members to take actions to boost global output by 2 per cent and to kick-start infrastructure investment can make a positive impact if implemented fully. The G20's performance during the financial crisis shows its potential to be a catalyst for policy action.

However, the G20's effectiveness as a forum for economic cooperation has diminished recently. Its structure has flaws that make it hard to reach agreements on coordinated policy action. Nevertheless, it still has the potential to play an important role, complementing and cooperating with the 'universal' international financial institutions – in particular the IMF and the multilateral development banks (MDBs). The G20's strengths are that, though difficult, it can reach agreements quickly and that its members take ownership of those agreements.

In order to fully realize that potential, the G20 needs to take the lead in pressing for governance reforms of the wider international financial system. In particular, it needs to call for changes to the governance of the IMF and the international monetary system.

The next section of this paper looks at perspectives from China and the United Kingdom on these governance reforms. The third section discusses the priorities for China to pursue during its presidency of the G20 in 2016. The final section puts forward concrete proposals for G20 deliverables for the 2016 summit – scheduled to be held in Hangzhou on 4–5 September this year.

## Perspectives on global economic governance and the G20's role

### SIIS perspectives

In recent years, China has attached unprecedented importance to global governance and is committed to more proactive participation in it. The G20 is one of the key institutions through which China can play a greater role in improving both the representativeness and the function of global economic governance.

From China's perspective, the structure of global economic and financial governance is undergoing a historic transformation.<sup>1</sup> The emerging and developing economies are gaining increasing international influence, in line with their rapid development. Nations are now pursuing their interests more cooperatively through international institutions – rather than by war or colonialism – and are expanding their spheres of influence. The deepening of globalization has bound countries more closely together and is increasingly forming a shared community of interests. Many challenges extend far beyond national borders and require global responses.

China has begun to contribute greater financial and intellectual resources to support its participation in global governance. It believes that better global governance is the right way to construct a more orderly international system. The country has been a firm supporter of the United Nations as the cornerstone of global governance, especially on political and security issues. Since the G20 was upgraded to a summit-level forum in 2008, China has regarded it as a core institution for giving emerging and developing countries a greater voice on global economic issues and for achieving more equitable and effective governance.

For China, the G20 has several merits. It is the first international body in which China and other major developing countries have equal and substantial involvement on the most important global economic issues. The G20 also provides a platform for both emerging and developed countries to take account of each other's respective concerns on key economic issues, thus helping to reduce potential conflicts and fragmentation of the global economic system. As a growing global economic

---

<sup>1</sup>裴广江等 [Pei Guangjiang et al.], '解读中国全球治理观' [Decoding China's Perspective on Global Governance], 《人民日报》 [People's Daily], 15年10月23日. [23 October 2015]. <http://politics.people.com.cn/n/2015/1023/c1001-27733014.html> (accessed 10 Dec. 2015).

power, China hopes to be an indispensable stakeholder in constructing international economic order through the G20.

From China's perspective, the G20 has made valuable achievements. Coordination among its members successfully prevented the world economy from falling into a depression as a result of the 2008–09 global downturn and financial crisis. Agreement on the reform of international financial institutions has accelerated even if its implementation is still lagging behind. To a large degree, trade and investment protectionism during and since the crisis has not been as rampant as in previous major crises. Moreover, there is firm consensus that cooperation between developed and emerging economies is indispensable for dealing with systemic global economic challenges.

Nevertheless, as Western countries, especially the US, more or less recover from the financial crisis, their enthusiasm for the G20 has become more subdued. In the meantime, the growth momentum of emerging economies has weakened compared with several years ago, so that their influence in the G20 has decreased. As a strong advocate of the G20 as a crucial institution for uniting developed and developing economies – and for representing their interests on an equal footing – China regards the reinvigorating of the G20 as an urgent priority for its G20 presidency.

## UK perspectives

As seen from the UK, reforms to global economic governance and the international monetary system have failed to keep pace with changes in the world's economic structure. While the US and other G7 countries accounted for over 50 per cent of the world's GDP in the early 1990s, this proportion had fallen to 31.6 per cent by 2015.<sup>2</sup> However, although their share of voting power has been reduced slightly, G7 members still hold 43 per cent of total votes in the IMF.

The failure of governance structures to adapt to the change in the composition of the global economy is jeopardizing the spirit of international cooperation. The rise in prominence of the G20 during the financial crisis in 2008, through its leaders' summits, was intended to signal a shift in the balance of influence away from the G7 and towards emerging markets.

The UK, as a medium-sized and relatively open economy, is a strong supporter of international institutions that foster global cooperation and a rules-based system. Given its large financial sector, the UK was badly hit by the financial crisis. The London summit in 2009, under the UK's presidency, was an effective response by the G20 to the economic and financial challenges facing the world. The UK also puts considerable effort into improving the functioning of the international financial institutions (IFIs), and was one of the first non-Asian countries to join the Asian Infrastructure Investment Bank (AIIB).

Some progress has been made with governance reform, especially at the FSB and the World Bank, and the UK strongly supports this process. Yet IMF quota reforms agreed in 2010 are only just now being implemented having been delayed for years because the US Congress had failed to ratify

---

<sup>2</sup> GDP debt at purchasing-power-parity (PPP). Source: IMF World Economic Outlook Database, October 2015. <https://www.imf.org/external/pubs/ft/weo/data/assump.htm> (accessed 4 Mar. 2016).

them. Emerging markets responded by starting to set up multilateral institutions that can take over some of the functions of the IMF and the World Bank.

Similarly, the continuing dominance of the US dollar as a reserve currency and as the main unit of international trade and finance is increasingly anachronistic. In recent years the dollar has maintained its share of financial trades at over 80 per cent.<sup>3</sup> Over the past three years its share in international payments has increased substantially, from around 30 per cent to over 40 per cent.<sup>4</sup>

The dollar's dominance extends the reach of the US regulatory and criminal justice systems beyond the borders of the US. The threat of exclusion from dollar-denominated markets has effectively imposed US laws and standards on all major international banks.

China's programme of internationalizing the renminbi (RMB) is one important element in moving towards a multi-currency international system. The growing use of the RMB has resulted in its inclusion in the Special Drawing Rights (SDR) basket of currencies.

More generally, the failure to reform international governance risks negatively affecting the global economy, particularly at a time when countries' trade agendas have become more fragmented. The G20 can be an important catalyst for change: it is informal, it acts by consensus and it is not constrained by outdated voting structures. Furthermore, since it includes all the world's largest economies, its views matter.

However, the G20 itself needs to become more effective, and it needs to work towards governance reform of the universal institutions (especially the IMF and World Bank). The G20 and the Bretton Woods institutions should complement each other, and are at their most effective when they work together.

## China's G20 presidency in 2016

### China's special identity and capacity

China's presidency of the G20 in 2016 is a momentous development. For China, it demonstrates the country's increasingly important status in the global economy and reflects its extensive economic achievements of the past three decades. Compared to other members, China's unique identity as the biggest emerging economy means that it can bring new momentum and alternative approaches to global economic governance and shape the agenda. Other countries will also expect to learn from China's unique experience in terms of the speed and strength of its economic transformation. It will be able to enhance cooperative relations with others and make valuable contributions to the global economy if it can perform well in the presidency role.

China has long kept a low profile in international affairs, even in global economic affairs, partly due to its traditional Confucian culture of avoiding extremes and partly due to the limits of its strengths

---

<sup>3</sup> Bank for International Settlements, statistic database 2015. (accessed on 4 Mar. 2016).

<sup>4</sup> Bank for International Settlements, statistic database 2015. (accessed on 4 Mar. 2016).

and capabilities. This posture has been evolving, however. The 2016 G20 presidency will exhibit China's increasing willingness to take a leading role in global affairs, and its stronger determination to deal with complex global economic issues together with other major economies.

China is indeed a special member of the G20 and of the global economic system. This will bring it both advantages and disadvantages during its presidency in 2016: although it is the second-largest economy in the world, average per capita income levels still leave China firmly in the 'developing country' category.

Looking at the potential advantages and disadvantages in turn, the country's economic size gives it the ability to play a significant role in containing global risks; in promoting global growth, trade, investment and finance; and in strengthening global governance. As a developing country, China also understands the needs of low-income economies and the developing world, and is well placed to safeguard their interests. Furthermore, China has also accumulated huge foreign-exchange reserves, and has a strong reputation for expertise in infrastructure development. Facing huge problems accumulated as a result of its rapid but imbalanced growth over the past few decades, China has perhaps the most ambitious agenda of all major economies for implementing economic and social reforms to drive more sustainable development. In conjunction, these components can benefit China during its G20 presidency.

As for the disadvantages, China's integration into international trade and financial systems leaves it highly exposed to global economic disruptions (and possibly even to social disruptions). Equally, China's macroeconomic policies have the potential to cause adverse spillover effects for other countries. It will therefore face intense scrutiny over its policy decisions during its G20 presidency. One particular challenge will be to balance demands from developed and emerging economies respectively. China faces pressure from the former to contribute more resources to international projects, while the latter expect it to push for reform of global economic governance. The difficulty for China will be to take more responsibility for supporting developing countries' agendas while not, in the process, being seen by the developed world (especially by the US) as an uncooperative challenger to the international order.

At the G20 summit in Antalya, Turkey, on 15–16 November 2015, Chinese President Xi Jinping announced that the theme of China's presidency in 2016 would be 'Building an innovative, invigorated, interconnected and inclusive world economy'. China's agenda would focus on four priority issues: (1) innovating growth patterns and lifting potential growth, (2) improving global economic and financial governance, (3) promoting open international trade and investment, and (4) promoting implementation of the UN's 2030 development agenda for inclusive and interconnected development.<sup>5</sup>

Xi's announcement basically amounted to a different framing of the same set of issues pursued by the G20 in previous years, although the Chinese agenda seems to downplay financial market reform. Details of China's priorities have yet to be seen, but the world is waiting expectantly to see

---

<sup>5</sup> 'Remarks by H.E. Xi Jinping, President of the People's Republic of China on the 2016 G20 Summit in China At the Working Lunch of the G20 Summit', speech at the G20 summit, Antalya, 16 November 2015, [http://www.fmprc.gov.cn/mfa\\_eng/zxxx\\_662805/t1315774.shtml](http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1315774.shtml) (accessed 3 Dec. 2015).



how China will utilize its special capacity and identity to increase growth momentum and sustainability, contain financial risks and strengthen global economic governance, and how it will share its own experiences with the world.

The rest of this paper will set out the issues that, the authors argue, should be the priority for the Chinese G20 presidency in 2016.

### Improving the global monetary and financial system

Given the risks and vulnerabilities facing the global economy, one priority is to diversify the international financial system to make it more robust, to ensure that it supports global growth, and to strengthen global financial safety nets to support countries facing liquidity problems. Where countries cannot service their debts, a stronger and fairer mechanism is needed for managing sovereign debt restructuring.

Central banks are slowly diversifying the currency composition of their reserves, and the private sector is making greater use of non-dollar currencies. The G20 should support this process by:

- Encouraging major economies to make their currencies more convertible;
- Supporting efforts to broaden international currency markets so that a wider range of currencies is used;
- Ensuring that future reforms of international financial regulation support innovation and global growth; and
- Backing expansion of the SDR basket to include all major international currencies, in addition to the RMB.

Many countries have already built up their own defences against volatile capital flows by boosting their foreign-currency reserves, but emerging markets and developing countries will remain vulnerable to capital outflows as developed countries move away from ultra-loose monetary policy settings – a process that has already begun in the US. Stronger global financial safety nets are needed to help countries in difficulty. Borrowed resources account for three-quarters of the IMF's reserves, around \$500 billion of which are temporary loans due to start expiring next year. The G20 should support:

- Better coordination and signalling of monetary policy actions by major central banks;
- A permanent network of swap arrangements between all its members' central banks;
- Further strengthening of administrative and financial links between IMF and regional financing arrangements (such as the European Stability Mechanism and the Chiang Mai Initiative Multilateralization);
- A large IMF quota increase to boost its financial capability; and

- The renewal of borrowing contracts, or the granting of permission for the IMF to borrow from international capital markets, especially if further IMF quota reform is blocked by the US Congress.

Where countries are unable to service their international debts, restructurings are currently messy and disruptive, as seen recently in the cases of Greece and Argentina. Previous proposals for sovereign debt restructuring mechanisms have not progressed, but the G20 should undertake a fundamental rethink of the approach to dealing with sovereign defaults.

Some progress has been made in addressing the problem of coordinating private creditors, through wider adoption of collective-action clauses. Further steps forward are possible and desirable. Nevertheless, a major shortcoming is the absence of an independent arbiter, and of a permanent international system for coordinating responses by sovereign creditors. The G20 should support:

- The issuance of GDP-linked sovereign bonds;
- Collective-action clauses that are effective across multiple bond issues;
- A review of the ‘Paris Club’ mechanism for coordinating sovereign creditors; and
- A reassessment of the case for a supranational body (such as the IMF) to assess sovereign debt sustainability.

### Structural reforms for stronger growth momentum

Although the world economy as a whole has been growing for six years since the global financial crisis in 2008–09, the recovery is still weak and unstable. Thus, two challenges to growth need consideration. First, while the US and the UK have witnessed stronger recoveries, a big risk for the developed economies as a whole is growth stagnation in the medium term. The economies of G7 countries as a group are forecast by the IMF to grow by well below 2 per cent on average in the decade to 2020,<sup>6</sup> and other advanced economies are not expected to fare much better. All developed countries will struggle with legacies of the crisis (high public and private debt, fragile financial sectors and low investment), ageing populations and weak external demand.

The second challenge is that emerging and developing countries are likely to face a sharp downturn or growth ‘cliff’, absent effective policy responses and international cooperation. Between 2010 and 2015, the aggregate growth rate of emerging and developing economies has fallen from 7.5 per cent to 4 per cent, according to the IMF.<sup>7</sup> Since these countries now account for more than half of world GDP and an even larger share of world growth, a further slowdown will have significant consequences for all.

This drop in growth masks very divergent trends across different regions. Although China, which accounts for the lion’s share of emerging- and developing-country economic expansion, has slowed,

---

<sup>6</sup> World Economic Outlook Database, October 2015.

<sup>7</sup> IMF Outlook and Policy Challenges for Latin America and the Caribbean, October 2015.

<https://www.imf.org/external/pubs/ft/reo/2015/whd/eng/pdf/1015/chap2.pdf> (accessed 4 Mar. 2016).

it has still maintained reasonably strong growth. However, other major emerging economies have seen much weaker performances. Russia, Brazil and Argentina (all members of the G20) have fallen back into recession. Since the major emerging economies act as engines of growth for their respective regions, any growth ‘cliff’ might have much wider consequences. Indeed, growth rates both in the economies of the Commonwealth of Independent States (CIS) and in sub-Saharan Africa have decreased sharply in the past five years, while the Latin America and Caribbean region has seen its growth weaken from 6 per cent in 2010 to an estimated contraction of 0.25 per cent in 2015.<sup>8</sup>

The poor growth prospects for both developed and developing countries in the short term will be compounded by weaker potential output growth rates in the long term. The only way to avoid this gloomy prospect is for G20 members to coordinate a synchronized growth strategy and implement it effectively. As the Antalya Accountability Assessment indicated, G20 members have implemented almost 50 per cent of the key commitments of the Brisbane Growth Strategy and achieved a third of the additional 2 per cent GDP boost. However, the effects of such measures are not yet sufficient to achieve their full target. Given the ongoing risks to global growth, the G20 in 2016 should prioritize the implementation of the measures listed below.

The developed economies should:

- Upgrade their infrastructures. Each developed country should draw up a priority list for modernizing and expanding infrastructure and should accelerate delivery of the targeted projects. This would not only increase long-term growth potential but would also boost demand in the short term and reduce the risk of stagnation.
- Consider measures to reduce income and wealth inequalities. Increasing middle- and low-income families’ share in national income would increase their capacity to consume.
- Enhance the flexibility of labour markets and manage increasing flows of migrants better.

The emerging and developing economies should:

- Further reduce administrative restrictions, to make markets work more efficiently and enhance the effectiveness of government.
- Identify the most urgent infrastructure projects and draw up plans to deliver them within a short time frame to boost demand and improve the supply potential of their economies. In this context, the work already done by the OECD, World Bank Group and others is relevant.
- Strengthen social security networks and increase public spending on education and health to safeguard basic needs and promote consumption. They should ask each member to submit an ‘innovative growth strategy’ to create an enabling environment for better use of Big Data (such

---

<sup>8</sup> IMF Outlook and Policy Challenges for Latin America and the Caribbean, October 2015. <https://www.imf.org/external/pubs/ft/reo/2015/whd/eng/pdf/1015/chap2.pdf> (accessed 4 Mar. 2016).

as China's 'Internet Plus' strategy,<sup>9</sup> and other cutting-edge industrial technologies and approaches).

## Reinvigorating the global trade agenda

Trade is a fundamental pillar of productivity growth and inclusive GDP growth. It is also an area in which international economic cooperation is badly needed: trade issues are intrinsically cross-border in nature, yet the World Trade Organization (WTO) has been unable to keep pace with the shift to more dispersed and globalized supply chains.

The G20 committed to freezing trade protectionism after the global financial crisis. It also supported trade-related actions, including streamlining customs procedures, reducing regulatory burdens and strengthening trade-enabling services. However, the G20's trade agenda to date has generally been conservative rather than proactive, and has not tackled difficult issues of global trade governance.

Three particular challenges have arisen concerning trade. First, the prevalence of protectionist measures is still increasing, albeit at a slower pace. Second, global trade growth has reduced sharply, which may have an adverse long-term impact on global innovation and economic growth. Third, global trade governance is becoming increasingly fragmented and regionalized, while the WTO's Doha Round of negotiations has stalled.

China's 2016 G20 presidency can offer the opportunity to reinvigorate the multilateral global trading system. As a key stakeholder, China has a strong interest in pushing this process forward as well as the political weight to do so. Concrete steps that China could propose for the G20 include:

- Setting a quantitative target and timetable for removing trade-restrictive measures;
- Monitoring and assessing the implementation of the trade-related actions that G20 countries committed to in the 2014 growth strategy, as well as in the Bali package;
- Calling on the WTO to further study ways of coordinating regional trade agreements (RTAs) within a multilateral trading system, and their impact on global economic growth and development;
- Setting up annual Trade Ministers Meetings in a joint session with finance ministers to more closely integrate the trade agenda with the growth agenda; and
- Clearly defining the priorities of the G20 working group on trade. The priorities for the 2016 presidency should include: reviewing the operation of the WTO in the context of RTAs; proposing reforms to the function, structure and governance of the WTO, including its role in policing RTAs; and identifying basic elements in a multilateral framework for investment facilitation.

---

<sup>9</sup> Xinhua (2015), 'China unveils 'Internet Plus' action plan to fuel growth', 4 July 2015, [http://news.xinhuanet.com/english/2015-07/04/c\\_134381818.htm](http://news.xinhuanet.com/english/2015-07/04/c_134381818.htm) (accessed on 4 Mar. 2016).

## Furthering the infrastructure agenda

Infrastructure development was listed as the first of the nine pillars in the Seoul Development Consensus endorsed by the G20 in 2010. In subsequent summits this issue, pushed by Indonesia and several other countries, became central to the G20's agenda for supporting world demand and long-term development.

The key challenge for infrastructure investment is how to effectively mobilize private capital. Pressure on public finances has limited the role of the public sector in many countries, and as financial regulation has tightened after the crisis, an unintended consequence is that private financial institutions have scaled back their appetite for infrastructure investment. In 2014 a special G20 working group on investment and infrastructure was established under the Finance Track. The Global Infrastructure Hub (GIH) was also formed in Sydney to reduce information asymmetries facing potential stakeholders in the development of infrastructure projects. The World Bank, the OECD and other bodies – under the authority of the G20 – prepared a series of reports analysing the issue and provided suggestions for innovative financial instruments, improving selection of bankable projects and standardizing documents for public–private partnerships (PPPs).

Based on these proposals, the G20 in 2016 should consider:

- Publishing a list of sustainable infrastructure projects, prioritizing the promotion of regional and global connectivity and clean energy;
- Asking G20 members and MDBs to set targets for infrastructure spending in their budget plans (based on a common definition of infrastructure investment); and
- Calling on all MDBs to coordinate their environmental and social policies and rules on infrastructure financing.

## Ensuring implementation of the UN's 2030 Agenda for Sustainable Development

The G20 in 2016 should set development as a priority. Comprehensive development provides the basis for strong, sustainable and balanced global economic growth. Imbalances in development, either within or between countries, are economically inefficient and socially divisive.

Development was a key agenda item during the South Korean and Turkish presidencies in 2010 and 2015 respectively. In 2015 there were several key development milestones: the Third International Conference on Financing for Development in Addis Ababa in July, the Global Development Summit in September that endorsed the 2030 Agenda for Sustainable Development, and the Global Climate Summit in Paris in December that reached a new agreement on climate cooperation. Building on these, China, as one of the best performers in meeting the Millennium Development Goals and with special advantages in promoting a global development agenda, should maintain development as one of the ongoing priorities for the G20 and propose that the G20's members:

- Mainstream the 2030 Agenda for Sustainable Development into all G20 policy discussions;
- Lead by example through country-specific roadmaps for early implementation of the 2030 development agenda;

- Deepen dialogue with low-income countries (LICs) and assist them in implementing the 2030 development agenda, prioritizing health, education and occupational training, as well as service outsourcing and e-commerce infrastructure;
- Pursue trilateral development cooperation in order to combine the comparative advantages of all parties and create new supply and consumption, while avoiding non-constructive competition; and
- Facilitate LICs' participation in global value chains.

### Implementing the G20 Anti-Corruption Action Plan

Corruption poses serious threats to sustainable economic growth and to financial and economic stability. Internationalization increases the scope for cross-border criminal activity such as bribery, money-laundering and asset theft. Global policy cooperation is therefore essential for fighting corruption.

The G20 has played an important role in providing political momentum for global anti-corruption efforts. It has encouraged its members to ratify the United Nations Convention against Corruption (UNCAC) and the OECD's Anti-Bribery Convention. The G20 also adopted the High-Level Principles on Corruption and Growth, the High Level Principles on Beneficial Ownership Transparency, and three two-year anti-corruption action plans. For the latest 2015–16 action plan, a detailed implementation plan was also set out.

China's presidency in 2016 will mark the concluding year of the third action plan. Given the success to date of the G20's cooperation on anti-corruption efforts, as well as the fact that tackling corruption domestically remains one of the Chinese leadership's top policy priorities, the G20 should continue its efforts in this area. Building on the previously agreed principles and broad anti-corruption agenda, China can carry forward the related work by taking the following actions:

- Pressing for a fourth Anti-Corruption Action Plan and implementation plan, focusing on developing further and more concrete steps, defining more tangible deliverables for the action areas;
- Focusing on priority areas including: beneficial ownership transparency, public-sector transparency and integrity, bribery, international cooperation, high-risk areas, and private-sector transparency and integrity;
- Establishing a peer review mechanism based on members' self-assessments of their incorporation of core principles into domestic law and regulations, and the effectiveness of their legal systems in countering domestic corruption; and
- Ensuring that the anti-corruption work is more coherently integrated into the G20's other agenda items by mainstreaming the principles into infrastructure (through procurement rules), tax (through action on tax havens and Base Erosion and Profit Shifting (BEPS)), and development (through procurement again, and through operating guidelines for development banks).

## Deepening G20 principles on energy collaboration

The energy sector is core to almost every aspect of the world economy, including growth, poverty reduction and environmental sustainability.

The G20 has previously discussed the phasing out of fossil fuel subsidies, although little has been achieved on implementation. The Energy Sustainability Working Group was set up in 2013 and energy ministers started to meet in 2015. The nine G20 Principles on Energy Collaboration were approved in 2014, covering all major aspects including energy access, global governance, data and market transparency, security, efficiency, technologies and sustainability. These principles provide a systematic framework for the G20 to deal with energy issues.

In 2016 China should take forward the discussions on the G20's major themes and map out concrete actions for the G20. Specifically, it should call on members to:

- Strengthen analysis, assessment and monitoring of global energy market trends and their impacts on the world economy (and on developing countries in particular);
- Initiate meaningful discussions on ways to improve global energy governance, including at the International Energy Agency (IEA). There are many obstacles to expansion of the IEA's membership, including that its treaty would need to be amended. More frank discussion is needed to build support for reforms;
- Integrate energy into the G20's other agenda items, in particular prioritizing clean energy projects in infrastructure investment to improve energy access for low-income countries;
- Call on its members to rationalize their energy policies by pricing environmental costs fully and giving proper weight to security of supply, so that all sources of energy can compete on a level playing field. Quantitative targets for specific energy sources, whether renewable or not, are politically attractive but not necessarily efficient economically;
- Expand to all G20 countries the peer review mechanism for reduction of fossil fuel subsidies; and
- Establish a Global Energy Network (as proposed by President Xi Jinping at the UN Sustainable Development Summit in September 2015).

## Reforming the G20's own structure and process

The G20 suffers from design flaws that hamper its effectiveness. It is an informal forum without treaty base or permanent secretariat, and the 'rotating presidency' format discourages follow-through from one presidency to the next. Decisions have to be made by consensus, and it is not easy for the 20-plus participating economies to agree on all major issues. With the rapid expansion in its agenda in recent years, the G20 faces increasing challenges in focusing on specific projects and delivering them. Despite introducing an accountability framework, the G20 also has a mixed record of implementing leaders' agreements.



It is time to revisit the G20's structure and role, which was last reviewed by British Prime Minister David Cameron in 2011. China should propose that the G20 examine the following options:<sup>10</sup>

- Designing a five-year agenda for the G20 to refine its long-term role. Seven years after the first G20 summit, the G20's agenda has expanded from crisis response to dealing with medium- and long-term growth and development challenges. The G20 needs a more coherent structure to ensure that these issues are continuously addressed and decisions implemented.
- Announcing the presidencies for the next five years to mobilize ownership of and political support for the G20's five-year agenda. The G20 could also consider presidencies lasting for more than one year. The existing 'troika' structure should also encourage regular secondment of staff from three members to the host country to increase continuity of the G20 discussions.
- Consolidating all outreach group consultation into one Davos-type event. China should invite representatives from all outreach groups including the Business 20 (B20), Think 20 (T20), Labour 20 (L20), Youth 20 (Y20), Civil 20 (C20), Women 20 (W20) and non-member countries to one single event of three days' duration. President Xi Jinping could meet them to listen to their views.
- Incentivizing its members' best performances through rewarding measures. The G20 should encourage member countries to share their best practices in structural reform and other difficult issues. However, naming and shaming may not be the best way to increase the effectiveness of the G20.
- Establishing a small secretariat to support the presidency (along the model of the FSB). Despite the fact that this choice was rejected in the early days of the G20, there is still strong support for this idea among think-tanks. China should look again at this possibility, which is intended to make G20 preparations more efficient.

The G20 also needs to establish itself as a driver of reform of wider global governance. It has led moves to reform governance of the IFIs, but the continuing failure of the US Congress to ratify IMF quota reforms indicates that the G20 is not yet fully effective. It should consider pressing for reform of the system for appointing heads of the IFIs, ensuring that they employ a diverse range of staff, and look to modernize the IFIs' articles of agreement.

## Conclusion

The G20 has a busy and challenging agenda in 2016, with the global economy slowing and downside risks increasing. China – as the biggest emerging economy, and with important experience of development and reform over the past three decades – can play a leading role in

---

<sup>10</sup> Some of the following points are borrowed from Barry Carin and Ye Yu, 'The G20 Preparatory Process Ten Options to Improve G20 Effectiveness', <http://en.sisis.org.cn/index.php?m=content&c=index&a=show&catid=15&id=185> (accessed 3 Dec. 2015).



containing global risks and promoting growth. It also understands the interests and concerns of the developing world, and can ensure that these are taken into account in the G20.

A successful presidency that addresses these global challenges will reinvigorate the G20 itself, which has an important role to play in cooperation with the IFIs, but to do so the G20 will need to tackle the flaws in governance of the international financial system.

This paper identifies a number of key issues on which the G20, during China's presidency, should focus in 2016. It proposes a number of detailed actions, but in broad terms we propose the following themes as priorities for 2016, so that the G20 can re-establish itself as the premier forum for international economic cooperation and address the key challenges and vulnerabilities facing the global economy at present.

- **Global growth** is a major priority. Meeting the Brisbane target of boosting global output by 2 per cent by 2018 is a necessity. To achieve that, national actions to boost infrastructure and implement structural reforms are indispensable. Financial regulation reforms must ensure that the financial system can support growth. The trade agenda also needs to be reinvigorated, so that protectionist measures are rolled back and the WTO regains a central role in managing the global trade agenda and policing bilateral and regional trade agreements. Finally, MDBs need to focus their efforts in supporting the global growth agenda.
- **Sustainable development and growth** is essential. To that end, G20 countries, both collectively and individually, need to continue supporting development efforts and the UN's 2030 Agenda for Sustainable Development, so that low-income countries can share in rising global incomes. Infrastructure projects can be an important catalyst for development. Collaboration on energy sustainability and security, supporting wider efforts to address climate change, are key to the wider sustainable growth agenda.
- **Equity considerations are crucial.** National growth programmes would benefit from greater attention to inequality, and low-income country concerns need to be heard in the G20. International cooperation on tax reforms and anti-corruption policies will also support equitable growth. Global safety nets and mechanisms to assist countries in crisis need to be strengthened. Additionally, modernizing the governance of IFIs to reflect changes in the structure of the global economy, including quota changes at the IMF, is important for ensuring that the IFIs, and the G20 itself, remain effective instruments for tackling global challenges.

This comprehensive agenda for the G20 in 2016 under China's presidency is very challenging. However, China's experience and standing in the global economy mean that expectations are high that its presidency will enable the G20 to focus on priorities, implement its commitments, and address the current global challenges of low growth and downside risks.

## About the authors

**Zha Xiaogang** is a research fellow at the Institute for World Economy Studies at SIIS. He earned a Ph.D. in international political economy from Fudan University, an M.A. in international politics from SIIS and a B.A. in international trade and English from Hefei University of Technology. His main research interests include China's international economic strategy, the political economy of China's interaction with major multilateral economic institutions and the G20's emerging role in global economic governance.

**Stephen Pickford** is a senior research fellow with the International Economics Department at Chatham House. He has worked on economic policy issues for most of his career. In 2010 he retired from HM Treasury in London, where he was managing director (international and finance), and G7 and G20 finance deputy. Prior to this he held posts as both director for Europe and director for international finance in HM Treasury, with responsibility for international finance issues. From 1998 to 2001 he was the UK's executive director on the boards of the IMF and World Bank. Previous posts included leading the team responsible for Bank of England independence in 1997, and the 1988 Cabinet Office review of economic statistics. He also worked in the New Zealand Treasury between 1989 and 1993 on macroeconomic policy and forecasting. He studied economics at Cambridge, England, and at UBC, Vancouver.

---

# Independent thinking since 1920

Chatham House, the Royal Institute of International Affairs, is an independent policy institute based in London. Our mission is to help build a sustainably secure, prosperous and just world.

Chatham House is an independent body that promotes the rigorous study of international questions and does not express opinions of its own. The opinions expressed in this publication are the responsibility of the author(s).

© The Royal Institute of International Affairs, 2016

ISBN 978 1 78413 106 7

---

The Royal Institute of International Affairs  
Chatham House  
10 St James's Square, London SW1Y 4LE  
T +44 (0)20 7957 5700 F +44 (0)20 7957 5710  
contact@chathamhouse.org www.chathamhouse.org  
Charity Registration Number: 208223