



人大重阳金融研究书系

“大金融、大合作、大治理”

G20智库研讨会

Great Finance, Great Cooperation, Great Governance  
G20 Think Tank Conference

# WHO WILL GOVERN THE NEW WORLD

The Present and Future of the G20

谁来治理  
新世界

关于 G20 的现状和未来

中国人民大学重阳金融研究院 主编



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# All in the Same Boat

*Li Zhaoxing*

former Foreign Minister of China, President of the China Public Diplomacy Association

I am very pleased to be here at the opening ceremony of the “Great Finance, Great Cooperation, Great Governance” International Think Tank Conference. I want to take this opportunity to say congratulations on a job well done. I would also like to extend my heartfelt gratitude to all of our guests representing G20 think tanks.

Personally, I am very excited to be back at the world famous Renmin University of China. The first time I came to Renmin University of China was 54 years ago. As a college freshman in the Peking University chorus I came to sing for the students and professors here. I really admire this university, because its motto is “to seek truth from facts”. It is also the only Chinese university to use the phrase “Chinese People” as its name, and it is the first university established in the People's Republic of China after liberation in 1949. To see that Dean Chen Yulu has appeared here personally today at this conference pleases me a great deal, as the third President of the United States Thomas Jefferson once said, being President of the United States did not make him happy, but becoming a university president made him happy.

The world is situated in a phase of general peace and development, characterized by multi-polar order, increasing economic globalization and increasing technological breakthroughs. But the persistence of financial crises and the reemergence of new interventionism in global politics present enormous challenges. Governments must listen to the people's heart felt words, put the people first and promote a better life for everyone; this is the common purpose and common interest of every single nation.

Second, we must face global problems together. When one considers the threats of financial crises, food and energy security, and climate change, it is clear that no country can develop without the international community. Cooperation is the necessary path. We must

leave behind the old “I win, you lose, I’m rich and you are poor”, zero sum thought process. The world needs to take initiatives for shared prosperity. Developed countries have the obligation and responsibility to help the poorest countries develop. Developing countries need to be strong and take initiatives for their own development, openly and actively entering the global marketplace utilizing their comparative advantage.

Third, reform and innovation are the most effective tools to solve international problems. Over the past 20 years the international order has undergone immense changes, the scope of international trade has increased by fivefolds, cross border investment has increased by eightfolds. The old international system already cannot adapt to our new situation. The international monetary system must be reformed, international cooperation must be increased, and the representation and say of developing countries in international financial institutions must be increased. The international financial system must be pushed in the direction of openness and fairness.

Fourth, in order to keep our international promises we have to cooperate. This will bring about a “win-win” situation in international affairs. Trade protectionism, barriers to trade, restrictions on investment and technology exports, hindering the spread of new technologies, and the temptation of currency devaluations are all impulses that must be resisted at the international level. The international community must keep its promise to promote sustainable and balanced growth, reject protectionism and do away with cold war style thinking.

Let’s be perfectly clear. In the world today every country must more vigorously uphold the U.N. charter and respect the sovereignty of other nations by not interfering in other countries’ internal affairs. Interventions from the outside will only lead to even more turmoil and pain for the people inside that country.

Ladies and gentleman, for the past five years developing countries and emerging markets have lead the world to get economic recovery, contributing over three fourths of new growth and holding two thirds of the \$10.8 trillion in existing global accumulated foreign exchange reserves. As a developing country China must remain committed to shrinking the north-south divide by helping other developing countries. Chairman Xi Jinping has said that the Chinese Dream is one of a peace, development and mutual gain, the same development dream that is shared by the world. We will continue to push for peaceful development and participate in multi-lateral affairs and support the role of the G20 and the Shanghai Cooperation Organization.

Congratulations and thanks to you all!

# Building an International “Great Finance, Great Cooperation, Great Governance” Platform

*Chen Yulu*

President, Renmin University of China, PBOC Monetary Committee Member,  
Dean, Chongyang Institute for Financial Studies

“The Great Finance, Great Cooperation, Great Governance” International Think Tank Conference, hosted by Renmin University of China, organized by Chongyang Institute for Financial Studies, welcomes think tanks from over 20 countries, representatives from politics, business and academia. Together we strive to plan a better global economic recovery and reform the international financial system. On behalf of Renmin University of China, I extend to you all our warmest welcome.

At present the global economy is undergoing deep adjustments. The international financial climate is ever more complex. The recovery in developed economies is uncertain, and continued growth in emerging economies has run into many difficulties. The threat of competitive currency devaluations still lingers, and other protectionist urges still reappear. The deep impact of the financial crisis persists. The path to sustainable international growth will encounter many difficulties. An important question remains, should the financial crisis that began in the West also be solved under Western leadership? Can the financial storm that occurred under the Breton Woods framework be resolved under that same framework? How can growth be reinvigorated to sustain the recovery? These are the root problems that world's 20 major economies must contemplate. It will require a concerted effort to meet the pressing challenges we all share.

In an age of deepening global integration, economic systems are ever more complicated. Unilateral measures are not enough to overcome the great problems and challenges facing the global economy and financial system. Similarly, government intervention alone is



unsustainable. We must strengthen communication and cooperation among nations, strengthen three-dimensional coordination and dialogue from government to non-government groups at every level. Open cooperation for mutual gain is the only way the world will make it out of the crisis together.

As a hub that links government and society, think tanks are an increasingly important part of designing policy alternatives. In a world that needs better communication and cooperation, it is important that think tanks from every major economy strengthen their ties of communication and push forward with consensus building. The world needs to create more platforms for think tanks to exchange ideas, especially platforms for exchange about international financial governance. The “Great Finance, Great Cooperation, Great Governance” international academic conference hopes to provide such a platform for the world’s think tanks.

During the global financial crisis China gained lots of valuable experience and of course learned many lessons. From 2008 to 2012, China contributed on average 44% of global GDP growth. The international system has foolishly gone down the destructive path of financial derivatives while growth in China’s real economy is relatively stable. China’s most important lesson from the financial crisis is that the development of finance must serve the real economy. We believe that finance that serves the real economy should become the core value of global economic governance. As a specific policy proposal, we hope to limit the excessive use of derivatives in finance, to guarantee that capital flows to the real economy to expand production and increase employment. We should promote international cooperation in emerging industries and actively foster new sources of economic growth by taking full advantage of the latent power of technological advancement to pull the world out of the crisis and create common prosperity.

### **Please allow me to describe more about my personal opinions on the matter.**

First, Great Finance to promote shared prosperity. It is unrealistic to think any economy that can escape the financial crisis alone. To make it out of the crisis, the world must create a network to sustain financial coordination. This financial coordination framework,



outside of monetary policy, should include macro-economic policy, fiscal policy, and the coordinated supervision and regulation of financial markets. It should also create greater cohesion between financial and industrial policy to better serve the development of the real economy. There should be increased internal communication and coordination within the world's 20 major economies for the creation of mutually supportive, mutually complementary policies between countries, such as appropriate solutions to the problems of sovereign debt, risk created by large scale and disorderly cross border financial flows, controlling fluctuations in commodity prices and easing global inflationary pressures.

Second, Great Cooperation to realize shared prosperity. Promoting a robust recovery is the foremost concern of the international society. No country is an island in the global economy; no country can develop by itself in the global economy. While pursuing our own national interests, reasonable attention must be paid to conditions within other countries. Competitive currency devaluations are disruptive to international markets, akin to "beggar thy neighbor" during the great depression, it is a dead end. A more reasoned and just international economic order must show more concern for developing countries and their right to be heard within global institutions. Promoting cooperation on global financial governance needs a full and complete, consolidated system of international financial regulation. Full and complete, consolidated financial regulation should cover banking, securities, funds, trusts and all financial institutions, and enact comprehensive regulation based on a consolidated statistical system. To guarantee the stability of international finance, a global cross border system to monitor financial flows should be created. Through enhanced international cooperation we can strengthen regulation of derivatives trading, commodities trading and other highly speculative markets that have consequence for the stability of the international financial system.

Third, Great Governance to guarantee shared prosperity. With the development momentum of the real economy, only a globalized world can get out of this crisis. The recovery of the international economy and upgrading the Chinese economy both rely on the driving force of innovation to bring about high quality, more competitive growth. We can win the future of development by bringing together development and innovation. The greatest bottleneck in global economic development is that developing countries are not able to realize their full potential. Growth in real global demand has not kept up with the pace of growth in production. In the long term, there is an unbalanced distribution of resources, wealth, and development opportunities between developed and developing countries, giving rise to a downward spiral where the less you develop, the more backwards

you become, the more backwards you are , the less you can develop, thus stifling sustainable and long lasting growth in the world economy. Speeding up the social and economic development of developing countries, pushing forward the United Nations Millennium Development Goals, this in the end is what will realize common prosperity in the world.

There is an old Chinese saying: only after the affairs of the people have been addressed can coordination among the leaders from the various kingdoms become possible, when this happens the people of the world will grow closer as a result. Starting from the civil society, we can strengthen global cooperation for a global financial governance system, following a path to common prosperity.

# China will be the World's Largest Economy by 2025

*Dr. Robert Mundell*

Nobel Memorial Prize in Economic Sciences Laureate, Professor at Columbia University

I am happy to be back at Renmin University of China because I once taught at this university back in 1995. That was a very happy time for me, so I am happy to be here to meet my old friends Foreign Minister Li Zhaoxing and President Chen Yulu. When I was here in 1995 President Chen was the dean of our department. I am very happy to be able to meet him whenever I come to Beijing.

I must congratulate and thank Renmin University of China Chongyang Institute for Financial Studies for holding this excellent "Great Finance, Great Cooperation, Great Governance" International Think Tank Conference. RDCY is the beginning of a very large and important Chinese research institute. I am honored to be a part of their very first conference.

Of course, at a G20 think tank conference, I must note that the G20 does not have a secretariat. There are many voices for and against the creation of a G20 secretariat, so before the September G20 meeting in Russia is held, it's very important to hold G20 think tank conferences. I remember in the 1980s I held a conference before the meeting of one of the G7 summits. We noted that the G7 had no agenda, and we felt it very difficult to hold a summit meeting without an agenda. During this time I was able to meet President Reagan and Secretary of State Kissinger, so it was a very exciting period.

The international financial system will be part of the G20 agenda in the future. I will be describing the history of the development of the international financial system, and out of this history we will be able to see future developments. In the beginning there was the British Empire. Even though it was not as strong as the United States is today, it was at the time the most powerful country in the world. It established a very large capital market based on the gold standard. After 1792 the United States began its slow rise, eventually the

size of its economy surpassed that of England, France and Germany combined. After its rise and England's decline the United States established its own monetary advantage. But many nations didn't want the Dollar to occupy a hegemonic position in the international monetary system, because as we see today the Dollar can be devalued.

After world warII and the creation of the Breton Woods system, even though it was not an entirely new system, but rather an improvement of the old system, it was still the only workable system where America was developing and Europe was in decline. Breton Woods also had its bad side in inflation, arbitrage of gold, and the role of gold was replaced by the Dollar. In 1971 the Breton Woods system was replaced by the floating exchange rate system, which has persisted until today.

Each country's monetary ability has a relationship to the size of its GDP. Since 1970 the United States has been the world's largest economy, and gradually switched to a system of flexible exchange rates. Oil prices increased by 4 times in this period, and around 1980 the Dollar was extremely weak. After this, the Dollar's rise underscored its important position when flexible exchange rates created a crisis for the world. Countries like Argentina experienced severe inflation. Later, there was the euro area and the rise of the euro.

Germany, France, Italy and England are all very strong economies, but because their currencies had not been united they had no means of acquiring any sort of monetary advantage, and this had a big influence on Europe. The euro has risen to become a new safe haven from risk, but its financial system has been separated into two parts, this is an unfavorable development because it limits the creation of a strong financial system. After the creation of the euro it quickly became the second most important currency in the world. Behind this we can see the Renminbi, but the Renminbi still has a little bit of catching up to do.

There is also the IMF's special drawing rights system (SDR) which is a basket of currencies, including currencies from over 15 countries, like the Dollar comprising 40% of the basket, and the euro which comprises 30% of the basket, along with the Japanese Yen and the British Pound. In 2007 I proposed that the Renminbi should be included in this basket to account for China's large role in international trade and finance. Because the Renminbi is not freely convertible, it is still not included in the SDR system. SDR is still an open system, so if it is willing, I recommend the IMF consider including the Renminbi by 2016.

At a meeting held in March of 2011, then French President Sarkozy pointed out three problems in the global financial system. One is fluctuation in commodity prices, second is

unstable exchange rates. Third is dealing with national governance.

The first question is fluctuation in commodity prices. For example, in 2008 the price of oil was \$50 a barrel, then it shot up to \$148 dollars per barrel, and then fell again to \$33 dollars per barrel. This is the biggest fluctuation in any commodity price ever.

The second problem is unstable exchange rates. The Dollar is overvalued, and the Federal Reserve totally overlooked this problem. It is overvalued by 30% against the euro. This severely damaged many of China's export markets.

At the G20 summit in Mexico, then President of the European Central Bank Trichet was there, and he mostly spoke about controlling capital flows. I believe that this is a very difficult goal. I think that the G20 should talk about more strategic problems that will affect the international financial system.

I think that it is not necessary for the global financial system to maintain only two mainstream currency systems, even though this is very advantageous for the United States and Europe.

By 2025 China will be the world's largest economy, and it will need to create a new financial system. I believe that the SDR system should include the Renminbi, it will then include the currencies of the three largest economies and stabilize the global economy. The goal is to resist powerful fluctuations in exchange rates. If there can be stability in commodity prices, exchange rates and national governance, the global economy will develop and grow more smoothly.

At the G20 we need to talk about the interests of small countries because their competitiveness is rather weak. The protection and security of small countries should be part of what we consider.

# G20: Innovation of Global Governance in the 21st Century

*By Carlos Magarinos*

Chairman of Global Alliance of SMEs,  
Former UNIDO Director General, Argentina

Good afternoon, ladies and gentlemen! I'd like to thank Mr. Chen Yulu, President of Renmin University of China, Mr. Li Zhaoxing, former Foreign Minister of the People's Republic of China, Dr. Robert Mundell, Nobel Memorial Prize in Economics Laureate and Ms. Yi Zhihong, Deputy President of Renmin University of China, and to the all participants, good afternoon. It is a great honor for me to be here, at the International Think Tank Conference hosted by Renmin University of China, and to have this opportunity to speak with all of the experts from Chinese government, institutions and top universities.

Renmin University of China has illustrated its fabulous reputation as one of the nation's top universities by holding this conference and drafting the joint declaration in support of the G20 Summit in Russia. I also appreciate the professionalism of Chongyang Institute for Financial Studies preparing the related materials and organizing the conference. Their contribution has been quite impressive. I now serve as the Chairman of the Global Alliance of SMEs and this conference will definitely provide a remarkable platform for strengthening the provision of public goods. Now we all agree on the idea that specific public goods should be provided together at the national level in order to promote economic competitiveness.

From my standpoint, it is necessary to offer public goods for the global society. Provision of public goods can ensure an increasing integration of the international society, especially in the global economy. The significance of procuring international public goods is that it is just as important as guaranteeing stability in global finance. In the past few years we have experienced both real and latent economic losses due to the lack of public goods. In this

context there are some challenges, such as decreasing demand for products, payment delays and weakened liquidity for SMEs. Besides these issues, reduction of liquidity, tightening of credit and augmentation of financial costs will in no doubt lead to the bankruptcy of SMEs at a worldwide level.

There is considerable literature on the efficient provision of Global Public Goods, and their contribution to development and prosperity. At the national level, the work to provide public goods is obviously done by local governments. At the international level, however, we can only rely on a patchwork of institutions created more than half-century ago. The contribution of the G20 alters the structure of multilateral financial systems, provides a new balancing mechanism for the coordination and implementation of policies, and makes more space for institutions in charge of regulation, renewing loans and responsibility. Working as a Board of Directors or —as some have said —a “Council of Governors” for the global economy, G20 countries can claim some reasonable success in building consensus around a common set of actions to bring the international financial crisis under control, preventing further damage and minimizing its social costs.

To achieve the above targets, the Group expands on its original design. We have to reflect on the situation facing the G7 meeting in 1999, when it was first created. It defined G20 as meeting to be attended by finance ministers and presidents of central banks, a new mechanism that is to enhance dialogue on financial and economic policies for systemically significant economies. After its emergence at the G7 in 1999, global financial crises completely altered many established patterns. Between November 2008 and November 2010 (running from the first meeting of G20 Leaders in Washington to its fifth meeting in Toronto), the Heads of State and Government of the G20 have met five times.

This series of meetings marked the transformation of the G20 from a deliberative body into a decision-making forum, center for world economic development to find its way out of the worst financial crisis in almost a century. On the basis of its previous successes, G20 will undergo another vital turn as it moves into the role of a strategic planning body. It is well known that agenda of G20 has three primary aspects. One is to serve as the framework for strong, sustainable and balanced growth. Second is to reform the architecture of international finance. Third is to strengthen financial regulation. The above goals were mentioned at the original meetings, with development for all appearing in the fourth agenda. 2012 Mexico Summit expanded the agenda again to include food security and innovation, extended dialogue with non-G20 member states, and the evolution of Y20 (Youth20) and B20 (Business20). Business 20 was initially hosted in Toronto. New items



on the G20 Leaders' Summit agenda will include energy security, C20 (Civil Society20) and G20 Labor Minister Meetings.

These various meetings and approaches will provide a source of much needed legitimacy and transparency to promote and deepen the G20 decision-making process. Holistic solutions and strategic planning on substantive long-term challenges are needed in systemic crises. At the same time, it places a challenge on the G20 working mechanisms. Those routines and mechanisms seem to work reasonably well for decision making to confront concrete and immediate problems. It remains to be seen yet how well they would do for strategic planning to address longer term challenges, such as those posed by food or energy security, the environment or development for all.

Giving the certain vacuum in multilateralism, one could find it reasonable for G20 to fill the space. The real challenge, however, would be to keep the focus and dynamism of the G20 while avoiding the temptation to address all the problems at once, discerning clearly where there is room for consensus and collective action producing significant results in a reasonable period of time, and where it is necessary to refrain from overlapping with existing multilateral mechanisms. The balance is of importance for the world economy that still calls for clear leadership and strong decision making.

The global economy will confront enormous challenges. In such a context, the advanced economies need to sustain a macroeconomic setting to support industrial activity while devising, simultaneously, appropriate measures to ensure debt sustainability. Those countries also need to stabilize company balance sheets and restore credit channels. Although vulnerability varies across emerging markets and developing economies, they all must have a balanced emphasis on reinvigorating economic activity with policies to contain capital outflows, probably through the implementation of structural reforms and prudent macroeconomic policies, according to the different stages in their economic cycles. Both groups of countries—advanced and emerging economies—are facing recent events of increased volatility in financial markets.

Should forecasts for reduced volatility in the coming months (due to monetary and financial changes in USA) not materialize or take longer than expected, emerging economies should be ready to handle further investment portfolio shifts through macroeconomic policies, especially regarding monetary easing policies, to achieve satisfactory results. We will just wait and see.

The leaders of the G20 must concentrate on the current agenda to implement G20's decisions. To provide global financial stability and global public goods, it needs further

coordination of macroeconomic policies and structural reform on global financial regulation systems for the purpose of bolstering and intensifying voices of emerging economies.

We have to review the quota system of the IMF in its new revision that starts in January, 2014. It is necessary to do more work and strengthen cooperation with the IMF and foster regional finance coordination.

One of major tasks for G20 is to support the FSB (Financial Stability Board), reinforce financial management, facilitate the institutionalization process of FSB, design its regulatory framework, and carry out peer reviews. Simultaneously, it is necessary to take prudent and systematic measures and tighten supervision of shadow banks and over the counter derivatives (OTC).

To utilize global financial stability better, Global Alliance of SMEs suggests that more research be done on global value chains, and we should learn more about the relationship between global financial value chains and trade, employment and investment, to reduce financing obstacles in the real economy.

As the most crucial innovation of global governance in the 21<sup>st</sup> century, I believe the protection of G20's legacy is to focus on an effective agenda to overcome financial crises and accomplish its given mission.

Thank you!