

# CHINA

a n d t h e

# G 2 0

The Interplay Between  
an Emerging Power  
and an Emerging Institution



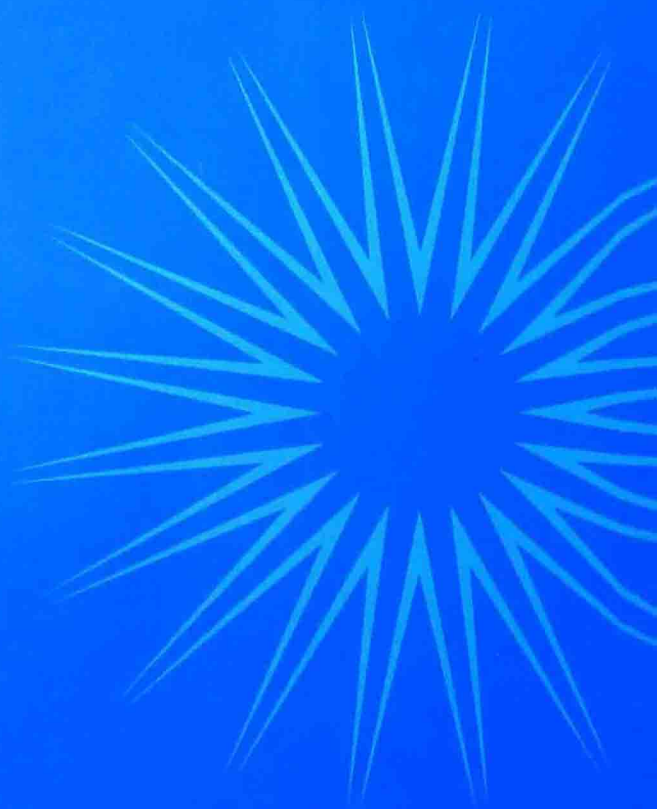
FRIEDRICH  
EBERT  
STIFTUNG

*Edited by*

**Catrina Schläger**  
**Chen Dongxiao**

*Co-edited by*

**Alexander Rosenplänter**  
**Zhang Haibing**





FRIEDRICH  
EBERT  
STIFTUNG

# CHINA

a n d t h e

# G 2 0

**The Interplay Between  
an Emerging Power  
and an Emerging Institution**

*Edited by*

**Catrina Schläger  
Chen Dongxiao**

*Co-edited by*

**Alexander Rosenplänter  
Zhang Haibing**

## 图书在版编目(CIP)数据

中国与二十国集团=China and the G20:英文/  
陈东晓,(德)史丽娜主编. —上海:上海人民出版社,  
2015

ISBN 978-7-208-12738-8

I. ①中… II. ①陈… ②史… III. ①国际经济合作  
组织-研究-英文 IV. ①F116

中国版本图书馆 CIP 数据核字(2014)第 312054 号

责任编辑 史美林

封面装帧 人马艺术设计工作室·储平

The views expressed in this publication are not necessarily those of the Friedrich-Ebert-Stiftung, the Shanghai Institutes for International Studies or of the organizations for which the authors work.

Commercial use of the publication is not permitted without the written consent of Shanghai People's Publishing House and Friedrich-Ebert-Stiftung (FES).

## China and the G20

陈东晓 [德]史丽娜 主编

世纪出版集团

上海人民出版社出版

(200001 上海福建中路 193 号 www.ewen.co)

世纪出版集团发行中心发行 上海商务联西印刷有限公司印刷

开本 720×1000 1/16 印张 19 插页 2 字数 338,000

2015 年 4 月第 1 版 2015 年 4 月第 1 次印刷

ISBN 978-7-208-12738-8/D·2607

定价 50.00 元

---

## Foreword

---

Friedrich-Ebert-Stiftung (FES) and Shanghai Institutes for International Studies (SIIS) are long-term productive partners. For more than thirty years now the two institutions have combined their respective resources and capacities in a range of international academic activities and brain-storming seminars, which have produced wisdom and policy suggestions and have promoted healthy debates in the mass media. In addition, foreign and Chinese academics and decision-makers have strengthened their understanding and exchanges. Since the great financial crisis of 2008-2009, the role of the G20, as an updated global macroeconomic coordination mechanism, has been substantially boosted in global economic governance. FES and SIIS have held several international seminars on this issue, inviting experts from the main member countries of the G20 to debate various important issues facing the G20 and global economic governance, such as the G20's role in strengthening and promoting global macroeconomic coordination, reform of the international financial system, the stability and effectiveness of the international monetary system, the integration of international trade and investment regimes, the new agenda of international development and the complex relations among the major powers. This book reflects these experts' observations on the development of the G20 and its influence on global economic governance.

China is the largest developing country, the biggest emerging power and also the second largest economy in the world. This political status and economic scale have made China one of the most important actors in the G20, with a

---

## Contents

---

<b>Foreword</b>	1
<b>General Evaluation</b>	
<b>China and the G20</b>	
Barry Carin	3
<b>The G20 at Six and China's Role</b>	
Ye Yu	18
<b>Part I Policy Areas</b>	
<b>Chapter 1 Macroeconomic Policy Coordination in the G20: Tremendous Success or Disappointing Failure?</b>	
Heribert Dieter	35
<b>Chapter 2 The Role of the G20 in Resolving Deep-rooted Problems in the World Economy</b>	
Liu Zongyi	51
<b>Chapter 3 Reform of International Financial Institutions</b>	
B.L.Pandit	68

<b>Chapter 13</b>	<b>China and the EU: From Strategic Partners to a New Relationship between Major Powers?</b>	
	Jörn-Carsten Gottwald	239
<b>Chapter 14</b>	<b>China-EU Cooperation in the G20</b>	
	Jiang Shixue	254
<b>Chapter 15</b>	<b>China, the BRICS and the G20: New Configurations of Power in the International System</b>	
	Rosana Pinheiro-Machado	269
<b>Chapter 16</b>	<b>The Transformation of the BRICS</b>	
	Zhu Jiejin	283
	<b>About the authors</b>	292

## **General Evaluation**



---

## China and the G20

---

Barry Carin

### 1. Introduction

The prospects for the continued rise of China and the effectiveness of the G20 are closely intertwined. There have been two significant trends in the world economy in the last five years. First is the consistent economic and financial growth of China. Second is the growing concern about the ineffectiveness of the G20 as the premier forum for international economic cooperation. The 2009 London and Pittsburgh G20 Summits are generally recognized as successes. The decisions were widely applauded. However, since 2010, the G20's performance has been well below expectations, especially in terms of implementation of its earlier decisions.

This chapter makes two arguments. First, sustained economic growth in China depends in significant part on an effective G20, and second, that the future relevance and effectiveness of the G20 will be primarily determined by Chinese leadership. It reviews the prospects for Chinese leadership in the G20 in light of the legacy of Deng Xiaoping's "quiet" foreign policy approach—*Taoguang yanghui*. Then it concludes with specific procedural and substantive suggestions for leadership in the G20 that China may find appropriate.

### 2. China's Economic Prospects

China is recognized as a major global economic and trade power. It is currently the world's second-largest economy, largest merchandise exporter,

second-largest merchandise importer, second-largest destination of foreign direct investment (FDI), largest manufacturer, and largest holder of foreign exchange reserves [...]. Many economic analysts predict that on a PPP basis China will soon overtake the United States as the world's largest economy [...]. This will occur by 2017 and that by 2030, China's economy could be 18.6% larger than that of the United States' (Morrison 2013). In its 2013 Global Manufacturing Competitiveness Index, Deloitte (an international consulting firm) ranked China first in manufacturing in 2013 and projected it would remain so in five years (the United States ranked third in 2013 and was projected to rank fifth in 2018).<sup>[1]</sup>

Continued Chinese growth at rates close to the last thirty years is essential to deal with China's domestic challenges. High growth rates will be dependent on a stable and prospering global economy. China was affected significantly by the 2008 global economic crisis. As international trade plunged, China's exports, imports, and FDI inflows declined, GDP growth slowed. The need for customers for China's exports translates into a need for sustainable balanced growth in the rest of the world. China needs to avoid a world of international financial instability and competitive exchange rate devaluations. China needs G20 trading partners to maintain the standstill on protectionist measures. For Chinese growth to continue, the G20 must be successful in its mission as the "premier forum for international economic cooperation". United Nations' organs—ECOSOC or UNCTAD—are not up to the job of coordinating national macro-economic policies or maintaining an open trading system.

China is projected to become the largest net oil importer by 2020 (due in part to projected increases in U.S. domestic oil production). By 2035, China's net oil imports are projected to exceed 13 million barrels per day. The U.S. Energy Information Administration (EIA) projects that by 2035, China's carbon dioxide emissions (CO<sub>2</sub>) could be nearly double its current levels. The emergence of China as the world's largest emitter of greenhouse gasses is a future challenge in the making. A study by ExxonMobil projects that, by 2030, China's CO<sub>2</sub> emissions could equal the level in the United States and EU combined.

A stable rules-based global market will be required to satisfy China's growing demand for energy and raw materials, and avoid conflict concerning its emissions. The world will attempt to come to grips with imminent unacceptable

consequences of climate change by exploring measures to reverse the growth of emissions. If China is not active in organizing a multilateral response, desperation may lead to unconventional trade restrictions that limit China's exports. Ideas such as making border tax adjustments consistent with World Trade Organization rules may be proposed to discipline high emitters. China will be better served by being one of the rule makers rather than a rule taker.

There are several global issues whose positive resolution would support China's growth. China has specific interests that must be defended in the areas of an international reserve currency, better regulation of financial derivatives, reform of international financial institutions and on developed country agricultural subsidies. The legacy of the United Nations Convention on the Law of the Sea, which came into effect in the 1990s, has triggered a large number of international disputes regarding the exploitation of undersea resources. It is in China's interest to establish a system to amicably resolve the numerous disputes affecting China's interests. Peaceful resolution will remove uncertainty and stimulate investment.

An effective G20 is important for Chinese continued growth. There is no more promising venue than the G20 to break the deadlocks or make progress in all these global issue areas. In fact, there is no alternative venue on the horizon.

### **3. The Future Effectiveness of the G20 Depends on Chinese Leadership**

In 2008, the G20 supplanted the G7 as the core group of countries that devise the rules for the global economy. Initially the G20 was praised for its crisis management and macroeconomic policy coordination. The record of the last four years is discouraging. Currently, there is a well-founded concern about the effectiveness of the G20. The G20 is at risk of evolving into irrelevance, with no clear alternative for an effective global crisis management committee, let alone a global economic steering committee. In fact, given the hopeless stalemate in the American government and Europe's parochial inwardness due to the never ending Euro crisis, the future relevance of the G20 will be primarily determined by Chinese leadership.

#### **3.1 Substance**

In terms of substance, the G20's main success is the 2009 coordinated

economic stimulus package, which prevented a looming global depression. There is nearly universal agreement that the G20 action was critical and the counterfactual would have been a disastrous world-wide depression. The establishment of the Financial Stability Board is counted as a success by most observers, but the G20 is still criticized for the very leisurely timetable for action on shadow banking, over the counter derivatives and on systemically important financial institutions (too big to fail). The G20 has been criticized for non-delivery of several of its commitments—notably IMF quota reform and inefficient fossil fuel subsidies. The apparent diagnosis is that the G20 has no leadership. The United States is paralyzed by gridlock, which is unlikely in the near future. Middle power countries like Korea, Mexico, Australia and Turkey do not have the weight. Russia was an enigma in 2013.

Recent failures include vacuous Communiqué language on critical international economic issues like the Doha round, and on the United Nations negotiating process on climate change. Progress is poor, some argue regressive, on coordinated macro-economic actions (New Rules for Global Finance 2013). In the development field, there are few concrete examples of significant concrete commitments, just a lot of empty talk on food security, financial inclusion, and infrastructure. There are many other global governance gaps that will not fill themselves. From think tanks to the *Financial Times* to the World Economic Forum, observers have noted the G20's declining credibility (Thirlwell 2012).

### 3.2 Process

In terms of process there have been several unfortunate decisions that compromise the G20's effectiveness and reputation. First was the ill-advised surrender to the demands of the non-G20 countries to be at the G20 table. Twenty at the table already tests the limits for the size of an effective decision making committee. The first G20 presidencies surrendered and reacted to Spain's whining by inviting it as a permanent guest—despite the gross overrepresentation, by any measure, of Europe in the original G20. The 2010 hosts, Canada and South Korea also invited the chair of NEPAD, the chair of the African Union, and the chair of ASEAN. Singapore has been invited as chair of Global Governance Group (3G), an informal grouping of 28 non-G20 countries. Recent

hosts have taken the liberty to invite a local neighbor. Australia is inviting New Zealand to the 2014 Brisbane Summit. Thus, 20 became 25 (or 26 since the European Union gets two seats). Despite these attempts to improve legitimacy, the pressure is unrelenting from those still excluded from the table. Norway's foreign minister has described "the group of the 20 most important industrialized and developing nations .... as the 'greatest setback' for the international community since World War II" (Store 2010). But, the bigger and the more representative the group, the less effective it will be.

The second regrettable process decision was the Canadian and South Korean G20 presidency invitations to international organizations to join the summit. The United Nations, the International Labour Organization, the World Bank, the International Monetary Fund, the Organization for Economic Co-operation and Development, the World Trade Organization, and the Financial Stability Board all now expect an invitation.

The third unhappy decision has been that G20 presidencies have in effect trashed the Troika concept in practice. The idea is to include the previous and future presidency in a Troika with the annual rotation of hosts. The Troika was to provide for the institutional memory and continuity required in an informal organization that does not have any form of a permanent Secretariat.

## 4. Prospects for Chinese Leadership in the G20

### 4.1 "Never seek leadership"

It is not in China's interest for a "G Zero" with an "empty driver's seat" (Bremmer and Roubini 2011). China's growing economic power has made it a critical and influential player on the global stage on a number of issues, such as global economic cooperation, climate change, nuclear proliferation. But China has been perceived as consciously pursuing a "quiet" foreign policy, avoiding international leadership, while concentrating on domestic challenges.

In the early 1990s, Deng Xiaoping is widely credited with setting out the approach for China's quiet foreign policy approach—*Taoguang yanghui*.

His aphorism of twenty four Chinese characters has various translations but is usually expressed in English as:

Observe calmly, secure our position, cope with affairs calmly, hide our

capacities and bide our time, be good at maintaining a low profile. Never claim leadership.<sup>[2]</sup>

This common English translation is pointed to as the explanation of China's low profile, and diffidence in discussions of global governance.

One explanation of Deng's advice is that the emphasis on the low profile in international affairs "was to avoid flashy politics and grandiose demonstrations of leadership, escape carrying the socialist or developing countries flag [...]". Confusion stems from a lack of conceptual clarity about its content resulting from its translation. Some translations have included "hide brightness, nourish (or cherish) obscurity", suggesting duplicity. Zhang Qingmin disagrees, arguing that adoption of a low profile and self-effacing demeanour in foreign policy dealings is a "style" rather than a strategy (Bluen 2011).<sup>[3]</sup>

Wu Jianmin (2012) also describes the customary interpretation of Deng's advice as the result of a poor translation. The guideline should be translated as "keep a low profile and bide our time, while also getting something accomplished". He explains that:

Keeping a low profile means being modest and prudent, rather than arrogant and complacent. Like a person, a state should also be practical, realistic, modest and prudent, rather than domineering and making enemies everywhere.

Keeping a low profile does not mean doing nothing. Solving the domestic affairs of China well is beneficial to both Chinese people and the world.

Keeping a low profile and being modest and prudent also mean abandoning the attitudes and actions of a major power and treating all countries equally, which is a trump card in Chinese diplomacy.

"Those in favour of abandonment of *taoguang yanghui* argue that with China's increasing power and economic muscle in the international system, it should adopt a more responsible and outspoken foreign policy" (Tyler 2013). Bremmer put it well: "Outsiders, particularly Americans, have called on China to become a 'responsible stakeholder' in the international system and have wished aloud that as its economy depends more heavily on investment in countries and companies in every region of the world, it would begin to behave as

a global partner, one that privileges peace and predictability above all else” (Bremmer 2013).

#### 4.2 Graduating from Deng’s Maxim

China is a different country than it was in the early 1990s. “China has increased its GDP tenfold since reform and opening up and has averaged 8% annual GDP growth, even through a series of global economic downturns. China has recently overtaken Germany as the world’s largest exporter and Japan as the world’s second largest economy. China today is not only the world’s second biggest economy but is also home to the second-largest number of billionaires” (Factor 2010).

Jonathan Pearlman wrote that 2009 “will be remembered, say analysts, as the year China abandoned its diplomatic quietism and Beijing displayed a clout on the international stage to match its global economic weight.” Pearlman was writing about the climate change conference at Copenhagen, where China was a key player. He noted comments that China’s willingness to exercise global leadership during the financial crisis was largely welcomed and encouraged by the West.

Wang Yizhou recently wrote that “China’s new leaders somehow possess a different global consciousness than their predecessors—more confident, ambitious and enterprising” (Wang 2013). He quoted Xi Jinping: “Leaders in this term of office are shouldering the great mission to realize the dream of Chinese national revival.” Wang noted that besides economic growth and increased national security the third goal of the Chinese dream is “to act as a newly emerging great power and contribute to peace and prosperity in East Asia, as well as global development [...] emphasizing China’s role as a responsible great power [...] dedicated to the cause of helping to create a more reasonable and just world order, thus gaining more respect from the world”.

Wang’s prescription was to “build a smart balance of contention and co-operation”, as in traditional Chinese strategic thought, “to resist but not fight, to co-operate but not assimilate.” He recommended attempting to “keep the balance between solving problems on the basis of international common practice and providing public goods with Chinese characteristics”.

There is a mutual self-interest and investment that all G20 members have in the global economy. Reporting on a September 2013 conference in Shanghai, Melissa Conley Tyler noted that the “Chinese representatives used reassuring language: ‘do away with zero sum thinking’, ‘do away with Cold War mentality’ and ‘build a progressively cooperative mentality’ for a ‘harmonious and prosperous world’” (Tyler 2013).

An authoritative version of Chinese thinking was provided by State Councilor Yang Jiechi, in September 2013.<sup>[4]</sup> A close reading reveals several encouraging dimensions.

- The Party Central Committee [...] has promoted innovations in diplomatic theory and practice [...], and taken a number of major diplomatic initiatives which [...] enriched and developed the system of diplomatic theory with Chinese characteristics.
- China’s new collective central leadership is committed to reform and opening-up, the path of peaceful development and the strategy of win-win cooperation.
- *Deeply engaging in and shaping processes of multilateral diplomacy.* China’s commitment to the advocacy and practice of multilateralism and the great value it places on the important role of the United Nations and other international organizations.
- BRICS provides a strong impetus to the establishment of a new international political and economic order that is fairer and more equitable.
- China’s diplomacy displays such features as rich ideas, clear priorities, firm positions, flexible approaches and distinctive styles.
- Win-win cooperation, abandoning a zero-sum mentality, accommodate the other’s interests while seeking one’s own, promote common development while developing oneself, and continue to deepen the pattern of shared interests.
- Strong synergy between the domestic and external agenda.

Perhaps the most encouraging sentence in Yang Jiechi’s speech was:

While continuing to improve on strategic planning, *we should give greater play to the leading role of leadership diplomacy*, vigorously grow relations with other major countries, step up friendship and win-win cooperation with our neighboring countries and other developing countries

and move the international order in a more just and equitable direction (Yang 2013).

## 5. Chinese Leadership: G20 Initiatives

China's unquestioned first priorities should be to maintain stability at home and protect its development. These priorities are in fact no different than those of the other G20 countries. Leadership in the G20 can support these priorities. China has been described as seeking "change through accommodation, negotiation and consensus-building over a long time span. G20 is the perfect forum for the relationship-building required. [...] China has everything to gain from embedding its relationships with other major players in a congenial multilateral forum like the G20, which represents developed and developing nations equally [...] a forum to build relationships and pursue its interests as common interests for incremental and long-term reform of the international economic system" (Tyler 2013).

China will hopefully be the G20 president in 2016, following Australia in 2014 and Turkey in 2015. At the time of writing, the choice is between China and Japan.<sup>[5]</sup> A Chinese G20 presidency can rescue the G20 from irrelevance and promote several win-win substantive initiatives. But first, the G20 work methods must change to enable effective results.

### 5.1 Process Innovations

The process is suffering from several dimensions, including the sidelining of the Troika, excessive involvement of international organizations, the lack of a secretariat, and the excessive tilt appeasing demands for outreach, transparency and accountability.

In its presidency, China should exploit the prerogative of the chair and redesign the G20's informal institutional framework and functions, rather than passively accepting those already existing. The first reform should be to transform the Troika into a "bureau" or executive committee by adding the US and one other major country, the core group that will crunch the issues and do the work. Moises Naim advises "forget about trying to get the planet's nearly 200 countries to agree. We need to abandon that fool's errand in favor of a new idea: