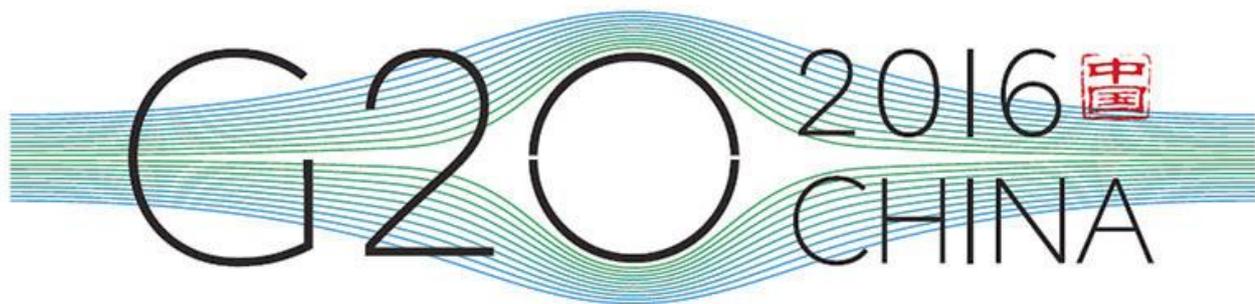


The G20's Challenges and China's Leadership Opportunities for the 2016 Summit

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As the world's premier forum for global economic governance, the Group of Twenty (G20) achieved widely acclaimed progress in containing the 2008 global financial crisis. However, as the G20 shifts its focus from crisis response to long-term economic governance, it also faces multifaceted challenges and doubts of its effectiveness have grown. With all eyes on the G20 Hangzhou Summit this September, how to address these challenges and tap into the G20's potential to upgrade global economic governance has been high on China's agenda.

I. Mounting challenges for G20

The G20 faces both demand and supply side challenges. The demand side challenges are threefold:

- First, the international economic landscape is increasingly complex, making effective governance more difficult. Situations in advanced economies are expected to improve, whereas growth is slowing in the majority of emerging and developing countries. Most significantly, the Chinese economy is widely expected to adjust to a “new normal,” with growth forecast to decelerate to little more than 6 percent in 2016. Developments such as monetary policy adjustments and the volatility of commodity markets in major economies could also hurt the performance of the global economy. As Christine Lagarde, the International Monetary Fund (IMF) managing director, stated, the world economy may be stuck at a “new mediocre” for quite some time for long-term cyclical and structural reasons. In the meantime, it is also widely expected that the U.S. Federal Reserve's decision to raise interest rates and the subsequent appreciation of the dollar will bring greater volatility to global capital markets, making it more difficult for the G20 to stimulate growth and maintain market stability.
- Second, as the global economy struggles to sustain its fragile recovery, a number of leading economies are pursuing diverse macroeconomic policies, many of which are fragmented and at times, conflicting with one another. But this bifurcation is a symptom rather than the root cause, which lies in the growing mismatch between the dynamic economic power reconfiguration and the capacity of existing norms and institutions to govern the global

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economy. To minimize negative spillovers and increase the likelihood of achieving a holistic effect, economic powerhouses need to collectively strategize and coordinate their respective policies, yet this type of collaboration is lacking.

- Finally, economic development and security agendas have become so inextricably interwoven that only an integrated approach can prove effective. Inequality is rising—1 percent of people held 48 percent of global wealth in 2014. Rising social inequality is increasingly recognized as an obstacle to growth. Climate change and environmental degradation are also believed to threaten sustainable development. Geopolitical conflicts and crises, such as the Syrian and Ukrainian crises, the Paris terror attacks, and the European refugee crisis have interfered with recent G20 agenda setting. These are not accidental security threats; further analysis indicates that they are closely related to unequal global development. Security issues disrupt the world economy, making it difficult for the G20 to focus on economic governance.

The G20's supply side challenges are also manifested in three distinct aspects.

- First, the G20 suffers from deficiencies in leadership and decision-making. Advanced economies represented by the Group of Seven (G7) seem to be more inward-looking, thereby limiting their leadership role in global affairs. Yet emerging economies such as the BRICS (Brazil, Russia, India, China, and South Africa) are still not competent or ready to assume full leadership. Middle powers like Australia, Indonesia, Mexico, South Korea, and Turkey have played a partial leadership role within the G20 from time to time but fall short of facilitating major progress in addressing systematic problems in the global economy.
- Secondly, this lack of leadership exacerbates institutional and enforcement deficiencies within the organization. The G20 is an international forum, not a treaty-based organization. Since its inception, successive summit agendas have expanded, largely driven by the host nation's concerns. Each host has invariably left its imprint on the G20's agenda. Like the G7, the G20 operates without a permanent secretariat. Its effectiveness therefore largely depends on how well its member states deliver on their promises. There is growing concern about the cohesiveness of the G20's agenda, the group's efficiency, and whether the group can carry out meaningful reforms.
- Lastly, the G20 also faces issues of representation illegitimacy. The G20 is more representative than the G7, but it still excludes most other nations in the world. Decisions taken by the G20 on issues such as financial and tax reform are sometimes reproached for their negative impact on non-G20 economies and the global economy at-large. United Nations (UN) officials are invited to attend G20 summits, but the UN as a whole, unlike the EU, does not enjoy full G20 membership.

II. China's Leadership Role in 2016

As the host country for this year's G20 summit, China can play three leadership roles—bridge-builder, facilitator, and catalyst.

China can act as bridge-builder by merging the divergent interests of developed and developing economies, coordinating new and established institutions to ensure compatibility, and integrating domestic agendas into global ones while strengthening international cooperation.

The G20's agenda keeps expanding because of the diffusion of world power and the proliferation of challenges. The question is how to streamline the G20 agenda setting process in a more coherent manner that still responds to the most important challenges to global governance. The G20 is a loose forum without formal organizational structures or, as noted above, permanent staff. Its agenda setting is mainly driven by the host country without rules or limits, posing a challenge for G20 continuity and accessibility. As the role of the G20 shifts from crisis response toward longer term global economic governance, it is advisable to draw a medium-term plan, such as a five-year roadmap, to focus the group's priorities and guide agenda setting across several host countries. China can work with other stakeholders to help converge members' interests to articulate such a plan.

China can also serve as a facilitator to advance the implementation of past policy commitments. One of the most significant areas is to shore up long-term growth. The year 2016 is the halfway point of the G20 agreement to boost output 2 percent by 2018. A key juncture in the G20's efforts to implement global growth strategies, originally outlined in 2014, was the first annual IMF/OECD (Organization for Economic Co-operation and Development) progress report delivered to leaders in Antalya in November 2015. Chinese leadership will be essential to ensure that G20 members respond positively to the findings and actively search for new policy commitments, including an approach for improved infrastructure connectivity and a new vision for a global trade and investment regime. China will need to ensure that the G20's commitments are not just rhetoric.

Another great opportunity for China's G20 presidency will be the implementation of the post-2015 development agenda. Recognizing its importance for global economic growth and stability, Chinese President Xi Jinping has highlighted this task as one of the four priorities for the 2016 Hangzhou Summit. China's 2016 chairmanship can drive progress by formulating a roadmap and timetable for the implementation of the post-2015 UN Sustainable Development Goals and the Paris climate change agreement (PDF). The G20 needs to use its comparative advantages in political leadership to ensure its members work toward implementation of these commitments.

Finally, China can act as a catalyst for innovation-based global economic growth. China's

development experience is profoundly valuable for the international community as a whole. The country's new five-year plan focuses on comprehensive innovation as the primary driving force for China's own economic restructuring. China could work with other G20 members to garner support for the promotion of innovation—including technological revolutions, industrial transformation, and green growth—thereby providing even more positive spillovers for the world economy.