CHINA’S GOALS IN THE G20
EXPECTATION, STRATEGY
AND AGENDA

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CHINA'S GOALS IN THE G20: EXPECTATION, STRATEGY AND AGENDA

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EXECUTIVE SUMMARY

The G20 has emerged as the lynchpin of China’s involvement in global economic governance. It remains the only economic institutional setting where the country can operate on par with major Western powers. China has a strong interest in maintaining the status of the G20 as the premier forum for economic cooperation, and a vested interest in ensuring that the G20 does not degrade into yet another “talk shop” of multilateral diplomacy. However, the Chinese leadership’s current approach to the G20 is not driven by a desire to position the country as a leading agenda setter. Instead, China’s main policy priority is ensuring that the country is treated as an equal and respected partner. China recognizes that in many ways it is still in a comparatively weak position and does not have the institutional capabilities and talents needed to operate in global financial and economic institutions such as the G20.

China still lacks a strategic long-term vision for its position in international economic affairs, and remains apprehensive that commitments made within the G20 could constrain its own policy choices. There are strong political voices in China that fear the G20 could be used as a “trap” by the West to drag down Chinese development by burdening it with responsibility not commensurate with its status as a developing country. Conversely, there are also more liberal voices in the country that advocate for a more assertive role — these opinions represent a possible new trajectory for China’s role in the G20.

Despite this lack of long-term strategic planning, China has slowly developed a baseline for its work with the G20, with a focus on the prioritization of the country’s relationship with the United States (while still actively participating on a multilateral basis with other G20 nations). China must avoid being seen as unilaterally challenging the hegemonic position of the United States in international financial institutions. To do so, China has been leveraging its growing relationship with the BRICS (Brazil, Russia, India, China and South Africa) countries for further global governance reforms, while serving as an interlocutor between developed and emerging economies in an effort to build consensus among G20 members. In addition, the G20 summit process could be used to push for domestic reform, providing additional ammunition to domestic economic liberals.

China understands that the G20 is focused on financial and economic issue areas. Global macroeconomic policy coordination, the international monetary system (IMS) and financial regulatory reform constitute the bulk of the G20’s work. China’s main goals and expectations for the G20 align with this agenda. With China’s external surplus dramatically reduced and current account imbalances no longer the most pressing issuing facing the G20, China appears to have slowly begun to embrace the spirit of the Mutual Assessment Process (MAP). Since the 2013 St. Petersburg summit, China has been increasingly advocating for greater policy coordination. In the reform of the international financial and monetary system, China continues to emphasize the importance of implementing the Seoul package of governance reforms for the International Monetary Fund (IMF) and the World Bank. China is also pushing for the renminbi (RMB) to be added to the special drawing right (SDR) basket. China recognizes the advantages of the G20 platform for advancing these goals.

In contrast, Chinese scholars believe the Financial Stability Board (FSB) was created and is dominated by the United States to push the reform of international financial regulation. China does not aspire to challenge the dominance of the United States, as China recognizes that it is still in the process of learning effective financial market regulation. The People’s Bank of China (PBoC) views its participation in the FSB as a chance to learn — to assimilate the international rules to strengthen its domestic regulatory regime.

Trade and development are two areas where China has interests and responsibilities to promote because of the country’s position as the largest trade power and biggest developing country. Energy is a field that has received minimal attention from the G20 but should, arguably, play a larger role in the G20 agenda. As one of the world’s largest importers of energy, China would be a natural champion for this issue area. Finally, the country also has an important opportunity as host of the 2016 summit to advocate greater institutionalization of the G20. Such a change in the structure of the G20 would allow China to play a more active leadership role in the forum.
CHINA’S GOALS AND EXPECTATIONS IN THE G20

For China, the G20 process is the only global economic governance platform in which the country can operate as a major power. Through its participation in the G20, China substantially increased its institutional power and influence in global economic governance. Moving forward, the G20 will continue to facilitate China’s cooperation with other major powers and its ability to take advantage of the power of stable international markets to promote the country’s further development (Guo 2013). The G20 will also likely continue to be an important source of external pressure for reform-minded elites to leverage in order to obtain their interests. Given the importance of international prestige in China’s foreign policy — namely, being seen as a responsible great power — the G20 is a valuable mechanism for fostering cooperation between different elite factions in the country.

China should continue to support the G20’s status as the premier platform for international economic governance. In dealing with the pressures and difficulties at past G20 meetings, China demonstrated a growing acumen for diplomatic maneuvering. Its unwillingness to expedite the reform of the exchange rate framework was even described as “stubborn” by some Western policy experts.1 China will continue to champion IMF and World Bank reform, while advocating its own views on global imbalances and macroeconomic coordination.

There is a general consensus among Chinese analysts over the root causes of the global financial crisis and global imbalances. These experts highlight the interaction between current account imbalances and the power imbalance embedded in the IMS (Wang 2012). Chinese analysts point to the dollar-based IMS and the Western-dominated IMF as the “more fundamental” causes of global instability. They call for moderate and pragmatic reform to the existing system, emphasizing the nature of economic interdependence brought forth by globalization. On the issue of global economic rebalancing, they insist that China should pursue structural adjustment of its own economy, which has been overly dependent on exports and incentives for foreign direct investment. According to Wang (2012), these policy recommendations have been taken seriously by Chinese decision makers; however, the implementation of this advice will be fraught with political challenges.

China’s most authoritative document, the report of the Chinese Communist Party’s (CCP’s) 18th Party Congress, confirmed that the Chinese government places the greatest emphasis on the G20. In the report released on November 8, 2012, the wording for China’s participation in international affairs changed to “participate [in] international affairs with a more positive attitude, play as a responsible big country.” Additionally, it specified that “China will positively participate [in] multilateral affairs, support the UN, the G20, Shanghai Cooperation Organization and BRICS to play a positive role.” This is the first time China expressed an overtly positive attitude toward participation in global governance.2

The 2013 St. Petersburg G20 Summit was the first time Chinese President Xi Jinping attended the summit since coming to power. China’s goal, as Xi demonstrated again in St. Petersburg, is still to promote a so-called “new international financial order that is fair, just, inclusive and orderly.” In the abstract, this is the ideal guideline for China’s involvement in the G20. Specifically, China believes that the G20 should continue to focus on the key areas of global economics and finance — rather than being dragged into security issues. China’s main proposals at the G20 summits have consistently revolved around the following areas: macroeconomic policy coordination; financial regulatory reform; reform of international financial institutions; trade; development; and an emphasis on increasing the representation of emerging markets in the international financial institutions (Xi 2013; Hu 2012).

China maintains that security and political issues should be left to the United Nations. Some scholars in China have suggested a natural division of work between the G20 and the United Nations. They argue that China should promote the G20 as the permanent institution responsible for governing global economic affairs, while the United Nations remains responsible for managing international political and security affairs (China 2020 Research Team 2013). Chinese leaders have never shown interest in the expansion of these issue areas. Chinese officials and the media have both stated that the G20 should focus on global economic governance, to the exclusion of political and security issues (Associated Press 2012; Jin, Xie and Hang 2013). For example, one week before the 2012 Los Cabos summit, then Deputy Foreign Minister Cui Tiankai stated that the G20 summit was not the appropriate platform to discuss the Syria issue, as “the G20 is a platform for global economic governance and so far we have not seen political and security issues on the agenda” (quoted in Ng 2012). In short, it is fair to say that China’s opposition to discussing security and political issues, such as the Syria crisis, in the G20 reflects its worry that the G20 may become even less effective if it becomes distracted, or even hijacked, by security and political issues.

Within the G20, China should strive to be an important, equal and respected partner — not seek to lead the G20, which would reflect China’s current status in the

1 See Munk School of Global Affairs (2011).

international community. The United States and its Western allies still dominate the major international financial institutions (IFIs) and China has to operate according to this reality. China’s current strategy and objectives, however, are increasingly being challenged both from inside and outside the country.

**SHOULD CHINA PLAY A LEADING ROLE IN THE G20?**

China has participated in eight G20 summits, and Chinese leaders are beginning to see the imperative of carving out a clearer role for China in the forum. To a large extent, the country sits at a crossroad regarding its engagement with the G20, as current decisions will likely have long-lasting impacts on Chinese foreign policy. What direction should China pursue?

Since 2011, this question has become more salient. Some scholars from India, South Korea, Mexico, Turkey, France and Russia argue that China should speak on behalf of the emerging economies. Barry Carin (2014) suggests that China’s leadership is necessary to mitigate the risk of the G20 evolving into irrelevance. Indeed, leadership within the G20 certainly appears to be wanting, considering the forum’s discouraging record of the last four years. The hopeless stalemate in American politics and Europe’s tendency toward looking inward (brought to new heights by the euro-zone crisis) do not bode well for the future efficacy of the G20. In assessing which path China should choose, however, it is important to understand the analytical gap that exists between Chinese and foreign experts. Since 2008, Chinese analysts have largely focused on the internal constraints facing the country.

First, these analysts underscore that the Chinese elites still view China, notwithstanding its large, rapidly growing economy, as a low-income developing country. In the eyes of Chinese leaders and the public, China is not ready to take on a greater leadership role, as it is still hampered by its relative technological weakness compared to developed economies, and by its limited financial and regulatory expertise. The Chinese economy continues to expand rapidly, but it still faces systemically important internal social problems, large macroeconomic imbalances and growing inequality (Wang 2011). China is proud of its status as a trade power, but is conscious of its comparatively weak position in the international financial arena. It lacks intimate knowledge of how IFIs are governed and it is not currently capable of charting a new path in global governance. China is not confident in playing a leading role in the G20, and recently even attempted to stall the release of findings from a World Bank project that claims China will likely overtake the United States as the world’s largest economy by the end of 2014 on a power purchasing basis (Anderlini and Pilling 2014).

Second, worry over how G20 commitments could undermine its own domestic economic policy autonomy is a key reason for China’s hesitation to embrace a larger leadership role. This was reflected in China’s ambivalence over the MAP when it was proposed at the 2009 Pittsburgh summit. China believed the mechanism should be consultative and instructive in nature, while others thought it should contain stronger compliance mechanisms in order to help coordinate policies more effectively (Chen 2011). Given China’s moderately strong record of compliance with past commitments made in international economic organizations — reflecting the fact that the country takes its responsibilities seriously (Johnston 2003) — China’s caution is perhaps understandable.

Third, there are strong voices in China that argue that the country cannot take on responsibilities beyond its capacity to bear such costs and risks. Many senior officials and commentators express doubt over the true intentions of the United States and other Western countries — in particular their underlying commitment to reform the international financial system. This camp believes that Western countries were forced to pledge IFI reforms under the pressure of the global financial crisis and subsequently delayed these reforms once the worst of the crisis had passed. Much of this suspicion borders on conspiracy theory. In recent years, the theory of “China’s responsibility” has become pervasive in China’s elite academic circles. This theory holds that US-led Western countries want to place excessive responsibilities on China, and concludes that the United States intends to drag down the rise of China by saddling it with disproportionately heavy responsibilities. As such, the prospect and allure of a leading role in the G20 masks the malicious intent of Western developed nations.

Chinese scholars and media point to several “excessive” responsibilities that Western countries want China to bear, including: liberalizing its capital account and exchange rate regime; reducing its large trade surplus and carbon emissions; building a consumption-driven economy; and lowering its savings rate (Zhang 2012; Zhou 2013). One can argue that all these responsibilities are in China’s long-term interests and that the country should embrace them for its own benefit. But, at the current stage, these demands are largely regarded in China as ways for Western countries to push international adjustment costs onto China, while also containing China’s development. Some scholars hold more moderate opinions on the theory of China’s responsibility. Rather than interpreting Western foreign policy as being driven by sinister motivations, these scholars, such as Sun Zhe, argue that the West is attempting to mould China in its own image, persuading China to follow the rules crafted in the postwar era (Zhou 2013). The bright side of this perspective is that the United States and other Western countries are at least

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interpreted as demonstrating a willingness to cooperate with China (Jin 2010). However, Huo Jianguo, director of the Chinese Academy of International Trade and Economic Cooperation at the Ministry of Commerce, warned that China should maintain its vigilance against excessive responsibility, which, in his opinion, is equal to “lavishing praise to cause it to fail” or peng sha in Chinese.4 Huo was also cited as arguing that China should never take responsibility beyond its capacity simply because of clamours to do so from outside the country.5 Cui Tiankai, currently Chinese ambassador to the United States, echoed these scholars’ opinion when talking to Chinese media at the Los Cabos summit by expressing China’s concerns on being asked to shoulder international responsibility beyond its capability in the G20 (Deutsche Presse-Agentur 2012; International Business Times 2012).

Fourth, some Chinese scholars argue that China lacks a global vision (Li Minjiang 2011), and that the country is still wedded to the principle of an independent foreign policy. In other words, China is still learning how to conduct foreign policy in a multilateral setting and, for the time being, insists on making its national interest the top priority without considering other countries’ concerns in international governance regimes. China has already changed considerably to adapt to the demands of multilateralism since joining the G20 leaders’ summit in 2008. For example, China pledged to move toward a more flexible exchange rate system at the 2011 Cannes summit. This move, however, was driven mainly by domestic economic considerations. China is unlikely to pursue a policy that would violate its national interests due to external pressure. How can China balance its national interest and fulfill international obligations under the G20 framework, especially when the two conflict? If China wants to take a more active leadership role in the G20, it needs to deal with tricky issues such as international monetary affairs with greater diplomatic tact. Equally as important, China needs to express a vision for how multilateralism can manage the risks and ensure the realization of the immense benefits that economic globalization can bring to the global community.

The consistent style of foreign policy making in China over the past decade suggests that it is unlikely that China will take a more proactive and aggressive stance in the G20 any time soon. Rather, it will maintain the current policy stance of actively engaging and positioning itself as a responsible partner, while avoiding taking on responsibilities incommensurate with its status as a developing country, blocking initiatives that would harm its interests and refraining from making grand proposals (ibid.). This aligns with the statement in the CCP’s 18th Party Congress report that underscored that “China [will] actively participate” in the G20 and other international regimes.

In short, China remains focused on dealing with domestic affairs and it does not want its policy space circumscribed by stronger compliance mechanisms via the G20. China is suspicious of taking a larger leadership role in the G20 and remains vigilant against being asked to bear excessive responsibilities that would see it caught in a trap set by Western nations. Given the short history of China’s participation in multilateral diplomacy, its capability and willingness to forge the agenda, build a community of interests and take a leading role in the institution are far behind that of the United States and other developed economies.

Nevertheless, more active voices in the Chinese academic community have argued recently that China cannot avoid playing a leading role in global economic affairs. Many of these scholars insist that, with Western countries hamstrung from the fallout of the global financial and euro-zone crises, China has been given a historic opportunity to play a more active role in global governance (Pang and Wang 2013). Fengying Chen, director of the Institute of World Economic Studies at the China Institutes of Contemporary International Relations, added that in many ways, China has already played a constructive role and made creative proposals in the G20. In her eyes, China acted as a bridge between developed and developing counties, maintaining strong lines of communication with both the United States and the BRICS counties (via, respectively, the Strategic Economic Dialogue and BRICS meetings).6 Pang and Wang argue that leadership is critical to a country’s status in global governance. They advocate that China should take the chance to play a leading role in the G20 and argue that China should seek leadership equal to China’s economic power, further adding that China should take advantage of the opportunity to host the 2016 G20 summit to exercise greater leadership (ibid.).

Other scholars, however, have taken a slightly different point of view. They stress that China’s GDP is projected to surpass that of the United States in 2020 and that it will be impossible for China not to take on greater responsibilities in the global economy. Additionally, China will need to take a more active role in order to protect its rapidly expanding overseas economic interests. All of these realities make China the elephant that cannot hide behind the cherry tree any longer. These scholars suggest that China should push the G20 to become a formal international institution that manages world economic affairs (China 2020 Research Team 2013).

The current reform crossroads for the G20 provides a golden opportunity for China to lead the global governing

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China’s further engagement with the G20 might lead a shift toward placing more importance on multilateral diplomacy globally. If China does host the G20 summit in 2016, it would be a significant boost to its leadership role.

Whether China should play a leading role in the G20 hinges largely on domestic debates regarding the country’s position in the world. Since the “reform and opening policy” was formulated in the late 1970s, the ultimate goal of China’s foreign policy has been to support continued domestic economic and social development through forging a favourable international environment. The narrative in recent years has evolved into one of “maintaining its national core interests” or “great rejuvenation of the nation,” with sustainable economic and social development still one of its fundamental interests. Accordingly, China’s engagement with the G20 rests on how, as a developing country, the forum can serve its national interests, in particular, the interest in promoting its economic development. There is no doubt that China will stick to its identity as a developing country; however, a consensus is slowly forming in terms of its participation in global economic governance. This nascent consensus argues that it is better to take a positive, active role in global economic governance than to react defensively or passively. The future of China’s leadership role in the G20, however, will also depend on the strategy it takes, especially in terms of how the country comes to understand and deal with its relations with the United States within the G20.

CHINA’S STRATEGIES IN THE G20

According to statements from the 18th Party Congress, China will actively participate in the G20. The same documents, however, do not state that China will aspire to a leadership role in the forum. China’s experiences in the G20 have led to important diplomatic lessons, resulting in the development of new strategies. A review of available documents and public statements by Chinese officials, and scholarly work, reveals the contours of five main interlocking strategies pursued by China at the G20 to date.

POSITIVELY PARTICIPATE, BUT DO NOT CHALLENGE THE UNITED STATES IN THE G20

The CCP’s 18th Party Congress set the overarching strategy for China to “actively participate in multilateral affairs.” Consequently, the PBoC described its strategy in 2014 as “deeply participating in policy coordination and rulemaking in the international economic and financial areas, in order to enhance our international prestige and power over agenda setting” (Information Office of the State Council 2011).

What does the PBoC mean by “actively participate in multilateral affairs” when it comes to the G20? From the speech given by President Xi Jinping at the 2013 St. Petersburg summit, China’s active participation could, to some degree, be interpreted as China trying to play a modest leadership role. Xi’s speech highlighted the importance of maintaining an open world economy; of each country taking responsibility for the strength of its own macroeconomic policy framework, improving policy coordination; and the imperative of deepening free trade and guarding against protectionist pressures. This new term, an “open world economy,” showed China’s more assertive stance in the G20. The statement was clearly aimed at the quantitative easing policies of the United States and Japan. China had joined the rest of the developing world to denounce the policy. The statement was designed to place China on the moral high ground.

The G20 provides China with an excellent platform from which to coordinate, negotiate and cooperate with the United States and other big powers on the reform of the international financial system and other global governance issues without direct confrontation. The Chinese government considers it the perfect forum for relationship building. The forum is prudent and cautious, seeks to do no harm and emphasizes cooperation among big powers, which matches China’s main principles in foreign policy. Furthermore, China is actually not seeking to completely overhaul the international financial system, but rather working toward greater integration and becoming an equal member. As Pang (2013) argues, “China’s strong interest in raising the quotas at the IMF and putting the RMB into the SDR basket show that China is not seeking to create an alternative in global governance, but embracing strongly the existing regimes in global governance.”

On the whole, China benefits from the current US-led world economic order. Its goal is to become an important member of the current order rather than seeking an alternative. China’s strong emphasis on raising its voting shares and representation at the IMF and World Bank is a clear example of this dynamic. Further, as some scholars suggest, it is the European countries that remain the largest impediment to comprehensive governance reform at the World Bank and the Fund. As such, rather than seeking to check or balance the power of the United States, China should seek the “greatest common ground” (China 2020 Research Team 2013). China has everything to gain from the G20 as long as it can avoid being isolated on a handful of critical issues and avoid challenging or being seen to

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7  See the Information Office of the State Council, People’s Republic of China (2011).

8  An English version of Xi’s speech at the St. Petersburg summit is available at www.fmprc.gov.cn/mfa_eng/wjdt_665385/zyjh_665391/t1074372.shtml.

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CHINA’S GOALS IN THE G20: EXPECTATION, STRATEGY AND AGENDA
unilaterally challenge the United States — especially in the international financial sphere, which the United States dominates. Contrary to popular opinion in many Western countries, China does, in fact, hold a realistic attitude toward the hegemony of the US dollar. When seeking to positively participate in the G20, China strives to avoid any policy initiatives that would be regarded as challenging to the United States. China’s proposal on replacing the US dollar with the SDR in 2009 is a case in point.

Before the London summit, Zhou Xiaochuan, the governor of the PBoC, released an article on replacing the US dollar with the SDR that shocked the international economic community. The paper was seen as an official call to end the US dollar’s hegemony. Chinese officials from the Ministry of Foreign Affairs, however, soon clarified these statements. Vice Foreign Minister He Yafei, for example, explicitly stated that the replacement of the US dollar, or any other currency for that matter, was for “now a discussion among academics” and certainly “not the position of the Chinese government” (quoted in China Daily 2009). The director of the Institute of World Economics and Politics at CASS and one of China’s most well-known economists, Zhang Yuyan, also said that the SDR, as a reserve currency, was just an ideal option and had very little feasibility in the short to medium term (quoted in Tan 2009).

It is fair to say that Zhou’s 2009 article was aimed at exploring the roots of the global financial crisis and trying to find a solution. Lack of follow-up actions and moves for the proposal, as well as the overwhelming opinion among Chinese scholars and officials that Zhou’s idea was impractical in the near and medium term, but was aimed at the future, indicated that it would be appropriate to define the proposal as an “academic discussion.” The fact that a high official from the Ministry of Foreign Affairs clarified the Chinese government’s position on the issue further demonstrated that China truly did not want to be misunderstood. Zhou’s article reflected the reality that China is increasingly unsatisfied with the dominance of the US dollar in the IMS — in particular, with the recurrence of crises under the current system, which, however, does not necessarily mean China is taking concrete actions to challenge the dominance of the US dollar.

Since the early 1990s, one of the core principles for Chinese foreign policy has been to give priority to China’s relations with the United States. Today, multilateral diplomacy is still not a priority in China’s foreign policy agenda and the China-US relationship remains the top priority of policy makers. Diplomacy in the G20 and other multilateral regimes has to give way to this first priority when conflict arises. This is the reason why some scholars in China argued that the country should not challenge the role of the US dollar, as well as the reason why Chinese scholars don’t propose a robust leadership role for China in the G20 (Pang 2013; China 2020 Research Team 2013). To the extent that China does desire greater influence in the G20, the best way to achieve this is through deeper coordination with the United States.

The prospect of a new pattern of great power relations between China and the United States — one characterized by cooperation and friendly competition — will, to a large extent, likely determine the future of the G20. In contrast to its aggressive and nationalistic response to the Obama administration’s “pivot” toward the Asia-Pacific in the realm of security issues, China has shown a gentle but steadfast attitude in global economic governance. China participates positively, slowly building its acumen for multilateral diplomacy, while refusing unreasonable obligations and trying not to bring itself into direct conflict with Western developed countries. China defended its exchange rate policy firmly at the Toronto, Seoul and Cannes G20 Summits, while compromising and softening its stance by agreeing to make some commitments, such as promoting a “market-based exchange rate reform” or taking measures to allow RMB appreciation in the run-up to G20 summits, in order to avoid harsh criticism from the United States and other Western countries. China’s cooperative, gentler attitude and policy stance suggest that there is the potential for China and the United States to promote cooperation in the G20. The US-China Study Group on G20 Reform, which consists of think tanks from both China and the United States, has made significant contributions in this regard. The proposal on a G20 “bureau” with the United States and China as permanent members — in effect changing the G20 troika into a quintet — is a prime example (Bernes 2012).

However, maintaining China-US relations as the top foreign policy priority does not necessitate an avoidance of conflict between the two nations. Rather, China can take a firm, but not inflexible, policy toward the United States in order to maintain cooperation. In Chinese, this is known as the *dou er bu po* (fight without breaking) strategy. This is how China believes it can promote healthy and stable relations. This strategy also applies to how China maintains its cooperation with the United States in the G20. Take the example of the US dollar: China does not seek to challenge its dominance and is willing to see the dollar maintain its status, but with some reservations. China asks that the United States undertake responsible fiscal and monetary policies with a consideration of possible negative externalities for the global economy, especially on the developing countries, and to promote trade and anti-protectionism. China’s official media and commentators have condemned both the second and third rounds of quantitative easing (QE2 and QE3) programs of the Federal Reserve.

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9 See Zhou (2009).

Reserve. For example, QE2 (announced in November 2010) has been described as “beggar-thy-neighbour” and “do-things-harmful-to-others-which-are-not-beneficial-to-itself” policies, with the implication that the United States, as the issuer of the sole reserve currency, needs to make more responsible policy decisions. In the eyes of Chinese analysts, it is these unconventional monetary policies that have brought instability to the global economy.12

COOPERATION WITH BRICS COUNTRIES IS KEY FOR CHINA IN THE G20

Building strong relationships with developing countries is essential to China’s foreign policy and it is only natural that this reality influences its standing in the G20. As the largest developing country in the world, China can use its identity and economic strength to push cooperation between emerging economies, especially among the BRICS countries, in order to increase their voice and representation in global economic governance. As Xi put it in the joint interview to media from BRICS countries in March of 2013, “the global economic governance system must reflect the profound changes in the global economic landscape, and the representation and voice of emerging markets and developing countries should be increased” (quoted in Ministry of Foreign Affairs of the People’s Republic of China 2013a).

In China’s view, the effects of the Western financial crises and the rise of emerging economies have forced the United States and other Western countries to yield some of their powers in the global economic governance regimes. The Western nations, however, still dominate the major global economic governance structure, and the transition of power would be gradual and likely to be highly limited in the short run. In order to expedite this inevitable transition, emerging economies need to speak with one voice. This can only be achieved through strong cooperation between China and the BRICS countries.

A key factor for successfully shaping the rules of regimes such as the G20 is the ability to forge a broad political consensus among diverse countries (Wuthnow, Li and Qi 2012). China has the opportunity to bring various developing countries together — in particular, the BRICS countries — and by doing so can gain greater leverage over the United States and other developed countries. IMF and World Bank governance reform is a case in point. The United States and other Western countries can no longer afford to exclude emerging countries from global economic governance. The current distribution of political and financial power requires active participation from emerging markets to tackle major economic challenges — as the global financial and euro-zone crises have demonstrated.

The largest impediment for such a joint strategy is coordinating different interests among the five countries. At present, a formal coordination mechanism is absent, with a largely unstructured coordinating meeting among BRICS countries during the G20 finance ministers and central bank governors meeting the only semi-institutionalized forum. The main task for China, as some scholars have recommended (Pang and Wang 2013; Huang, Gong and Kai 2013), is to institutionalize the BRICS mechanism by promoting regular communication and coordination, working toward new free trade and investment initiatives, as well as finalizing the BRICS Development Bank and reserve fund.13

ACTING AS A BRIDGE BETWEEN DEVELOPED COUNTRIES AND EMERGING ECONOMIES

When the “China-US relations first” and “building a BRICS base” strategies are put together, one is left with the difficult question of how to integrate these seemingly conflicting strategies. This leads to China’s third strategy in the G20: being a bridge between developed and emerging economies.14 How to clearly position itself in the G20 becomes the fundamental question for China.

All things considered, China still positions itself as a developing country that has a set of economic characteristics consistent with developed market economies — namely, the size of its economy. As the largest developing country, China can act as a bridge between developed countries and developing nations, playing the role of power broker on issues in the G20. This position matches the role defined by Chinese President Xi Jinping in St. Petersburg in September 2013, when he stated that the G20 can act as “an important platform to consulting with each other on international economic affairs between developed countries and developing economies” (Xi 2013). It also echoes the reason that China joined the G20 and refused to join the Group of Eight (G8). In China’s eyes, the G8 is a forum of wealthy states that increasingly lacks widely recognized legitimacy. Because China sees itself as a developing country, it would be inappropriate for it to become a member of the G8. China is also worried about being treated as an unequal partner in the G8, and being forced to bear unnecessary responsibilities (Yu 2004). The

13 The BRICS Development Bank and reserve fund was created after the group of emerging economies signed the long-anticipated document on July 15, 2014, the first day of the 6th BRICS Summit held in Fortaleza, Brazil.
creation of the G20, which has 11 developing countries as full-fledged members, emerged at the right time and presented China with an opportunity to take on a larger leadership role in global economic governance. China’s identity as a developing country is of great importance to the state — politically, economically and diplomatically.

In short, this is a two-part strategy. China needs to strike a delicate balance between developing country and taking on a larger role in global leadership through skilled diplomatic tact. As the largest developing country, China has characteristics of both developed powers and developing countries, which implies that it has to take care of the interests and concerns of both sides. It puts China in the situation of having a conflict of identity, which could leave the country facing a dilemma in some cases. On the other hand, this strategy also provides China with the standpoint from which to understand competing interests and concerns.

THE G20 AS A TOOL FOR PUSHING DOMESTIC AGENDA

China’s more liberal-minded elites have traditionally sought to leverage external pressure for greater reform. In the past, former Premier Zhu Rongji and his supporters used China’s entry into the World Trade Organization (WTO) to push through domestic market reforms that would otherwise have been politically impossible. Many Chinese elites believe that the real motivation behind the State Council’s 2009 decision to develop Shanghai into an international financial centre by 2020 was to use Shanghai’s internationalization as a tool to modernize China’s financial system (Wang and Rosenau 2009). Similarly, Premier Li Keqiang’s efforts in 2013 to promote setting up a Shanghai free trade zone can also be interpreted as a vehicle for pushing through further market-based financial reform. With the recognition that global governance issues tend to blur the distinction between international and domestic politics, the Chinese elite believe that global governance mechanisms can be used to promote domestic change. The G20 summit process (encompassing the MAP, FSB reviews, Financial Sector Assessment Program [FSAP] reviews and official statements) could also be used as a healthy pressure for domestic reform.

An important example of this dynamic is the issue of the RMB joining the SDR basket by 2015. Article 33 in the US-China Joint Statement of 2011 released by President Hu and President Obama stated that “the United States and China agree that currencies in the SDR basket should only be those that are heavily used in international trade and financial transactions. In that regard, the United States supports China’s efforts over time to promote inclusion of the RMB in the SDR basket” (The White House, Office of the Press Secretary 2011). Setting such an ambitious (and likely unrealistic) objective provided political ammunition for some Chinese elites to accelerate the process of achieving capital account liberalization — a prerequisite for RMB internationalization.

Since 2011, heated debates have occurred in China on the issue of the RMB joining the SDR basket. Mainstream opinion, held by David Daoxui Li and Bin Xia (then members of the Monetary Policy Committee of the PBoC) for example, opposed RMB convertibility on the capital account as the precondition for the RMB joining the SDR, which is the current rule of the IMF. Some scholars argue that China should try to change the rule so the RMB can join the SDR without fulfilling this requirement (Zuo 2013). However, other scholars, such as Yu Yongding, former member of the Monetary Policy Committee of the PBoC, have stated simply that the RMB is not qualified to join the SDR and efforts should proceed cautiously with further macroeconomic reforms. Yu was also quoted for expressing concern over the risks accompanying capital account convertibility and market-based exchange rate (prerequisites for SDR inclusion), which could lead to the type of crisis that Japan experienced in the late 1980s. Xi’s St. Petersburg statements could also have been used as leverage to push through other difficult domestic reforms. His statements stressed that notwithstanding the sustained contraction of global imbalances, for the purpose of ensuring a durable global recovery, it is essential to achieve stronger domestic demand growth in large surplus economies, and increased savings and enhanced competitiveness in deficit economies. This sentiment was also evident in the official G20 leaders’ communiqué. China currently relies heavily on investment and exports for economic growth. This growth model has underpinned social and political stability over the past decades. As

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18 See also the Central People’s Government of the People’s Republic of China (2013). Xi mentioned the SDR issue in the meeting before making his formal statement at the summit.
19 Yu Hu, a scholar from the independent think tank Shanghai Institute of Finance and Law argues for the latter interpretation. See www.ftchinese.com/story/001037867 [in Chinese].
such, managing this process of economic reorientation is as much a political and social project as an economic one.

Several high-level Chinese officials have been driving these politically sensitive reform efforts. Liu He, director of the Office of the Central Leading Group for Financial and Economic Affairs (the advisory agency for the Politburo Standing Committee of the CCP), is widely viewed as the prime architect of China’s new reform plan released at the Third Plenum of the 18th CCP Central Committee in 2013. Liu has had a powerful ally in his efforts in the governor of the PBoC, Zhou Xiaochuan (Davis and Wei 2013). One year earlier, Guo Shuqing, chairman of the China Securities Regulatory Commission and Executive Committee, had also pushed for financial reform by giving an influential lecture titled “No Way Out for China’s Economy without Improving the Financial Structure” (Guo 2012). At present, a large number of Chinese scholars and officials regard market-based financial reform as the key to promoting consumption growth. In addition, many argue that it is important for China to end current practices that channel capital toward inefficient state-owned enterprises in order to allow private firms to access the financing required to provide greater job opportunities and, ultimately, more wealth to a broader section of Chinese society.

Considering that the G20 is not a rules-based international regime and its statements are not binding, the pressure brought by the G20 and its MAP is not comparable to that brought by the WTO in the late 1990s. The point, however, is that China’s reformers can use the G20 as a gambit in domestic policy debates. Chinese elites continue to view the G20 as an important platform to cast China in the image of a responsible power. Chinese leaders, from the first generation of Chairman Mao to the current fifth generation leadership, all attached great importance to the shaping of China’s national image on the international stage (Jin and Xu 2010; Xinhua 2013). The so-called “business card of China” commercial that ran in New York’s Times Square, as well as the establishment of numerous Confucius Institutes overseas are but two examples of efforts by the Chinese government to promote its national image. Chinese leaders feel that China’s reputation will suffer if the country or its leaders are named and shamed in international forums such as the G20. This gives reformers a key source of leverage.

**BUILDING A COMMUNITY OF INTERESTS**

US scholars Ian Bremmer and Nouriel Roubini (2011) describe the current state of international affairs as a “G-zero” world: one in which no single country or bloc of countries has the economic capacity or political will to champion a truly global agenda. This power vacuum makes it extremely difficult for even a more legitimate body such as the G20 to provide effective governance of issues related to macroeconomic coordination, financial regulatory reform, trade policy and climate change (ibid.). The only way to muddle through this reality is to work gradually to forge consensus; however, only at the height of systemically important crises will incentives align and real progress on core issues be made (the G20’s coordinated response to the global financial crisis is an example of this dynamic). Zheng Bijian, who proposed China’s “peaceful development strategy,” explained that China’s foreign policy strategy for the 2010s is underpinned by an attempt to build a community of interests and, eventually, a convergence of interests (Zheng 2013). China does not have any strong allies based on common interests in the G20. None of the G20 member countries currently have bilateral free trade agreements (FTAs) with China — with the exception of Indonesia through the China–Association of Southeast Asian Nations FTA. As a result, other than through the WTO, trade relations between China and other G20 countries are not formally institutionalized. China needs to study and find common interests among the members of the G20 and build allies based on common interests and/or shared values, for example, through promoting or participating in issue-specific formal or informal groupings within the G20. These issue areas would not have to be exclusively relevant to developing countries. At the same time, China should also strive to maintain unity in the G20 through playing a bridging role between different groups.

At present, prioritizing the Sino-American relationship remains China’s overriding strategy in the G20, despite the growing importance of others. Chinese policy makers still regard the G20 as an important platform for engagement with the United States, which prevents any serious thoughts of China taking a significantly stronger leadership role in the G20. If China hosts the G20 summit in 2016, a more assertive strategy could be taken and the current prioritization of China-US relations in global economic governance could be relaxed. Whether this change will occur and, if it does, how beneficial to long-term Chinese interests it will prove, will depend on the wisdom in strategy design and the diplomatic acumen of Chinese leaders.

**CHINA’S AGENDA IN THE G20**

China understands that the core G20 issues lie in the financial and economic spheres. Global coordination in macroeconomic policy, IMS reform and financial regulation constitute the key topics. China’s main goals and expectations broadly align with this agenda. However, trade and development are two areas where China possesses strong interests and feels obliged to promote them because of its position as the largest trading power and the biggest developing country. Energy could also be a

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20 Issues could include export promotion, international financial institution governance reform or cooperation on governance issues related to sovereign wealth funds.
key priority for China (and the world) as its huge demand for energy is reshaping world energy markets. Efforts to further institutionalize the G20 should also be high on China’s agenda if it decides to host the G20 summit in 2016 — especially if China wants to play a more active role in the forum.

MACROECONOMIC POLICY COORDINATION: THE G20 MAP

The MAP is a peer-review-based mechanism designed to support the coordination of the macroeconomic policies of G20 nations. It was launched at the 2009 Pittsburgh summit as part of the G20’s Framework for Strong, Sustainable and Balanced Growth — a document that serves as a quasi-charter for the forum. The MAP was further enhanced at the Seoul summit in 2010 through the agreement on a set of “indicative guidelines,” developed by the Framework Working Group (which is headed by Canada and India), and designed to identify countries with systemically relevant macroeconomic imbalances.

China has an interesting history with the MAP. Its opposition, along with that of Germany, ensured that no common numerical benchmark for current account balances was set at the 2011 Cannes summit.21 At the same time, against the backdrop of the easy money policies of the US Fed and European Central Bank, China and other emerging countries began to question the independence of the MAP and accompanying IMF staff analysis (Chin 2011). The third round of quantitative easing by the Fed in 2012, along with Japan’s version of unconventional monetary policy (as part of “Abenomics”) in 2013, pushed China to firmly believe that the United States, European Union and Japan are practising “beggar-thy-neighbour” policies, which served, in China’s opinion, to discredit the MAP as a tool of peer review and pressure. The MAP’s lack of focus on what China and other emerging economies viewed as the irresponsible polices of developed economies, combined with its continued emphasis on raising domestic demand and exchange rate flexibility in emerging surplus economies, has led many Chinese elites to question whether the MAP is simply a tool designed to constrain the rise of the emerging economies.

With the dramatic post-crisis contraction in China’s external surplus continuing to hold, and current account imbalances at least temporally out of the limelight within the G20, China began to slowly embrace the MAP, while still continuing to appeal for a tightening of developed world monetary policy (Xi 2013; Central People’s Government of the People’s Republic of China 2013). At the same time, China began to take further measures to promote domestic demand, consistent with its own commitments through the MAP and recommendations of IMF staff. These policy changes are also consistent with the objective of transitioning toward a consumption-driven growth model announced at the Third Plenum of the 18th Party Congress. China takes the MAP very seriously because it provides a less politically fraught mechanism for applying pressure on other countries’ policy choices. China also does not want to lose face, which could give the United States and other developed countries an excuse to criticize China. Its strong objection to the use of common numerical targets for current account imbalances reflects this apprehension. In contrast, it is now more convenient for China to embrace the MAP because it aligns with its objective of promoting domestic demand.

Furthermore, Chinese scholars have suggested that China should propose a comprehensive framework, under the auspices of the G20, to manage international capital flows, with the aim of ensuring stability and an efficient allocation of capital (Li Shicai 2011; He, Feng and Xu 2013). Specifically, some Chinese financial sector experts proposed a global crisis prevention and response mechanism based on international coordination, putting the key reserve currency country’s macroeconomic policy under surveillance and working with the IMF and G20 central banks to deal with future problems caused by excessive unrestricted capital flows (Xu 2011; Huang, Gong and Kai 2013; Chen 2014). The purpose of the proposal is to cope with the spillover effects of developed countries’ loose monetary policies, which have contributed to dramatic fluctuations in the US dollar exchange rate and sustained upward pressure on the RMB. The movements of short-term capital flows triggered by developed countries’ monetary policy have frustrated attempts by the PBoC to gradually liberalize the Chinese exchange rate framework. In addition, scholars from China’s financial system have argued that exchange rate reform should move in lockstep with the liberalization of domestic interest rates, in order to avoid financial market dislocation. To this end, a variety of discreet measures should be taken to monitor short-term capital flows when opening the capital account through, for instance, the use of a variety of targeted capital flow management tools.

Sovereign debt sustainability has also become a key concern of Chinese leaders in the aftermath of the euro and global financial crises. Some Chinese scholars suggest pushing for further discussion of sovereign debt management in the G20 (Jin and Chen 2013; Chen 2014). These experts highlight the fact that unsustainable fiscal policies in developed economies have threatened (and likely will continue to threaten) not only China’s development, but also broader global macroeconomic and financial stability. They advise moving beyond simply revising and enhancing the IMF/World Bank guidelines.

21 In 2010, then Treasury Secretary Timothy Geithner floated the idea of symmetric common limits on current account positions (at +/- four percent GDP).
for public debt management,22 which was agreed at the St. Petersburg summit. Specifically, some scholars suggest beginning discussions on building a formal framework for supervising and assessing the sustainability of all G20 public finances, as well as revisiting options for improving the current approaches to sovereign debt restructuring (Jin et al. 2014).

Such a proposal could obtain support from other large surplus countries such as Japan and Singapore, and resource-rich countries such as Saudi Arabia, Brazil and Russia, as they also hold large amounts of US and European debt, and therefore share China’s concern over the safety of their foreign assets (ibid.). Scholars also believe most other countries share China’s fears of the prospect of a sovereign debt crisis at the core of the current IMS. On the other hand, China should communicate with the United States on the proposal of sovereign debt sustainability and other issues concerning macroeconomic policy coordination in the G20, such as generating unofficial rules for how countries use capital flow management tools. China’s proposals would then have a better prospect of making it onto the agenda of G20 meetings.

**PROMOTE THE REFORM OF THE INTERNATIONAL FINANCIAL AND MONETARY SYSTEM**

Foreign Minister Wang Yi stated in September 2013 that the G20 should move to “reform the international financial institutions, promote the establishment of a fair and inclusive international financial system, and increase the representativeness and say of developing countries in global economic governance” (Ministry of Foreign Affairs of the People’s Republic of China 2013b). These statements reflect China’s long-stated objectives to push for finalizing the reform of the voting shares at the IMF and to put the RMB into the SDR basket. China understands the advantages of the G20 as a platform for advancing these goals. Compared with the IMF, there are fewer members in the G20, which makes coordination easier. Also, policies agreed to by the G20 can be used to facilitate reforms at the IMF.

On March 25, 2014, the US Congress failed once more to ratify a capital increase for the IMF, as part of the 2010 Seoul package of reforms. Changes to voting shares, which were also part of the reform package, cannot proceed without the United States, which continues to hold the sole veto at the Fund. This reform package would double the IMF’s quota-based resources to US$720 billion and shift six percentage points of total quota shares to developing countries. Once passed, China will become the third-largest member and the IMF’s board will see a material reduction in the representation of Western Europe. Continued US congressional deadlock has thus undermined what was regarded in China as an important foreign policy achievement (Xie and Qu 2010).23 Having repeatedly expressed strong disappointment and criticized the United States indirectly through its statements at IMF meetings.24 This setback has been interpreted in China as a deliberate attempt by the United States to block China and other emerging economies’ rise in global economic governance, despite the reality that the Obama administration, led by the Treasury, has undertaken intense lobbying to corral a sufficient number of House Republicans to see the necessary legislation passed.

The Chinese government believes that the long delay in reform implementation is a large blow to the legitimacy and prestige of the IMF, as well the credibility of US leadership of the institution.25 Having expressed its strong disappointment, the only choice left to China is to continue to rally pressure from other emerging markets. However, considering the endless political stalemate in the United States, it would be wholly unrealistic for China and other emerging economies to hold any expectation of an expedient resolution to the current impasse. In the context of ongoing austerity in the United States, conservative Republicans remain adamantly against what they (incorrectly) believe to be a large outlay on the part of the federal government. Scholars from the conservative think tank Heritage Foundation also continue to strongly advocate against the passing of the reform package, arguing that “it would erode U.S. influence at the IMF” (Roberts 2014). This has provided additional ammunition for House Republicans.

The reform of the IMS advocated by France at the Cannes summit, and subsequent proposals to reform the currency composition of the SDR basket, received strong support from China and other emerging market countries. The existing criteria for revising the SDR currency basket — i.e., the weights of the currencies in the SDR basket — were last revised in 2010 based on the value of the exports of goods and services, and the amount of reserves denominated in the respective currencies that were held by other members of the IMF (IMF 2014). Placing the RMB into the SDR basket, based on existing criteria, is China’s main objective regarding IMS reform, and it is trying to realize this goal by the 2015 SDR review by the IMF executive board.

However, the RMB currently falls well short of meeting the requirements related to the proportion of outstanding RMB-denominated foreign exchange (FOREX) reserves. This makes increasing the use of the RMB in international trade and financial transactions urgent. China must accelerate

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23 See also Yu (2010).
25 Ibid.
the pace of RMB internationalization and capital account liberalization if the RMB is to qualify for the SDR basket. Given the intersection between RMB internationalization and capital account reform, the issue is both a domestic and foreign policy one. China’s prospects will be determined, to a large extent, by the pace of implementation of the existing reform agenda. In other words, it will be decided by President Xi’s reform determination and capability to fight powerful interest groups in the financial and bank sector, and other opposition forces from political and financial conservatives in China.

**INTERNATIONAL FINANCIAL REGULATION: THE FSB**

The reconstitution of the old Financial Stability Forum as the FSB at the 2009 London summit marked an important change for the G20. The FSB has gradually become the policy development arm of the G20. Along with the IMF’s FSAP, the periodic peer reviews undertaken by the FSB are what help to give the G20 its minimal degree of policy traction over members (Nolle 2012). It is now empowered as the core coordinative body for global financial sector reform, and mandated to develop a series of new financial standards, which G20 members are, in theory, obliged to implement.

Some Chinese scholars view the creation of the FSB as being motivated by not only the desire of the United States to repair international financial regulation, but also an attempt to maintain US dominance in the global financial system (Task Group of the Institute of Finance and Banking at the CASS 2009). The finalization of Basel III, a comprehensive international framework for strengthening bank capital and liquidity standards approved at the Seoul G20 Summit, marked the successful creation of a new banking regulatory framework by the G20. With its eventual adoption, the United States will realize one of its major foreign economic policy objectives. The United States continues to be the leading force in driving the development and enforcement of global financial standards in other areas (Li 2013). On this issue, China accepts reality and does not seek to challenge the dominance of the United States. China regards itself as still in the process of deepening its knowledge of international financial regulation. To use a popular Chinese phrase, by joining the FSB, China underscored its continued process of “linking up with the international track” (yu guo ji jie gui) on international regulation. China participates actively in the work of the FSB and the various standard-setting bodies whose work the FSB coordinates. China’s engagement provides an opportunity to promote long-needed domestic financial reforms. Therefore, China’s participation in the FSB represents a chance to learn and assimilate international standards, with the additional purpose of enhancing its own financial system. Recent financial reforms in China connected to FSB policy initiatives include: banks in China are required to set up high-quality capital to reduce the pro-cyclicality according to the requirements of Basel III; solving cross-border disposal of systemically important financial institutions and strengthening crisis management mechanism; developing macroprudential framework and tools; and realizing and maintaining the balance between macroprudential management and microprudential supervision (PBoC 2013). China’s performance in its FSAP review demonstrate its humbleness and willingness to engage as a junior partner on issues of international financial regulation. It will take some time before China can change its current posture at the FSB. This will likely occur once China is able to develop Shanghai into a world-class financial centre.

After promises at the 2008 Washington and 2009 London summits, China underwent its first FSAP review in August 2009 (PBoC 2010). The IMF and World Bank released the report three years later. China considered the first FSAP as a comprehensive and solid “physical examination” of China’s financial system (PBoC 2012). China accepted the broad conclusions and stated that the independent, expert-based nature of the review constituted an important supplement to its own financial stability assessment. China demonstrated to the world that it was willing to follow through on international commitments, as well as the importance it places on increasing the transparency of the Chinese financial system.

**TRADE**

China’s breakneck economic growth since 2001 has been attributed, in part, to its accession to the WTO. China is one of the largest beneficiaries of economic globalization and multilateral trade regimes. In many ways, China’s position has evolved to become a compliant and active member, shifting from a challenger of the multilateral trade regime in earlier times to a sustainer. As the biggest country in trade volume, China needs to promote and maintain an open and stable world market and convince the world that an open multilateral trade arrangement is in the interests of every state. President Xi Jinping (2013) called for all countries to take efforts to “maintain and develop an open world economy” at the 2013 St. Petersburg summit — reflecting China’s growing concern over nascent protectionist proclivities in the global economy.

On the trade front, China’s major concern is the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership, two regional FTAs the United States is spearheading. One of China’s frustrations with these two FTAs is that the high intellectual property, labour and environmental standards effectively preclude the participation of China and most of the emerging economies. Faced with the prospect of further balkanization of the global trading regime, some Chinese scholars have suggested the need for further efforts to promote a comprehensive resolution to the Doha Round
of WTO negotiations under the auspices of the G20 (Wang 2013; Huang, Feng and Kai 2013). Compared to the active participation of the IMF and World Bank in the G20, the WTO is largely absent. China needs a strong and assertive WTO, reformed for the twenty-first century, which emphasizes both development and new rules and issues in trade and investment, such as service trade liberalization, high standards for investment liberalization and investor protection, as well as competitive neutrality (ibid.).

More engagement with issues and rules concerning global governance could push the WTO out of its current “splendid isolation,” and avoid it being marginalized in global governance and helping to maintain its authority and effectiveness in the global trade agreements.

China has common interests with the United States concerning anti-protectionism. However, the two countries appear to spend more time accusing one another of protectionism than working together. In the future, the G20 platform could be used to exchange information and coordinate positions on the TPP between the United States and China.

DEVELOPMENT

China’s position as the largest developing country has meant that it has had a natural interest in addressing development issues through the G20. At the 2010 Seoul summit, development was formally put on the G20’s agenda. The Seoul Development Consensus was created and endorsed by the G20 leaders. This change marked the G20’s important transition from an emergency response mechanism to a global steering body. Promoting development issues in a substantive fashion will inevitably require the mobilization of very large financial resources. China will have to evaluate the advantages and disadvantages of such action and then decide the level of risk it is willing to bear. The first of the nine pillars in the Seoul Development Consensus — infrastructure — would be the ideal area for China to champion in the G20 (through infrastructure investment and multilateral financing).

At the 2012 Los Cabos summit, infrastructure investment financing was raised by some of the G20’s emerging market members. Infrastructure investment is a pressing policy concern for both developed and developing G20 members. China should take the lead in designing an infrastructure investment initiative in the G20. This would benefit China in three respects. First, huge foreign investment — in either RMB or US dollars — would provide an outlet for excess Chinese savings, other than through costly FOREX reserve accumulation. RMB-based investment would also increase the supply of offshore RMB and thus support the internationalization of the RMB. Second, it would help increase the export of equipment, labour, and other goods and construction materials, thus facilitating an outlet for China’s excess capacity. Third, infrastructure investment as a form of aid would help improve China’s international image, helping to guarantee resource and energy security and strengthening economic and political connections with the aid-recipient countries (Jin 2012; An 2012).

The availability of capital is a huge problem that developing countries are facing in the aftermath of the global financial crisis. Multilateral development institutions, which are among the most important providers of development aid, have little capacity to expand lending following the large-scale expansion of commitments in response to the crisis. Unfortunately, disagreements between members and both a lack of institutional strength and the low priority granted to the G20 Development Working Group (co-chaired by the troika presidency and a developing country) have undermined constructive discussions on this issue (Brodie 2013; Schulz 2011). The working group is thus seemingly restricted to being a harmless discussion forum attempting to reach a common understanding about good practices (Carin 2013). A large-scale unilateral contribution from China to finance global infrastructure could potentially bring in additional capital from public and private sources from developed countries. This would be an ideal opportunity for China to position itself as a leader among developing countries. China’s image within global governance would also improve greatly. Channelling resources through multilateral development institutions could also play an important role (Huang, Feng and Kai 2013).

ENERGY

The G20 has the potential to be a strong platform for deepening global resource and energy governance, as its members include several of the major energy, food and commodity producers and consumers. An effective global governance framework covering energy policy, market structure and security of transportation corridors would greatly improve welfare outcomes globally. Past G20 meetings have come to several important decisions regarding energy cooperation and related issues. For example, the 2013 St. Petersburg summit put promoting stable global energy markets on the main agenda, committing the G20 to strengthening the Joint Organizations Data Initiative (JODI) on oil, by ensuring greater visibility and more complete and comprehensive

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26 The term competitive neutrality stems from guidelines for public sector businesses issued by the Australian Finance Ministry in 2004. The principle of competitive neutrality is designed to ensure that public sector businesses do not enjoy “net competitive advantages over private sector rivals simply by virtue of their public.” Within the context of the G20, the term is used to denote issues surrounding the activities of state-owned enterprises. See www.finance.gov.au/publications/finance-circulars/2004/01.html.

27 The nine pillars are: infrastructure, private investment and job creation, human resource development, trade, financial inclusion, growth with resilience, food security, domestic resource mobilization and knowledge sharing. See www.g20dwg.org/.
data, and promised to launch the JODI-Gas initiative at the earliest possible date. The summit also focused on promoting energy efficiency, inclusive green growth, energy security, the phasing out of inefficient fossil fuel subsidies, investment in energy infrastructure, and promoting renewable and/or nuclear energy.

At present, however, a formal cooperation mechanism on global energy issues has yet to materialize. A consensus on energy cooperation in the G20 would help pave the way to an even more comprehensive mechanism involving the United Nations and other relevant energy organizations.

China is now one of the most significant energy consumers in the world and its expected rate of future economic growth will only increase the size of its footprint on international energy markets. In line with the principle of mutual benefit agreed at the fifth World Future Energy Summit in Abu Dhabi in 2012, Chinese Premier Wen Jiabao advocated establishing a global energy market governance mechanism composed of the largest G20 energy producers and consumers. Under such a framework China hopes that fair, reasonable and binding international rules could be developed and early warning mechanisms, price coordination, financial supervision and emergency mechanisms could be built through consultation and dialogue.

China understands the significance of the G20 as a platform for promoting effective governance on the global energy market and will likely seek to improve on Wen’s initial proposal. Scholars in China argue that the country should embrace the idea of global energy governance and explore avenues for Chinese leadership (Yu 2013; Chen 2012). China has an opportunity to take advantage of its influential status as one of the world’s largest energy consumers and lead the establishment of a multilateral cooperative energy mechanism in the G20. Such a mechanism could facilitate cooperation between the major energy powers through a variety of existing multilateral institutions. For example, greater coordination with Russia could occur through the Shanghai Cooperation Organization, with the BRICS countries in the BRICS meetings and with US and European countries in the G20 (Huang, Feng and Kai 2013). Coordination with the United States on a global energy cooperation mechanism in the G20 would be in the interest of both China and the United States. China, for its part, needs to revisit its strategy on overseas energy supply, and consider the possibility of joining with the United States to contribute more actively to safeguarding the global energy supply — including through improving the security of the major sea routes for oil transportation.

### Institutionalization of the G20

Some Chinese scholars suggest that China should promote greater institutionalization of the G20. In this way, the G20 could achieve greater legitimacy and enforcement capacity. Setting up a permanent G20 secretariat is a key step (Wang and Li 2012). According to some experts, current weaknesses in the forum should be addressed by the “establishment of a permanent secretariat for the G20 in order to implement proposals agreed upon at summits and give emerging countries a greater voice” (Chen 2013).

There are, however, opposing voices among Chinese scholars. For example, Zhu (2012) argues the capacity of the G20 to build political consensus among the developed and emerging economies rests in its informal character. The institutionalization of the G20 does not have to entail the creation of a formal treaty-based organization. Part of the G20’s appeal is its ability to serve as a node between various other IFIs — some scholars refer to the G20 as the compounding mechanism. They underscore the role of the G20 as an informal platform for dialogue between national leaders, with the IMF, World Bank and the WTO as the main enforcement organizations for decisions reached by the G20 (Zhu 2013). Through the summits and the political will brought to bear by leaders, the G20 has been able to exert strong influence in getting international organizations to serve its needs. This is why the G20 should not set up a permanent secretariat — it would lose the strengths it derives from its informal and flexible character. The proposal of a “non-secretariat” is precisely what the G20 needs to maintain its requisite informality, flexibility and political control (Carin 2014).

This latter viewpoint now appears to be gaining the upper hand in the debate on the institutionalization of the G20. Official Chinese opinions on the institutionalization of the G20 are rare. However, a view expressed by He Jianxiong, the director-general of the International Department of the PBoC, suggests that Chinese leaders may be becoming accustomed to the G20’s informal characteristics. In particular, many of the major international economic organizations struggle to coordinate with each other and also lack direct involvement from the leaders (i.e., heads of government) of their major stakeholders. The G20 is a high-level political platform that is able to push these major international organizations by presenting new issues to be addressed or providing political support for previously discussed issues. Taking these issues into consideration, the main suggestions put forward by Chinese scholars are: insisting on the continuation of the current informal leaders’ summit, which offers an opportunity for direct engagement by G20 heads of state/government; improving or institutionalizing the troika

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29 He’s comments are available at http://jingji.21cbh.com/2013/8-24/1MNjUsXzc0ODg1Mg.html.
by establishing a formal bureau; pursuing consistent and effective engagement with other international institutions; and improving compliance with past commitments by continuing to promote the peer review and peer pressure (i.e., “naming and shaming”) components of the MAP (Zhu 2012).

**CONCLUSION**

The Chinese leadership places great importance on G20 summity, and will likely continue to contribute positively to maintaining the G20’s status in global governance. Reflecting the expectations of many foreign scholars and officials, however, China believes that its role in the G20 should be driven by the goal of becoming an important, equal and respected partner, not of playing a leading role. There are many reasons for China’s reluctance to lead the G20: positioning itself as a weak financial power without the required capability and talents in global economic and financial institutions; lacking a global vision; and continued worries that by playing a leading role in the G20 the country could become trapped by the US-led Western countries, which China believes aspire to place disproportionately heavy responsibilities on it and ultimately constrain its rise.

China’s future participation in the G20 depends on its relations with the United States and vice versa. Stable Sino-American relations facilitate cooperation between the two countries in the G20. In China’s view, the G20 is a perfect forum for building relationships between major powers, as it provides an excellent platform for China to coordinate, negotiate and cooperate with the United States and other major countries on the reform of the international financial system and other global governance challenges without risking direct confrontation. Therefore, China’s first strategy in the G20 is to participate actively in the G20 summits, but not to challenge the United States, especially the US dollar’s dominance in the international financial system.

Domestic and foreign voices continue to appeal to China to play a leading role in the G20. Whether China will seek to host the 2016 summit and play a leading role in the G20 will hinge on internal debates over China’s position within in the forum, its broader role in global economic governance and its relations with the United States in the coming years.

The agenda suggested by some Chinese scholars indicates that they do not show global vision when discussing China’s role and agenda in global governance. It is important that China try to set an agenda that reflects China’s interests, but more work needs to be done on how to accomplish this. It is obvious that China’s national interests are listed as the top priority and multilateralism is subordinate to this purpose. However, it is important that China forge an agenda that reflects the common interests in global economic governance and it is necessary for the country to dedicate greater efforts to the creation of a global vision of its interests.

In the near future, China’s agenda in the G20 will continue to focus on financial issues, such as macroeconomic coordination and the reform of the international financial and monetary system; in particular, governance reform at the IMF and having the RMB placed in the SDR basket. China understands the advantages the G20 can provide as a platform for advancing these goals. Other agenda items, such as trade, energy, infrastructure investment financing and multilateral institutional financing will likely be given greater emphasis if China does host the G20 summit in 2016.

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