Chapter 7
How G20 Can Better Support Global Governance?—A Chinese Perspective

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Abstract G20 will be the most important and the most representative global governance platform in today's world and for the foreseeable future. It should enter a new phase in its institutional development, moving beyond crisis management towards robust governance including establishing a permanent secretariat in decision-making and a setting up rules, more inclusiveness, effective policy coordination and equal and just rights of participation. The recognition of the relevance of civil society and business organizations for global governance is one step forward. The importance in the world economy and the broadly representatives of developing countries both indicate that E11 has a huge space of internal cooperation. Actively promote the internal cooperation of E11 can apparently create win-win situation between developed and developing countries and improve the efficiency. In E11, China is still a new player on the international stage and not the rule maker. Given the risks and problems of the Chinese economy, China needs to adopt a series of macroeconomic measures, including fiscal, monetary, taxation, financial and industrial policies to maintain exchange rate basically stable, prevent the inflow of hot money, contain credit binge, curb inflation, expand domestic demand, stabilize external demand, promote economic restructuring and adjust income distribution. In the next decade China's basic attitude to global governance is to minimize the loss, not maximize the benefits. How to ponder and understand the relationship between the partial and the overall, the long-term and the short-term international obligations and right, and what kind of a global governance structure is most consistent with China's long-term development targets, are all challenging problems that China faces in future.

Keywords Global governance · International organizations · Financial stability · Global unbalance · Sustained development

Y. Zhang, *Reform, Opening-up and China's Changing Role in Global Governance*,
https://doi.org/10.1007/978-981-33-6025-9_7

7.1 Global Governance: A Global Public Good Approach

1. **The concept of global governance**

Globalization brought along a new form of governance. The idea of global governance became increasingly popular in the last decade despite the fact that its importance is a variable of the geographic area or the issue discussed.

The global governance and international organizations vary greatly: firstly, global governance comprises of a large variety of international actors, not just visible aspects of world political and economic authority (United Nations, World Trade Organization, International Monetary Fund, World Bank Group etc.), but also intergovernmental forums, even the quasi-formal ones like G-8, World Economic Forum, state groups, organizations (UN's Global Compact, International Labour Organization), private organizations (International Chamber of Commerce), privatemilitary forces (Sandline International, Executive Outcomes), nongovernmental organizations, transnational religious groups, terrorist organizations, political movements, financial markets, global law firms, multinational companies etc. Secondly, it is important that the way in which international actors associate to manage a wider and wider panel of political, economic or social issues. From this point of view global governance can be considered a multitude of associative forms between global, regional, national or local partners. Therefore, global governance does not only suffice multiplying actors or power organizations, but it is also defined by the way all these interact.

The principles of good governance can be observed as follows (Coolsaet and Arnould 2004):

(1) Global governance is not a world government. It is not about creating strongerinstitutions. It is about raising coherence, efficiency and legitimacy of the existing ones, about identifying and filling the gaps of multilateral institutions and that in the law; good global governance creates institutions only where needed.
(2) Must be based on rules and on institutionalized multilateralism. The states are the main actors and they choose to share their sovereignty.
(3) Multi-level approach on all authority levels. Global institutions and mechanisms must not replace similar local, national or regional actions, but complement them. Global integration should be encouraged as a starting point for global governance. The success requires reforms and efforts at all levels: responsibility is not only for the international organizations to bear and must not be used by states to shedresponsibility.
(4) In order to be legitimate, global governance has to be more participative by allowing international non-state actors to play an important part along with thestates. Specialized global governance networks, international organizations, transnational corporations, and civil society are instruments for a larger participation and for creating linkages between all those involved.
(5) Global governance must be democratic by providing an equitable representation to all states and non-state actors together with transparency and accountability.

2. **Global public goods and global governance**

Good governance tries to explain the characteristics of a process, but the object of the process is considered less. The theory of global public goods seems to indicate the object of global governance (Afrasine Laura 2010). At the same time the capacities needed for providing global public goods (efficiently) is the starting point for identifying the actors that must participate actively in global governance to provide these goods.

A classification of global public goods can be the following one (Coolsaet and Arnould 2004):

(1) International stability and security—the stability of the international system; the responsible powers have to establish a rule-based regime regarding use of force (all states must refrain), proliferation, terrorism, organized crime;
(2) An international law order: the existence of an international society depends on the existence of shared values, common laws and rules; the rules and the institutions exist, but the deviations are frequent and that is why a new approach is needed: a growing importance of law and law institutions at national level, human rights monitoring systems, responsibility to protect (R2P), a permanent dialogue between civilizations and cultures;
(3) An open and inclusive economic system—eliminating inequalities;
(4) Global welfare similar to national human security systems;
(5) A shared commitment to resolve regional and internal conflicts.

Globalization implies the emergence and development of global public goods. The major problem in the current international economic system of governance without government is that no effective means exist for assembling the necessary resources for financing these global public goods.

7.2 Key Global Governance Issues in the New Stage: Financial Stability, Global Unbalance, Sustained Development

The world economy stands at a critical juncture. Global trade, global production networks, and global finance have now reached a scale, degree of complexity, and speech of change that they have become harder to model or predict.

Financial crisis promoted global governance to a new stage. Since the Seoul Summit in November 2010, global economy has continued to recover, gradually moving towards the goal of strong, sustainable and balanced growth. However, the global recovery is still not firmly established and remains uneven. Global economy is facing the following major risks (Figs. 7.1, 7.2, 7.3, 7.4, 7.5 and 7.6). First, major advanced economies are inflicted with sluggish growth, persistently high unemployment, slow progress in fiscal consolidation and financial sector repair and reform. The risk and shadow of European sovereign debt crisis have not been dispelled.

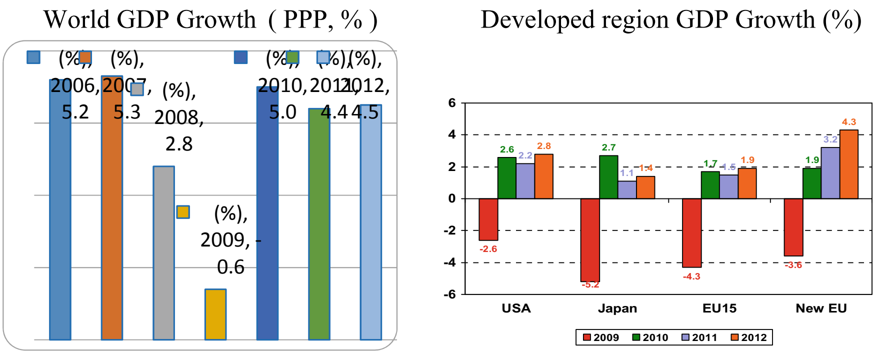

Fig. 7.1 Developed countries continue to hamper the recovery. *Source* IMF, WEO

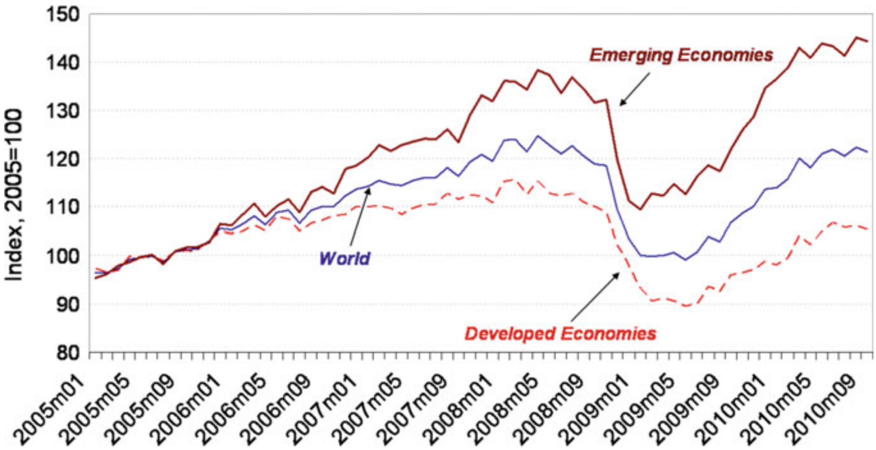

Fig. 7.2 International trade situations

Second, the earthquake and nuclear crisis in Japan and the events in the Middle East and North Africa added new instable and uncertain factors into global economy and financial markets. Third, commodity price hike heightened inflationary risks in emerging markets. Fourth, monetary policy directions of major economies diverged. Volatile short-term capital flows may inflict new financial and economic risks.

The trend toward a multi-polar world is irreversible and dominant. The global economic structure is undergoing a historic transfer of power to the developing world in the wake of the unprecedented financial and economic crisis. The importance of Brazil, China, India and other countries lies in their future economic potential that is already being translated into present political weight. We are seeing a major global rebalancing of economic, political and even moral relations between the West and the rest.

And globalization is still active in spite of rising trade protectionism worries and some certain influence from the crisis. However, the collapse of the global financial

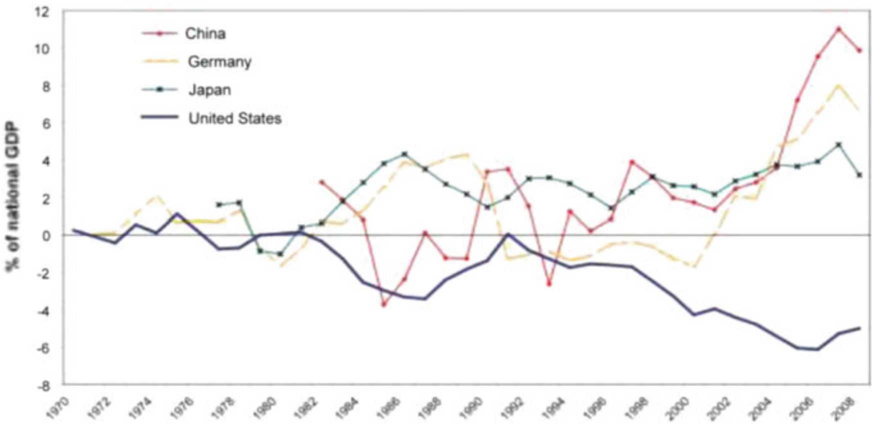

Fig. 7.3 Current account balances as % of national GDP, major countries, 1970–2009

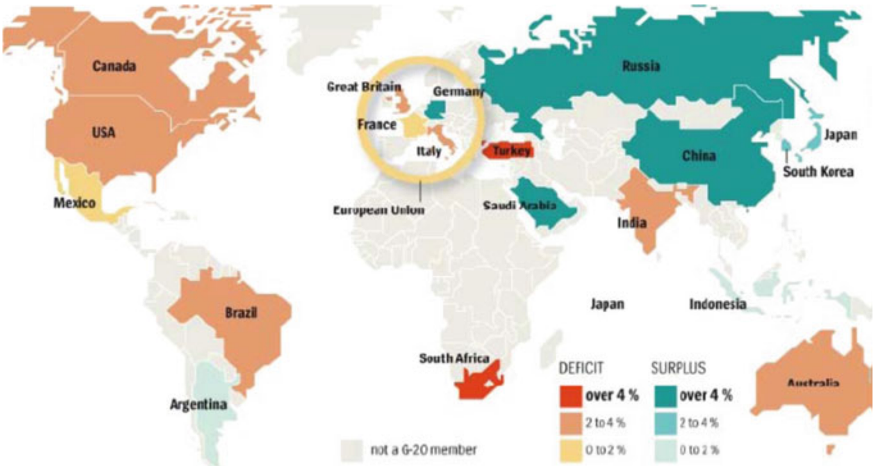

Fig. 7.4 Trade balances of G20 Member states (2010, as a percent of GDP). *Source* IWF

system and the worldwide synchronized economic downturn, the growing divide between poor and rich within and between countries, the risk of unabated global warming as well as the energy and food crises weave all nations into a global risk community. The international agenda is growing more complex and demanding.

To shape globalization, to manage global systemic risks and to strengthen international stability and prosperity requires new cooperative frameworks. Main motivations come from two aspects: one is the crisis highlighted defects of the original management system, and calls for change; second, the successful cooperation of all countries in dealing with the crisis and the profound reflection of the crisis provide the possibility to construct a new framework for global governance, like G20.

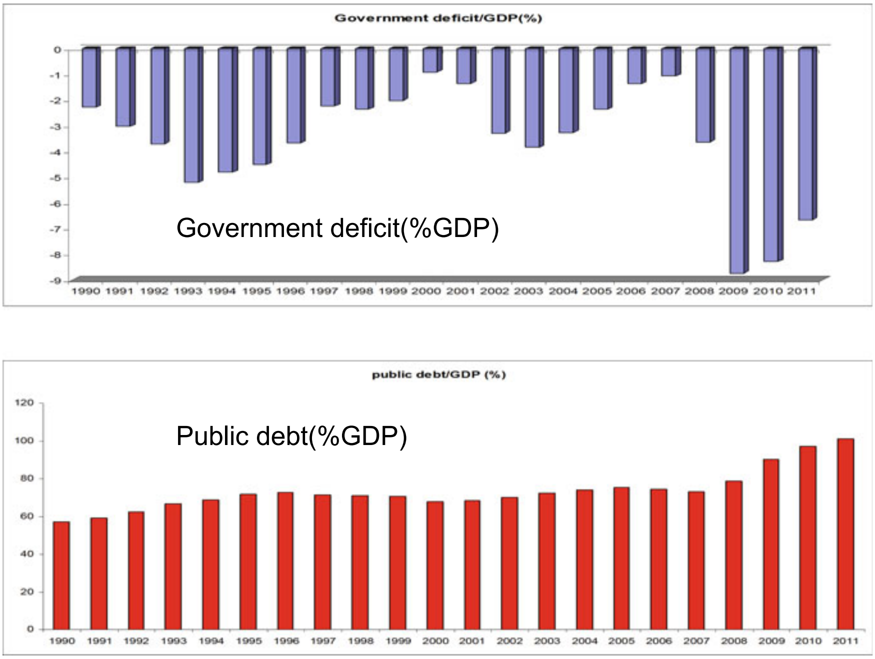

Fig. 7.5 Debt problem continues to worsen spread

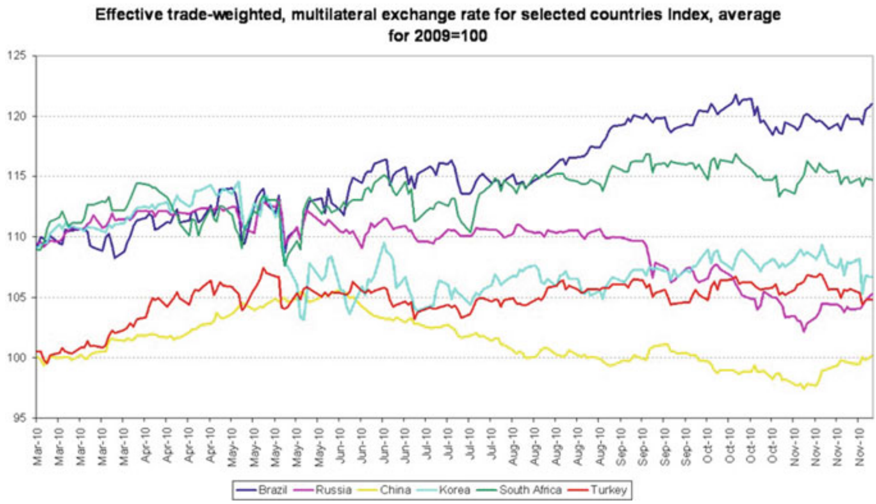

Fig. 7.6 Currency appreciation pressure on emerging economies

7.3 Role of the G20: A New Framework for Global Governance?

The G20 emerged partly as a result of political pressure on world leaders to 'do something' about the global financial crisis. But it also was a response to the absence of international institutions where international coordination could take place quickly on issues including fiscal and monetary policy, financial regulation, and development financing.

1. **Role transformation of the G20 in and after the crisis: crisis management to promotion of sustainable growth**

The Group of 20, usually known as the G20, has since its formation in 1999 demonstrated its potential as the major international economic forum. In September 2008, the group was elevated to the level of leaders in view of the size of the challenges posed by the financial and economic crisis, which was later dubbed the Great Repression. So far, G20 leaders have met in Washington in 2008, in London and Pittsburgh in 2009 and in Toronto and Seoul in 2010. With respect to the scope of G20 issues, the top priority at its first three summits was to stave off a crash of the world economy and then evolve to post-crisis management and the promotion of sustainable growth when having helped manage the crisis in the recent two summits.

G-20 leaders focused their international reform agenda on regulatory issues during their first two summits. The financial crisis promotes the global governance to enter the new stage. At their first meeting in November 2008, the G-20 leaders committed to using fiscal measures to stimulate domestic demand to rapid effects. This commitment helped to catalyze new fiscal initiatives in many countries, including in emerging countries, such as China, which announced a large fiscal stimulus programme at this time. At their second summit in London in April 2009, the G-20 leaders went much further, supporting not just national fiscal and monetary expansion, but also a 1.1 trillion US dollar programme to help jumpstart the world economy. Alongside these decisive initiatives relating to crisis management, the G-20 leaders immediately launched a forward-looking international reform agenda.

As the global economy reorients itself, G20 had also begun to address global imbalances by the time of the third Pittsburgh summit in September 2009. The Framework signals a welcome commitment to strengthening international macroeconomic cooperation and a move towards a more balanced pattern of global growth. This appeared to mark an historic break in the character of global economic governance: downgrading other forum (such as the G7) and subordinating others (such as the IMF and various international standard setting bodies) to the new and upgraded G20.

In post-crisis era, the G-20 is also in a strong position to expand its mandate as the window of support for tackling a wider set of global problems beyond economics by targeting a key set of global public goods—climate change, food security and global health. The fifth summit of the G-20, in Seoul, marked a new step in the reform of the international economic order. The main progress in South Korea was reform of the governance of the IMF, giving greater weight in decision-making to emerging and developing countries. Additionally, more emphasis was placed on concluding the Doha Round of the WTO talks in 2011, with a more assertive accent, and a specific development agenda with drive of its own, called the Seoul Consensus, has been set as a new front for the G-20.

2. **The G20—will be a robust and sustained global governance model?**

(1) **Top-level configuration and strong influence**

The G-20 as the primary forum for international economic cooperation at the level both of leaders and of finance ministers has been the impetus behind very significant changes in the international economic order. The G20 is more like a board of directors, and its shareholders are the world's largest 20 countries. The board made some significant decision-making, especially some political decisions, then let specific institutions implement. The G20 represents a major attempt to rebuild the global regulatory infrastructure that is necessary for global markets to function. The G20 has mobilized both national and international fiscal stimulus packages, and served as a catalyst for a new regulatory regime. Further, the G-20 has also promoted change in three multilateral pillars of the international economic order that were designed under the Bretton Woods accords, and also adds a new one on financial regulation and oversight. These are illustrated in Fig. 7.7.

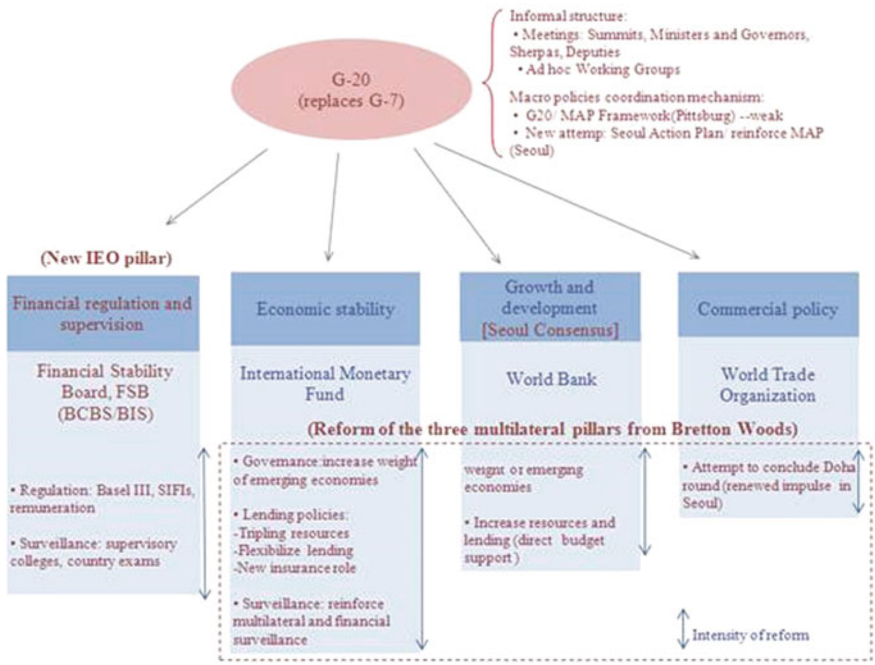

Fig. 7.7 New International Economic Order from 2009

(2) **Broad representatives**

The G20 bring industrialized countries and most important emerging economies into discussions of coordination and agenda-setting by providing a flexible, confidential, and non-bureaucratic forum within which the most important economies can exchange views, build consensus, and issue directives to international organizations in a single voice. The G20 economies comprise 85% of global gross national product, 80% of world trade (including EU intra-trade) and two-thirds of the world population, proving itself valid enough to be recognized as a leading force of the world economy. The G20 is a more representative forum than its predecessor, the G8. It has consecrated the rise of important new economic powers like the BRIC countries, and makes abundantly clear that the world is moving toward a more multi-polar world order.

(3) **Rebalance of world power**

The make-up of the G-20 more accurately highlights the economic potentiality and increasing influence power of developing countries as a whole in the global economic business and reflects the structural shifts in global power at the start of the twenty-first century (Fig. 7.8). In the G20, there are 11 developing countries, which we name E11 (Argentina, Brazil, China, India, Indonesia, South Korea, Mexico, Russia, Saudi Arabia, South Africa and Turkey). In 2008, E11 population totaled 3.412 billion, accounting for 51% of the total world population, is the 4.55 times of G7 + AUS total population (7.5 million), and 3.48 times of G4 + EU total population (9.8 million). Among them, China and India are the two most populous countries worldwide and their total population in 2008 reaches as high as 1.327 billion and

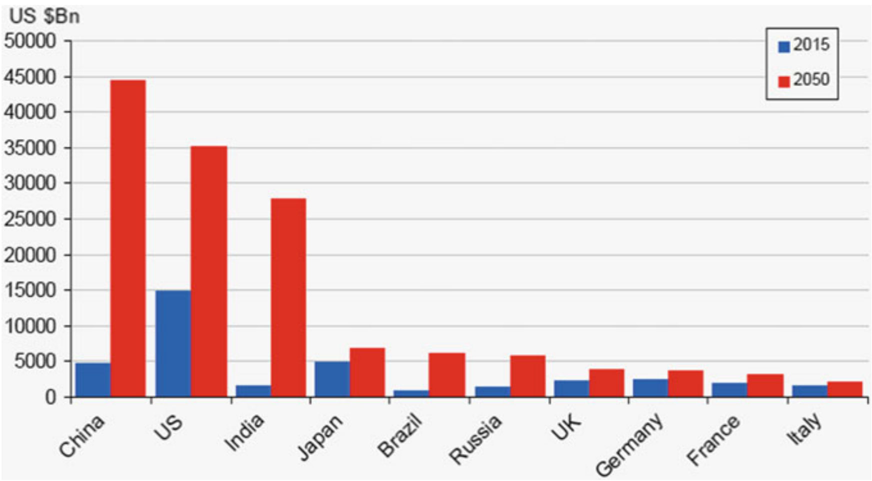

Fig. 7.8 The predicted shift in the economic balance of power. **Source* Goldman Sachs 2009, Global Economics Paper 192, 'The long-term outlook for the BRICs and N-11 post crisis'

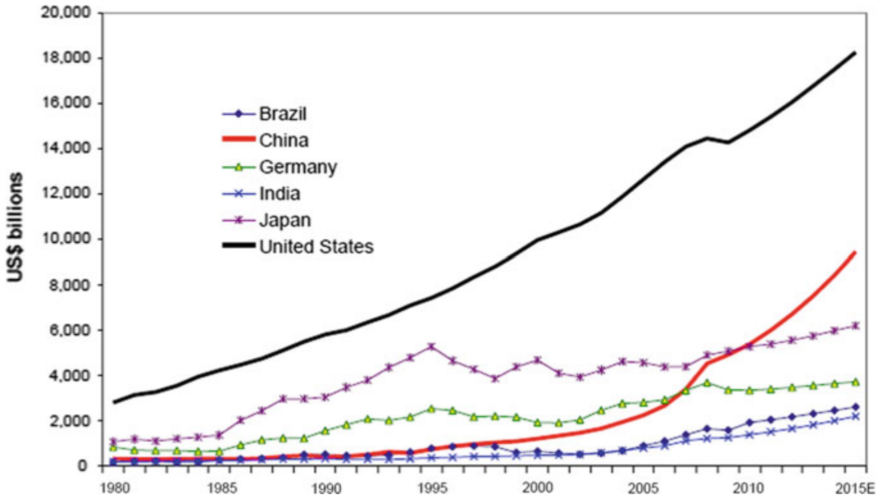

Fig. 7.9 Major national economies, GDP in current $dollars, 1980–2015. *Source* IMF, World Economic Outlook Database, April 2010 (estimates after 2009)

1.186 billion separately. In 2009, E11's combined GDP are 12.78 trillion dollars, accounting for the 22.1% of world share, and G7 + AUS for 55.2%, G4 + EU for 66%. This means that the GDP share of E11 is almost equal to at least the rest 173 economies of the world. And with the lapse of time, some emerging countries even exceed some moderately developed countries out of America and Japan, or with who is neck-and-neck (Fig. 7.9). In international trade, from 2000–2008, E11 import and export growth obviously surpasses the actual growth of real GDP; the E11 trade-GDP ratio is 63.4% in 2008, almost twice of G4 + EU (34.6%); in 2008, E11 accounts for 23.2% and 19.8% of the world cargo export and import, 13.2% and 16.9% of the world export and import in services, and has become the world's main trading countries (Fig. 7.10). In the international investment, E11 financial accounts gross asset reaches as high as 5.6 trillion U.S. dollars, and capital inflow on the stock to E11 has reached 6.5 trillion with various forms of securities investment or direct investment, etc. Meanwhile, E11 also has 47% of the world total foreign reserves (2008), which is nearly 8 times of ten years ago (1997). From a proportion of international capital flows to GDP, E11 before the crisis has reached a high level of 3.88%, mainly for foreign direct investment and foreign loans, and only less than one-fifth of foreign investment in securities.

(4) **Efficiency and authority**

Effectiveness and legitimacy are the two terms global governance reform needs to resolved. Through its dual existence, first as a forum of ministers and then as a leaders' summit, the G-20 has shown itself to be capable of robust action. The G-20 leaders' forum played a catalytic role in fostering closer cooperation in crisis management. Although ostensibly a network with no formal authority, the G20 has

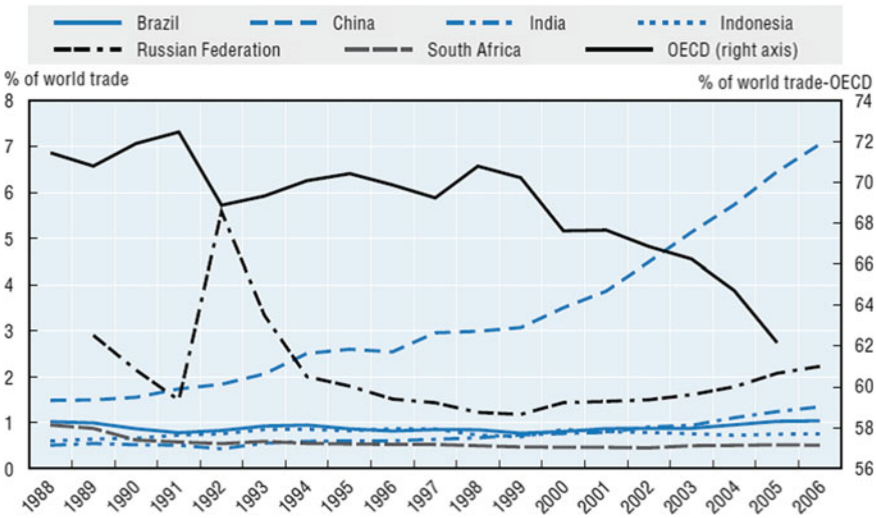

Fig. 7.10 OECD and BR IICS: share in world exports of goods and services. *Source* WDI (2009)

nevertheless made some authoritative decisions, such as the SDR allocation in the IMF and the upgrading of the Financial Stability Forum to the Financial Stability Board. Its informal structure and near-limitless purview provide many comparative advantages over the traditional international institutions. In 2010, the G20 leaders endorsed the agreement proposed by the Basel Committee on Banking Supervision (BCBS), the so-called Basel III, calling on lenders to raise quality, quantity of capital and liquidity and increasing capital requirements for the world's largest banks. G-20 leaders also called on the International Accounting Standards Board (IASB) to "further enhance the involvement of various stakeholders". Following a request by G20 leaders, the WTO secretariat, together with the secretariats of the OECD and UNCTAD, prepares regular reports on G20 trade and investment measures. Four reports have been submitted in G20 meeting till now. They play key roles supporting the G20 with analysis, data and policy recommendations. The OECD and UNCTAD also released a separate report on G20 investment measures. All these make G20 distinguish itself from other global and regional organizations.

Since its launch, the relative success of the G20 in fighting the global financial crisis and averting a long economic recession has grabbed the headlines. It is able to trigger collective action, coordinate stimulus packages and regulate finance. The G20—with its unique combination of top-level political authority and decision-making flexibility—has played a very important role and proved to be the most effective institutional response to the big global governance issue.

7.4 Challenges Faced by the G20 and Way to Reform

From the start, the G20 was designed as a deliberative body rather than a decisional one, but as a forum tailored to encourage the formation of consensus on international issues. While the achievements deserve kudos, much work remains to be done. It should enter a new phase in its institutional development, moving beyond crisis management towards robust governance.

1. **Challenges faced by the G20**

(1) **Mechanism dilemma**

The G20 was modeled on the G7: without a charter, votes, or legally binding decisions, members are supposed to interact as equals. The G20 is only a network—it has no permanent secretariat, no permanent staff, no institutional capacity of its own, and no way to implement policies. G20 work is carried forward by "working groups" of national officials, with a heavy reliance on secretariat functions provided by the host country. These opaque, ad hoc arrangements also contribute to a lack of public accountability. As a result of the lack of a bureaucratic machinery of its own, it must rely on formal institutions such as the IMF and the World Bank as well as other networks such as the Financial Stability Board and the Basel Committees to follow through and implement its. It has only indirect ways to follow up and ensure that its instructions are implemented by international organizations. Moreover, since there is no G20 secretariat and the leadership of the Group changes every year, it is very difficult for civil society to enter into a dialogue and have their critics heard. Especially the post-crisis renewal of the importance of the IMF and the World Bank calls for continued critical monitoring of their role vis-a-vis the G20.

(2) **Lack of legitimacy**

There is no treaty that created the G20. It is a self-appointed directory. Whereas the UN Charter gives some sense of shared purpose, legal and procedural clarity, and a values orientation to the organization's work, the G20, like the G8, is little more than the sum of rolling declaratory commitments. Like G8, some commitments are honored, others are ignored.

(3) **Internal divisions**

By bringing emerging economies into discussions of coordination and agenda-setting, the G20 may strengthen the influence of these economies in global governance. However, this will depend on how those countries use the new forum (or side-forums) to strategize, share information, and coordinate with one another. Internal divisions continue to exist on regulatory issues, preventing the move from being a recession-beater to a steering committee.

(4) **Conflict between inclusiveness and effectiveness**

The Norwegian Foreign Minister, Jonas Gahr Støre, for example, has already questioned the group's legitimacy and called for changes in its membership structure. As most members of the UN are not in the G20, a balance has to be struck between effectiveness and inclusiveness. Although the 'Gs' can play an important role in placing new issues on the agenda and facilitating consensus among major powers, no structure of governance can generate legitimacy as long as decision-making processes are not inclusive. The way in which the membership was defined implies the exclusion of some large countries.

(5) **Competitor or cooperator with other institutions?**

The G20 is often seen by existing institutions as a competitor, wresting authority away from formal bodies such as the International Monetary and Financial Committee of the IMF and the Development Committee of the World Bank. Also, some agree that the G20's task is not to compete with established multilateral organizations, or to rival or replace the newer informal, plurilateral bodies that have emerged. Rather, it is to cooperate with such institutions to govern an interconnected, complex, uncertain world. The G20 has performed best in its relationship with the old Group of Eight (G8) major market democracies. The G20 has also done well in forging a working relationship with a growing array of functional organizations to help analytically support and implement the decisions it has made.

2. **Ways to reform**

(1) **More perfect operation mechanism**

It's necessary to configure and operate the G20 as the hub of networked global governance, including establishing a permanent secretariat in decision-making, and at the same time setting up rules. It's very difficult getting all things agreed within 20 economies, thus in some important decisive things, there should have divisions of roles within countries. Lessons can be taken from the G8 experience of growing inefficiency and fading legitimacy. The G20 should replace the G8 as the grouping that counts, with the UN serving as a universal validator rather than a creaky negotiating forum. No forum can guarantee resolution of clashing interests, but an intimate yet representative group whose members get to know, understand and trust one another is more likely to succeed than the G8 or the UN.

(2) **More inclusiveness**

To increase the effectiveness, accountability, inclusivity and credibility of decisions, the G20 must provide more effective articulation of information and positions from the international civil society, policy research communities, as well as excluded countries. The G20 must be a steering group for the world, not an exclusive club of, by, and for self-interested members. It must complement its core composition with a consultative network that reaches out to other governments as well as business, think tanks and civil society.

(3) **Effective policy coordination**

Take an important issue of "economic imbalances" as an example. World economic imbalance is the reality and has been discussed many times in G20 meeting. Global imbalances are a product of sustained cross-country differences in savings-investment balances. Many argue that global imbalances have therefore persisted primarily because the policies that produce them have deep roots in the domestic political economies of the major countries, and because international power asymmetries have provided incentives to shift adjustment costs to others. In Seoul summit, some developed countries strongly suggest to resolve current-account imbalances by setting quantitative indicators, which are strongly refused by developing world. As we know, there are complex and profound structural causes, including north-south uneven development, the international division of labor imbalances, monetary system imbalance, etc. Current account imbalance is only a kind of surface phenomenon of world economic imbalances, not the root. It requires the spirit of seeking common ground while reserving differences and the spirit of mutual respect, equality, mutual benefit to deal with major global issues. Cooperation is a critical condition for success, and the engagement of major powers is a key factor. The overarching purpose, however, should be to build mutual trust, bring more coherence to what has been defined as 'messy' multilateralism and harness the political capital and resources of major powers while doing so.

(4) **Equal and just rights of participation**

The main task is to increase representation of the developing countries. It is necessary to ensure developing countries sufficient and effective participation in global institutional and systematic arrangements. G20 should increasingly promote the public goods of international financing, such as technology to help cope with climate change or raise agricultural productivity.

(5) **A fair share of responsibilities**

Countries have different roles in global governance as they vary in terms of natural endowment and development levels. We should fully respect and appreciate the capacity of sovereign states for a reasonable division of responsibilities. There are nine developed economies in G20, and eleven emerging economies, namely E11 (Argentina, Brazil, China, India, Indonesia, South Korea, Mexico, Russia, Saudi Arabia, South Africa and Turkey). These 11 emerging economies have some of the same demand and can be seen as representatives of emerging economies. These countries as a whole already have a global impact. E11 is increasingly becoming an important international power no matter in overall economic size, international trade volume, international capital flow or key product output etc. In this crisis, developed economies were heavily stoked, and to the extent the growth prospects are much stronger in the emerging world with its relatively low per capita GDP level, huge population and long-term stable and higher economic growth rate. We cannot deny that E11 is the important beneficiaries of globalization and has also realized the responsibility to take in global governance. But emerging body is still in its development process, with large gap compared to the developed world, it's reasonable that the responsibility should be differentiated between developed and developing world.

(6) **Better to improve G20–multilateral working relationship**

G20 could extend its participation to the UN galaxy's environmental and food-agriculture bodies, given the permanent, prominent part of these issues now occupy on the G20's built-in agenda. The G20 should incorporate the functionally core multilateral bodies into more commitments that it makes. And it should make independent civil society assessments of G20 members' comply with those commitments.

If the expanded membership of the G20 is to reflect the new global order, it must also employ a diverse policy tool kit to address the new global challenges. It must gradually expand to tackle the global issues like climate change, global food security, and global health. It is vital to strengthen existing UN-based professional institutions that have a legitimate mandate to tackle the problems of climate change, climate finance or food security to name a few examples. The G20 needs to see the comparative advantages of the UN, such as: long experience, universality which breeds consent, geographical breadth and substantive breath.

The two institutions are not rivalling, but in fact have unique comparative advantages and can thus complement each other. The United Nations has proven to be a very effective mechanism for consensus building and generation of new ideas and frameworks for international cooperation. The UN, as an institution consisting of 192 nations, can help the G20 on both challenges: it can help to broaden G20's agenda and harness the assets of nonmembers in addressing major problems. The UN can also help the group carry out its decisions more effectively.

By working more closely with the UN, the group can benefit from the UN's broader agenda. Full participation of the UN secretary-general in G20 summits would enable the group to take better account of the full range of UN concerns, from peace and security to climate change and health, from combating poverty to food and fuel security, human development and the Millennium Development Goals. The UN can help in wider and more meaningful implementation of G20 decisions, because they can be communicated among all UN members and addressed in the larger UN context in their implementation.

There are many proposals for strengthening the relationship between the G20 and the UN. Four stand out as promising: the first is to give the UN secretary general a permanent equal status at the G20 table in recognition of current situation in the world: the central challenges are systemically interconnected rather than functionally discrete, and global rather than regional; the second, the chair of the General Assembly could be invited to participate in the G20 summit every year, both to represent the full global community and to expand the diversity of the G20 further; the third, as a reciprocal step, the chair of the G20 summit could be invited to serve as an additional member of the UNSC every year. This could be done using the existing legal provisions that enable a country to be at the UNSC table when the deliberations of the council affect that member; the fourth step is to focus the Seoul and subsequent summits squarely on the full agenda set by the UN's Millennium Development Goals (MDGs) and the extensions such as climate change control and Haiti's reconstruction, recently identified by UN secretary general Ban Ki-moon and the World Bank's Robert Zoellick. By doing so, in the interests of accountability, it gives the G20 summit a multilaterally approved set of targets and timetables in the development and social domains comparable to those it has created for itself in the finance and economic fields.

7.5 Role of China in Supporting Global Governance as a G20 Member

The provision of public goods faces great challenge, the so-called collective action problems, that carried over to the global level through increasing openness and interconnectedness of economies and policy fields. Considering the urgency of solving international problems, it is high time to raise the global awareness of humankind, to maintain public good, to get rid of the drawbacks of the state-centred system and the conflicts between countries over one's own interests caused by these drawbacks. China's current economic status and development trend has let China become an indispensable member. Without China's participation, the validity and representative global governance must be discounted. G20 will be the most important and the most representative global governance platform in today's world and for the foreseeable future. As a member of the equal status with other countries, China is willing to participate and provide public goods for the world.

1. **China's position in global governance**

Many argue that China may take a leadership role in global governance. However, we say that's not correct. China's approach to global governance is to minimize the loss, rather than maximize the benefits. China is reluctance to take on a leadership role in global governance.

There is a perception gap between how China views itself and how the rest of the world views China. In per capita terms, according to IMF, World Bank and human development indices, China is still a low-income, large rapidly growing but still poor developing country. On the other hand, with the aggregate and comprehensive national strength it has accumulated over the last 30 years, China's influence is becoming global and China's status is more complex and straddles.

Chinese government recently unveiled its 12th Five-Year Plan and proposals for transforming economic growth pattern and adjusting economic structure. In the next decade China will continue focus on domestic stability and economic development, rather than maximizing the global benefits. China also raised interest and currency exchange rates, not only in the interests of China but also to strengthen its coordination with other major economies.

For China, the international order is based on the consensus of sovereign counties. Bilateral and multilateral agreements and treaties between sovereign countries are the most important ingredient of the international order. The sovereignty of a national state is inviolable. On the one hand, China accepts the current international order that reflects the political and economic reality after the Second World War in the form of the authority of the UN and the Bretton Wood institutions. On the other hand, China wishes to reform the international order to better reflect the changes since the end of the Second World War. China does not have a problem with the G8, as long as this informal forum has no intention to replace or weaken the authority of the UN or to impose its will on the rest of the world. China has long regarded the International Monetary Fund (IMF), the World Bank (WB) and the World Trade Organization (WTO)/the General Agreement on Tariffs and Trade (GATT) as the three pillars of the world economic order. China has maintained very good relationship with the IMF and the WB, especially with the latter, since the early 1980s.

Although the emerging economies in the G20 members (narrow BRICS or broad E11) have common interest, but whether they can become a mechanism to balance the influence of G7 is still unclear and to a certain extent depends on the future behavior of G7 + Australia + EU. China has no intention to contend with the developed country through the establishment of emerging economy alliance or the coordinated mechanism under the G20 frame.

2. **What China has done since the G20 Seoul Summit**

Since September 2008, the Chinese government has decisively implemented a package of measures in response to the negative impact of the global financial crisis, and achieved positive results.

China's economy received less damage than other major economies from the crisis. Amid the financial crisis, almost every economic stimulus plan launched by China is in the global spotlight. Concerted efforts globally fight against the crisis, especially the huge stimulus plans launched by China and the United States, are a decisive factor in facilitating a reversal of the economic downturn. Through the G20 summit, China has started to take part in international fiscal and financial decision making, a crucial step made on the international stage. For example, China and other emerging economies have raised some proposals in the G20 including setting up a global early warning system for the financial sector, building effective responding and rescuing mechanisms, and most importantly, greater representation for emerging and developing countries within the IMF and the World Bank. China should still take the chance and increase its contributions to the organization to boost China's influence on world financial issues.

The Chinese Government has continued to adopt the policy of structural tax reductions, further optimized the investment structure, increased expenditures on agriculture, farmers and rural areas, development of underdeveloped areas, social programs, restructuring, and scientific and technological innovations, thus promoting the growth of the national economy. In 2010, the national public fiscal revenue increased by 21.3% while the fiscal spending increased by 17.4%. The Central

Government's public investment was 1,071 billion yuan, which was mainly used for agricultural infrastructure, projects to improve the wellbeing of rural residents, social programs including education and health, low income housing, energy conservation and emission reduction, ecological improvement, independent innovation and restructuring.

The Chinese Government has strengthened the management of deficit and public debt, enhanced fiscal sustainability, stepped up supervision over local investment and financing, and reduced the debt risks of local governments. In 2010, the general government fiscal deficit accounted for 2.5% of the GDP, lower than 3%. At the end of 2010, the central government debts accounted for 18% of the GDP, lower than 60%.

The Chinese Government has been energetically promoting an economic growth pattern driven by consumption, investment and export in a balanced way by virtue of policies like increasing spending on expanding consumption, increasing subsidies for urban residents of low income and farmers, continuing to implement the programme of home appliance subsidies for rural areas and subsidies for trade-in old home appliance for new ones. In 2010, domestic demand drove GDP growth by 9.5%, and accounted for 92.1% of the total GDP growth. Meanwhile, the Chinese Government has implemented a proactive fiscal policy, deepened the reform of the income distribution system, and strengthened the social security system, thus ensuring more balanced development between urban and rural areas and across regions.

While focusing on helping itself at home, China is also offering help to boost the world economy by encouraging a raft of new Chinese investment overseas, including £1bn of extra investment in its China-Africa Development Fund. China will increase its investment abroad, but needs a friendly global environment. The world wants us to help more and yet it is suspicious of, and creates barriers to Chinese outbound investment.

3. **What public goods China can provide to better support global governance?**

How to eliminate or reduce China's anxiety regarding global governance (i.e. this concept is used by the developed country leadership to hinder China's development or lets China undertake excessive responsibility), will be a main difficult problem faced by other members of the G20, particularly the developed country member. How to ponder and understand the relationship between the partial and the overall, the long-term and the short-term international obligations and right, and what kind of a global governance structure is most consistent with China's long-term development targets, are all challenging problems that China faces in future.

(1) **Global economic imbalance issue**

The causes of global economic imbalance covering several aspects, like the movement of production factors worldwide and the transformation of industrial division of labor, the deficiencies of the existing international monetary system, macroeconomic policy mistakes of major advanced economies, and widening gap of North-South development etc.

Addressing excessive external imbalance requires concerted efforts of all G20 members. Globally, member countries should promote orderly adjustment of the industrial structure, speed up the reform of international monetary system, and strengthen surveillance over macroeconomic policies of major reserve currency issuing countries. Domestically, a host of measures should be implemented, including fiscal, monetary, financial, trade and investment policies as well as structural reform and development policies.

Continued efforts should be made to promote economic transformation and upgrading, further improve the growth pattern,deepen the reform of income distribution system as well as the fiscal and taxation system, optimize the social security system, safeguard and improve people's livelihood, create a more favorable consumption environment, establish a long-term and effective mechanism to expand consumption, promote domestic demand, maintain stable import growth, restructure and upgrade processing trade, and put in place a growth model which is driven by consumption, investment and export in a balanced manner. In the meantime, China will implement the prudent monetary policy, reinforce the liquidity management, and advance steadily the market-based interest rate reform and the reform of the RMB exchange rate regime.

(2) **Reform of international monetary system**

The rise of the G20 as the current forum of choice to address broad-based global financial issues like those to be discussed in G20 Nanjing monetary seminar reflects changing global power dynamics. It shows how international institutions can adapt to these shifting dynamics. The G20 also pushes a more active role of China and global Special Drawing Rights (SDRs), an international reserve asset created by the International Monetary Fund (IMF) to serve as an alternative to the US Dollar, the de facto global reserve currency.

The reform of the international monetary system (IMS) is a necessary requirement to promote the world's trade and capital flow. The international monetary system should gradually evolve to reflect the major trends in the world economy. The SDR, a quasi-currency used as the Fund's unit of account, is currently composed of the dollar, euro, yen and sterling. The use of SDRs as a substitute for the U.S. dollar as the world's reserve currency is a "realistic option" for reinforcing global financial stability.

China's economy is now the second-largest in the world. Due to China's furious growth, the country is expected to surpass the United States as the world's largest economy by 2030. Adding the Yuan to the basket would make it more representative and credible and could set the stage for the SDR to play a greater role as an international reserve asset in future, thus giving countries an alternative to accumulating huge reserves of dollars. However, the Renminbi internationalization or "yuanization" as well as the international currency system reform (like the expansion of SDR function) etc. might entail the floating of the domestic currency and would shift China's stance to the untenable situation of having concurrently free capital flows, a sovereign monetary policy, and a fixed exchange rate. Thus, China's plan for reforms must carry out over an extended time framework and in a gradual manner. In the process, it's nature that national interests will make adjustments. China still requires the G20 for help and cooperation in dealing with the economic reform.

(3) **Commodity**

The wide and sudden price variations observed on commodities markets since 2007, in particular on oil and agricultural markets, have made commodity price volatility a vital issue for the world economy. Three areas are involved:

Economic growth. Excessive price fluctuations foster uncertainty and disrupt the forecasting abilities of the various economic stakeholders. This uncertainty is exacerbated by the lack of transparency in commodities markets, which in turn makes prices more volatile.

Food security. The food crisis of 2007–2008 and the subsequent rioting, for instance in Haiti and Senegal or more recently in Mozambique, provided dramatic proof of the consequences of fluctuations in commodity prices in developing countries. Such fluctuations particularly affect consumers' purchasing power as well as the earnings of commodity producers.

Financial stability and regulation. The financial markets must provide the means for managing this volatility, by allowing actors to protect themselves against price variations. However, commodity derivatives markets are not covered by a specific regulatory framework that is adapted to the volume of trading that takes place on them (for example, the volumes traded on the financial oil markets are some thirty-five times those of their physical counterparts. In the same way, every year, the Chicago Mercantile Exchange trades the equivalent of 46 times the world's annual wheat production and 24 times the annual production of corn).

The G20 is the appropriate forum to deal with the issue of volatility, given that its members are major stakeholders on both oil and agricultural commodity markets. The G20 countries accounted for 54% of the world's agricultural surfaces, 65% of farmland and 77% of global production of grains in 2008. The G20 examined the issue for the first time at the 2009 Pittsburgh Summit, where the leaders agreed to "improve the regulation, functioning, and transparency of financial and commodity markets". However, few concrete measures have been taken to date. France would like to place the issue of fighting against excessive commodity price volatility at the top of the 2011 G20 agenda.

With the increasing internationalization of China economy, it is conceivable that the extent of China's participation in the global governance will continue to increase. To discuss the commodity price formation and the supply-demand mechanism within the framework of the G20, and at the right moment to enhance the construction of the G20 mechanism, is necessary.

(4) **International trade and protectionism**

G20 has effectively avoided the dangers of global economic sharp decline through clarifying the implementation of unprecedented strength monetary and fiscal stimulus, and stabilized the financial markets, fought brightly for protectionism, committed to the WTO Doha round of trade negotiations, promoted global trade and investment, and established an open global economy.

China was one of the most open economies in the world and has benefited a lot from its opening up over the past 30 years. China had made significant progress on free trade and investment in recent years. The average tariff currently has dropped to 9.8 percent, with 8.9 percent for industrial products and 15.2 percent for agricultural produce, which is just one quarter of the world's average level and much lower than those in other developing countries. In service industry, some 100 sectors have been opened up to foreign investors, nearly as open as developed countries. China has also made adjustment to trade system and policies. For example, China has annulled the approving system for foreign trade business. China's policy of increasing tax rebate rates for some exports is WTO rules consistent. China has also taken part in the WTO trade policy review. Measures China has taken to boost its economic growth tally with WTO principles.

Current-account surplus is not the intended outcome of Chinese trade policies. China's foreign policy making is more seriously constrained by domestic vested interest groups; simultaneously there is a gap of the capacity between making international commitments and achieving the pledge. Chinese own carrying capacity is also a question which must be concerned to understand China's trade and financial policy.

With the acceleration of the aging population and rising labor costs, especially with the transformation of growth pattern (the twelfth Five-Year Plan emphasis on consumption and domestic demand) and the improvement of the domestic market (One of the most important reason that China enterprise are keen to export is the domestic market entry barriers and higher transaction costs than the external market), the reduction of current account surplus will be a spontaneous process.

China, as the biggest beneficiary of globalization, will oppose protectionism of all kinds and promoting deeper integration. In particular, it should urge G20 leaders to strengthen the political determination achieved during the Doha round of World Trade Organization negotiations.

In order to consolidate global economic recovery, G20 members should closely monitor new risks worldwide, strengthen macroeconomic policy coordination and continue to take strong, sustainable and balanced growth as top priority on the agenda. Advanced economies, especially the major reserve currency issuing countries should adopt responsible macroeconomic policies, promote fiscal consolidation, and reduce negative policy spillover effects when expediting their economic recovery. Emerging economies should take measures to prevent and address risks of inflation and volatile international capital flow. Meanwhile, member countries should reinforce international economic and financial cooperation, take measures to stabilize commodity prices, guard against all forms of protectionism and promote the Doha Round to achieve a comprehensive and balanced outcome as early as possible.

At present, Chinese economy remains sound and stable, yet it still faces both domestic and external risks. First, there are many uncertainties in China's economic restructuring. Second, employment pressure remains large. Third, with prices rising quickly, the inflationary expectations are building up. Fourth, development is imbalanced between urban and rural areas and across regions. Fifth, income distribution is disproportionate. Sixth, upsurge of global trade protectionism and worsening trade environment cast a grim outlook on China's export. Seventh, uncertainties still remain in the international financial market.

Given the risks and problems of the Chinese economy, China needs to adopt a series of macroeconomic measures, including fiscal, monetary, taxation, financial and industrial policies to maintain exchange rate basically stable, prevent the inflow of hot money, contain credit binge, curb inflation, expand domestic demand, stabilize external demand, promote economic restructuring and adjust income distribution.

(5) **Governance of civil society**

Authority is institutionalized as social interests—the governed—invest in assets specific to that authority and the rules it produces. Members may possess different views of the appropriate counterfactual. For global governance or any other international rules (system), authority is never neutral, or basically no "institutional neutrality". Rules matter. Even if everyone in society benefits from having a social order in general, some always benefit more than others. The question is not only about the special privileges taken by bigger powers, but also about the unequal capabilities of states to monitor and implement agreements.

Formerly and the existing international rules of the games were made mostly by developed countries. It's natural that China has willingness to avoid disadvantages to achieve its global governance objective. China's skeptical of the international new rules is understandable. It has been, therefore, recommended that flexibility and facilitation, rather than coercion, should be used as instruments of enforcement. In other words, dispute settlement, capacity building, and persuasion should replace the use of economic and other punishments as means of global governance.

The recognition of the relevance of civil society and business organizations for global governance is one step forward. NGOs by definition have a fundamental problem of legitimacy in speaking on behalf of a stable constituency. As soon as a civil society organization becomes powerful enough, it tends to have its own interests and become bureaucratic. NGOs are very good pressure groups and they should remain as such.

(6) **International Coordination**

The need of coordination also increases almost exponentially with the growing complexity and fragmentation of global governance. The diversity of G20 consisting of vastly different countries predetermines the difficulty of reaching consensus among member countries. Coordination does not mean a standardization of policies for all countries but "means that each country must do their work properly in order to build a system beneficial to everyone. Developed and emerging countries should adopt different policies. This is reasonable because not all economies are recovering from the crisis at the same pace. But policy gaps should not undermine coordination. In other words, a country is not wrong to consider its own interests, but is wrong to care only for itself.

E11 (Argentina, Brazil, China, India, Indonesia, South Korea, Mexico, Russia, Saudi Arabia, South Africa and Turkey) in G20 is increasingly becoming an important international power no matter in overall economic size, international trade volume, international capital flow or key product output etc. In the crisis, emerging economy industrial output takes the lead to recover, however, this fact cannot show that these countries already "got unhooked" with the other economies, particularly the developed country. From another angle, this instead is "the suspension hook" evident proof, because the developed economy economic growth condition's improvement and international trade's normalization, is the important power which emerging economy industrial output grows.

G20 is an important platform for enhancing cooperation in E11. The promotion of G20 and the relevant achievements obtained in the summits comply with the fundamental interests of the E11. E11 should be based on the platform to create a positive enabling environment for development.

The importance in the world economy and the broadly representatives of developing countries both indicate that E11 has a huge space of internal cooperation. Actively promote the internal cooperation of E11 can apparently create win-win situation between developed and developing countries. Compared with G7/G8, Australia and the European Union, E11 need to strength the cooperation ability in the definition of common interests, agenda-setting and position coordination, etc. Overall E11 cooperation should be gradual. Imitating the G8/G7 summit, E11 can have its own minister conference before G20 meeting to strengthen mutual position on major issues of coordinated.

E11 should adhere to the "common but differentiated responsibilities" to deal with the relations under the G20 framework. In the highly interdependent world, the interaction between the emerging economies and developed economies is not a zero-sum game. The long-run development of emerging economies has been greatly benefitting from the developed world, while developed economies are increasingly inseparable from the rapid development of emerging economies. It's good to see that emerging economies and developed economies can further strengthen cooperation between each other.

7.6 Conclusion

Economic, financial and security issues are transnational and require international cooperation, where both advanced economies and systemically important emerging markets are at the table.

The financial crisis promotes the global governance to enter the new stage, prime motors from two aspects: First, the crisis highlighted the shortcomings of the original system of governance, and the transformation voice surged upward along with it; Second, the efforts of all countries work together to overcome the crisis and a profound reflection on the causes of the crisis provides the essential turning point to construct a new global governance framework. Under this background, in 2009 the global governance reform made an important progress: G20 transforms into the main forum of international economic cooperation. The G20 status' promotion is the result of various countries' coordinating the economic policy and dealing with the crisis hand in hand, and is also a positive correction of global governance imbalance.

The stability of the international monetary and financial system is a global public good and, as it is well known, the provision of public goods gives rise to collective-action problems: countries may be tempted to free ride on each other's efforts to preserve international stability. The G20 has entered a new phase in its institutional development, moving beyond crisis management towards robust governance. A central mission of the G20 is to address global collective-action problems.

In a post-hegemonic world, no individual country or coalition is in a position to lead the reform of the multilateral architecture that only embodies its own values and interest. Instead, it will be a matter of permanent compromise between countries with different historical experiences, levels of socio-economic development and internal political systems. The G-20 leaders have also demonstrated their ability to drive a forward-looking international regulatory reform agenda.

In an intrapolar world, the strategic objectives of major powers—among others, sustaining growth, benefiting from globalization, mitigating climate change, enhancing energy security but also promoting development and improving global health—do not essentially diverge, although their tactics occasionally clash. Policy coordination within the G20 is crucial. The leaders and finance officials of emerging economies should form a caucus of their own within the G20 to coordinate in a counter-balancing way. The agenda-setting and consensus-building activities of the G20 are important. However, to fully use the G20's agenda-setting power, developing countries may need to form parallel networks.

To improve this G20–multilateral working relationship, the G20 could extend participation at its summits to the executive heads of the UN galaxy's environmental and food-agriculture bodies, given the permanent, prominent part these issues now occupy on the G20's built-in agenda. The G20 should incorporate the functionally core multilateral bodies into more commitments that it makes. And it should add independent civil society assessments of G20 members' compliance with those commitments.

G20 should promote equal and just rights of participation and a fair share of responsibilities. In a world of interconnected risks, segmented institutions will not suffice. In a system where the growing power of emerging countries amplifies their influence, frameworks where they are not adequately represented will lose relevance. The G8 of industrialized countries can no longer claim to represent a global steering group lacking both legitimacy and effectiveness in addressing systemic challenges. The rising powers of the global South must now join—on an equal footing—the core of global policy coordination and assume joint responsibility. However, countries have different roles in global governance as they vary in terms of natural endowment and development levels. It's necessary to fully respect and appreciate the capacity of sovereign states for a reasonable division of responsibilities.

An internal E11 negotiation platform may improve the efficiency. In the highly interdependent world, the interaction between the emerging economies and developed economies is not a zero-sum game. E11 should adhere to the "common but differentiated responsibilities" to deal with the relations under the G20 framework. Actively promote the internal cooperation of E11 can apparently create win-win situation between developed and developing countries.

As a member of the G20, China is willing to participate and provide public goods for the world. However, China is still a new player on the international stage and not the rule maker. In the next decade China's basic attitude to global governance is to minimize the loss, not maximize the benefits. China has no intention to compete with the developed world through any forms of economy alliance or the coordinated mechanism under the G20 frame.

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