

Global Economic Governance: China Finds Its New Role

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Developing countries are playing an increasingly active and important role in promoting reform of global economic governance. China, as a major global power with increasing economic strength, has put forward a series of propositions with other emerging economies to improve global economic governance and push forward the process of its reform at various global and regional platforms. China's propositions not only reflect its participation in and promotion of improved global economic governance, but also influence the development direction of global economic governance.¹ However, it should be noted that the global governance system has not embraced the profound changes in the global economic landscape and is therefore inadequate in terms of representation and inclusiveness.² This means China and other emerging countries are still facing many challenges in participating in global economic governance.

New Characteristics in Global Economic Governance

Since the beginning of the 21st Century, especially following the global financial crisis in 2008, new situations and changes in global economic

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1 Xi Jinping, "Cement Confidence and Seek Common Development - Speech at the 8th BRICS Summit," *People's Daily*, October 17, 2016, p.2.

2 "Keynote Speech by H.E. Xi Jinping, President of the People's Republic of China, at the Opening Session of the World Economic Forum Annual Meeting 2017," *People's Daily*, January 18, 2017, p.3.

governance have emerged. On one hand, with the rise of emerging economies, the connotation of global economic governance has continued to expand, and its content and forms have become more diversified. On the other hand, with the evolving global economic pattern, global economic governance has shown a series of new features, providing new opportunities for developing countries to increase their participation in global economic governance.

Changing roles of the subjects

The subjects of global economic governance include states, international economic organizations, enterprises and individuals. After the global financial crisis, there have been two major changes in the subjects of global economic governance: first, the leading and guiding role of states (governments) in global economic governance has become more prominent; second, intergovernmental cooperation and coordination mechanisms are playing a more important role in global economic governance. The role of states (governments) has changed significantly after the financial crisis. Before the crisis, as the dominant power in the traditional regime of global economic governance, major developed economies played a prominent role. After the financial crisis, with the changing comparative economic strengths, the participation and influence of emerging economies has increased significantly.³ As for the role of intergovernmental cooperation, new mechanisms of global economic governance have emerged and made an important contribution, of which the G20 is particularly prominent. At the same time, the BRICS cooperation mechanism has become an important platform for emerging markets and developing countries to participate in global economic governance.

Diversification of ideas for participation

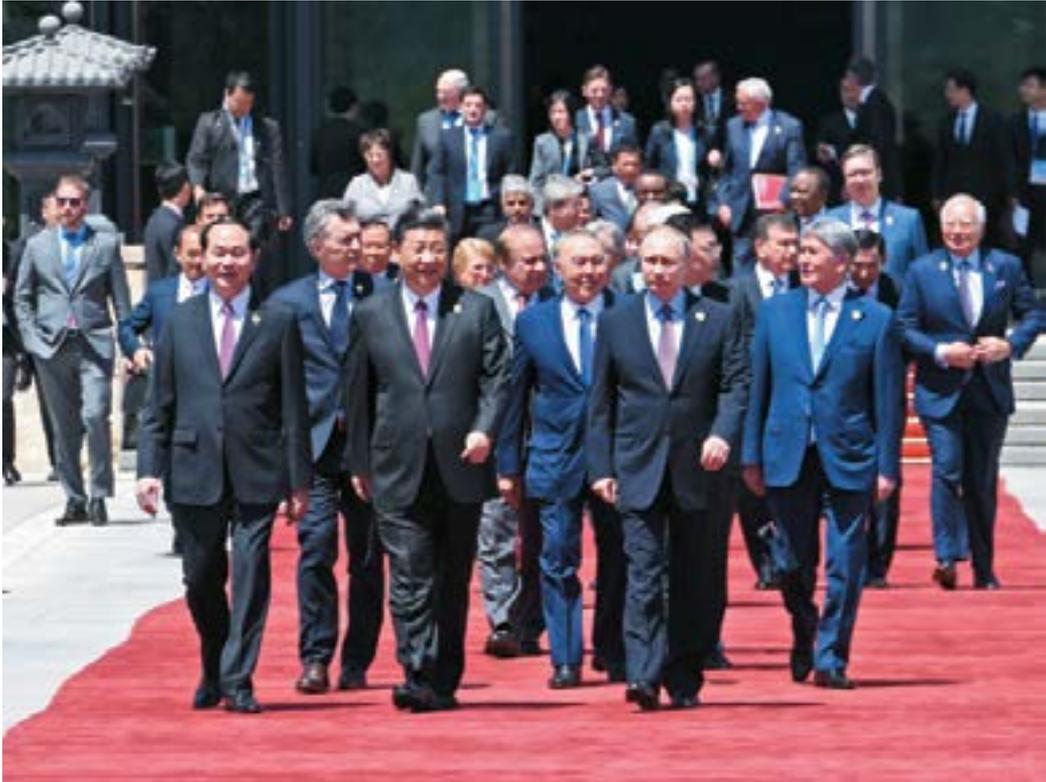
In recent years, there has been great differentiation among major

3 Zhang Yuyan and Tian Feng. "The Definition of Emerging Economies and Their Role in the World Economy," *International Economic Review*, No.4, 2010, pp.7-26.

countries on the concepts for participation in global economic governance. Some countries more actively support an open global economy, while others have become more inward-looking. Via the platforms of global economic governance, such as the G20, China and other supporters of economic globalization have actively advocated the concept of openness, inclusiveness, cooperation and win-win results, while other countries pursue protectionism and retrogress on their policy on multilateral trade and globalization, among which the adjustment of US policies to be more inward-looking is greatly challenging global economic governance. In the economic and trade field, the US government tends to take a tough position in foreign economic cooperation, setting various trade barriers to China, Germany and others who have trade surpluses with the US, and imposing punitive tariffs on specific commodities. The US government's foreign trade policy may not only directly lead to trade wars, but also increase uncertainties in the financial market. In a word, the difference in ideas held by major economies has increased the difficulty of reaching agreement on joint actions, making future development of global economic governance full of uncertainties.

Governance path under challenge

Due to great changes in the driving forces of economic globalization, the world's trade pattern and the landscape of international economic cooperation and competition, the basis and conditions for countries around the world to participate in global economic governance have significantly changed, so have their recognition and expectations of the governance, resulting in the adjustment of paths to realize global economic governance. This is mainly manifested in the following three aspects. First, the global multilateral economic and trade governance has suffered setbacks. The global multilateral trade system, represented by the World Trade Organization (WTO), is developing along a bumpy road. Trade and investment protectionism prevails and reform to mechanisms of global economic governance moves slowly, impeding the healthy development of the governance. Second, regional economic cooperation has progressed



President Xi Jinping and foreign delegation heads at the Leaders' Roundtable Summit of the Belt and Road Forum for International Cooperation in Beijing, May 15, 2017. The joint communique published following the summit vows to help improve global economic governance, and ensure equal access by all to development opportunities and benefits.

tardily and experienced ups and downs; the United Kingdom's decision to leave the European Union and the United States' withdrawal from the Trans-Pacific Partnership (TPP) have brought new uncertainties. Great difficulties have emerged in new free trade agreement negotiations such as the Transatlantic Trade and Investment Partnership (TTIP), the Free Trade Area of the Asia-Pacific (FTAAP) and the Regional Comprehensive Economic Partnership (RCEP). The driving forces for regional economic governance have been weakened. And finally, the model of bilateral cooperation is favored by major countries and has become one of the main channels to achieve global economic governance. On the one hand, the United States and other developed countries rely more heavily on bilateral economic cooperation; on the other hand, some countries committed to

promoting multilateral cooperation have also reluctantly chosen bilateral channels to cope with external challenges.

Rules system being reshaped

The system of rules for global economic governance has two basic features. First, the mechanism and relevant rules of global economic governance have increasingly shown their limitations in promoting financial stability, free trade and trade balance, and investment fairness. The outbreak of the international financial crisis in 2008 exposed problems in the West-led global economic governance system, and a routine amendment will not be able to cope with increasingly prominent global problems.⁴ Second, the rules system is fragmented. In a new round of adjustment to the global economic governance rules, the competition between major countries is increasingly focused on the rules-making power. Because of setbacks in the multilateral governance process, major powers have initiated a series of regional and bilateral economic integration proposals, and strived to upgrade the rules and make up for shortcomings of the existing governance system. One of the immediate consequences is that a “spaghetti bowl effect” in global economic governance rules is on the rise. New rules and different standards have not only become integral to the reshaping of the global economic governance system, but also indicated that the future governance rules will face more difficult integration.

In short, global economic governance is in the process of deep adjustment and change, which creates an important period for China and other emerging economies. Although these adjustments and reforms are confronted with enormous resistance and uncertainties, they constitute new opportunities for emerging countries to become further involved in global economic governance.⁵

4 Ding Xiaoqin, “Crisis and Governance: To Establish a New Global Economic and Political Order,” *World Review of Political Economy*, Vol.1, No.1, Spring 2010, pp.173-179.

5 Fan Yongming and Shen Chen, “Restructuring of Global Economic Governance: China’s New Strategic Opportunity,” *International Review*, No.3, 2013, pp.1-5.

China's Opportunities to Participate in Global Economic Governance

Against the backdrop of profound changes in the world's political and economic landscape, China, as a new force, is becoming more involved in global economic governance. This, to a large extent, reflects that the emerging economies are actively taking the initiative to voice their interests and appeals and promoting a new world political and economic order. The following new opportunities have provided important conditions for China's participation and rising influence.

China's increasing economic strength

Thanks to its rapid economic growth over the past three decades as a result of its reform and opening up, China's status in global economy has risen and continued to rise. According to statistics of the International Monetary Fund (IMF), in 2010 China's economic output by market exchange rate surpassed Japan and it became the world's second-largest economy; and in 2014 China's economic output by purchasing power parity surpassed that of the United States, to rank first in the world.⁶ In terms of trade and investment, China became the world's largest commodity trading country in 2013, and became the world's largest investment destination and the net capital exporter in 2014.⁷ In terms of currency and finance, the renminbi became the world's third-largest trade and financing currency in 2015, the sixth-largest payment currency and the fifth major foreign exchange currency.⁸ That's why the IMF sees China as one of the world's important economies. It believes that the internal economic policies carried out by the important economies will, through spillover effects, have systematic impacts

6 IMF World Economic Outlook Database, <http://www.imf.org/external/pubs/ft/weo/2017/02/weodata/index.aspx>.

7 UNCTADstat, <http://unctadstat.unctad.org/EN>

8 People's Bank of China, *Internationalization of the Renminbi 2017*, <http://www.pbc.gov.cn/huobizhengceersi/214481/214511/214695/3398597/2017101710035015721.pdf>.

on the global economy. China's emerging economic strength has laid a solid foundation for its participation in global economic governance.

Diversification of ideas on global economic governance

The 2008 financial crisis has exposed the limits and drawbacks existing in the neo-liberalist economic model based on liberalization, privatization and marketization. With a new idea of governance yet to be widely accepted, a diversified pattern has emerged,⁹ which provides a good opportunity for China and other emerging powers to play a positive role in the new round of reform. After more than 30 years of rapid economic growth, China has accumulated rich experience in the field of development. During its long-term practice of economic cooperation with other countries, China has gradually formed the basic idea of wide consultation, joint contribution and shared benefits.¹⁰ This idea reflects China's pursuit of justice, equality, openness and inclusiveness in global governance, and it is also an integral part of China's new type of international relations featuring win-win cooperation. The Chinese ideas for global governance are gaining increasingly broader acceptance.

Establishment of new governance platforms

At the G20 summit in Pittsburgh in September 2009, the leaders reached a consensus to make the G20, instead of the G8, the most important consultation platform for global economic governance.¹¹ This represents significant progress for the emerging economies in promoting reform of the global economic governance system, and provides a new platform for China's involvement in establishing a new global economic order. At the G20 summit in Hangzhou in September 2016, President Xi Jinping elaborated on China's

9 Chen Dongxiao and Ye Yu, "Global Economic Governance: New Challenges and China's Approaches," *China International Studies*, No.2, 2017, pp.5-22.

10 Zhang Yuyan, "Chinese Perspective in Global Governance," *World Economics and Politics*, No.9, 2016, pp.4-9.

11 "Leaders' Statement, the G20 Pittsburgh Summit", September 24-25, 2009, <http://www.g20.utoronto.ca/2009/2009communique0925.html>.

proposal to improve global economic governance, saying that global economic governance should be based on equality and oriented by openness, with cooperation as its driving force so as to realize the win-win prospects. President Xi also appealed for joint efforts to build up equitable and efficient global financial governance, foster open and transparent global trade and investment governance, establish green and low-carbon global energy governance, and facilitate inclusive and interconnected global development governance.¹² This was the first time that China comprehensively elaborated on its ideas for global economic governance using the G20 platform, and they were positively received by the international community. The BRICS cooperation mechanism provides another new platform for China and other emerging countries to play a greater role in global governance. Since the establishment of the BRICS leaders' meeting mechanism, the areas of cooperation among member states have been expanding and deepening, with many remarkable achievements being made. For example, the BRICS declared the establishment of a new development bank with a statutory capital of US\$100 billion and an initial contingency reserve of US\$100 billion, both of them complementing the existing international financial governance.

Systematic adjustment of governance rules

With China's opening up, the global economy is having growing impacts on the Chinese economy so the drivers for China to participate in global economic governance are also increasing.¹³ With its rising economic strength and deepening economic exchanges with other countries, China's role and status in global economic governance continue to rise. Now China has become one of the important forces driving reform of global economic governance and the world's global economic system.¹⁴ In order to integrate

12 "Xi Jinping Attends Opening Ceremony of the 2016 B20 Summit and Delivers Keynote Speech," September 3, 2016, http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1395086.shtml.

13 Hongying Wang and James N. Rosenau, "China and Global Governance," *Asian Perspective*, Vol.33, No.3, October/December 2009, pp.5-39.

14 Takatoshi Ito, Kazumasa Iwata, Colin McKenzie, Marcus Noland and Shujiro Urata, "China's Impact on the Rest of the World: Editors' Overview," Vol.9, No.2, July 2014, pp.163-179.

into the global economy and guard against external risks, China has become more active, participating in global economic governance and promoting the development and improvement of the global economic system. Since major countries' policy implementations bring about spillover and pull effects, China's more open and inclusive economic policy orientation and behavior have resulted in positive influences on other countries in their economic readjustment. At the same time, a series of new mechanisms and rules promoted by China, such as the BRICS New Development Bank (NDB) and the Asian Infrastructure Investment Bank (AIIB) have been established, to better reflect and uphold the interests of emerging economies, showing the trend of democratization in international relations.

Challenges Facing China's Participation

There are various factors affecting China's role in global economic governance. But the challenges are mainly in the following four aspects.

Institutional constraints more obvious

In recent years, China's status in the global economic governance system has been rising significantly. For example, China has played an important role in pushing the IMF and the World Bank's reform program to transfer shares to emerging market countries. However, in the agenda and orientation of reform of the intentional institutions, the voice of developing countries is still weaker than that of the developed countries led by the United States. In international trade, the developed countries, such as the US, Japan and Western European countries, have bypassed the multilateral framework and tried to obtain the leading position in rules-making through the TPP and other regional trade agreements. The TPP might fail due to policy change in the US and other factors, but the US and European developed countries will not voluntarily relinquish their dominant position in rules-making. The financial crisis in 2008 caused heavy losses to developed economies, and great changes have taken place in the power

balance between developed and developing countries. Reform of the global economic governance system has evolved from aspirations and appeals into concrete actions and programs, but the reform process still lags behind the changing situation. During the initial stage of the crisis, the developed countries resorted to certain reforms and made some concessions in order to gain support from developing countries. While developed countries witnessed gradual economic recovery afterwards, some developing countries started to suffer from economic slowdown or even economic decline. In this context, developed countries have become more reluctant to implement reforms, and even unwilling to make their promised concessions. Reform of global economic governance has thus been thwarted.

Hindering forces increasingly stronger

The financial crisis has profoundly exposed many malpractices and deficiencies in today's global economic governance, which made people realize the importance and urgency of carrying out reforms to the existing system and reconstructing the governance rules.¹⁵ Emerging countries, represented by China, are committed to promoting reform of the existing global economic governance system so as to make it fairer and more reasonable, while developed economies, headed by the United States, have stepped up their efforts to maintain dominance in the new round of economic and trade rules-making. Those countries or blocs with vested interests will not easily give up their leading position in the rules-making for future global economic governance, and they will be on high alert and guard against any potential challenges. The divergence and competition in this respect will profoundly affect global economy, trade, financial and monetary governance structure in the future.

Influence of supportive platforms still limited

In the existing mechanisms of global economic governance, the main

15 Bi Jiyao, Yao Shumei, Hao Jie, Li Dawei and Yang Changyong, "The World Economic Development Trend and Change of Global Governance Structures after the Financial Crisis," *China Economic & Trade Herald*, No.15, 2014, pp.5-8.

platforms for China to exert its influence are the BRICS cooperation mechanism (including the BRICS New Development Bank) and the Asian Infrastructure Investment Bank. After establishment of the BRICS mechanism, China has expanded the bloc's outreach channels. Now, the BRICS cooperation includes summits, ministerial meetings, expert group discussions and unofficial forums, thus forming a four-in-one model among politicians, business elites, the academia and the civil society. The BRICS cooperation mechanism is a policy communication platform, so that any consensus or action plans agreed by the five countries are not mandatory. Even the NDB, the first institution jointly established by the BRICS members, is constrained by the efficiency of its actions. The NDB was placed high hopes from developing countries when it was established, but it has not played its due role because of its relatively slow progress. Now, the overall economic growth in BRICS countries has slowed down, and the development of some countries has been trapped in stagnation due to external factors, which has exerted negative impacts on BRICS cooperation. Meanwhile, the AIIB is still in its infancy, and it has limited influence on the existing international monetary and financial system. Its support for China's role in global economic governance needs to be improved.¹⁶

Uncertain factors on the rise

In the past year, so-called "black swan" events have happened one after another in developed countries, reflecting a growing trend of reversed globalization in the developed world. The United Kingdom's decision to leave the European Union and the repercussions when that happens will damage economic integration in Europe and have a negative influence on other regional economic integration efforts. The declaration by the US President Donald Trump to implement protectionist measures, launch trade wars, withdraw from the TPP, and demand renegotiation of the North American Free Trade Agreement (NAFTA), will inevitably provoke

16 Helmut Reisen, "Will the AIIB and the NDB Help Reform Multilateral Development Banking?" *Global Policy*, Vol.6, No.3, September 2015, pp.297-304.

other countries to respond with similar inward-looking measures. The “America First” trade policy pursued by the Trump administration seeks more favorable terms for the US, but it undermines fairness in global trade and will eventually undermine the sustainability of world trade and global economic development.¹⁷ In an era when the global economy is highly interdependent, these inward-looking policies not only pose challenges to economic growth in the world, but also fundamentally undermine the interests of policy implementers. In the short run, due to the asymmetric economic dependence on developed countries and insufficient experience in policy responses, developing countries, represented by China, are expected to come across greater challenges in the face of relevant policies. In addition, the unchecked political turbulence in various regions will bring about increasing uncertainties for China in its economic cooperation with other countries. The tumultuous political environment and complex social problems distract the attention of the countries concerned from pushing for reforms of global economic governance, and increase the variables for prospects of China’s participation in global economic governance.

Paths for In-Depth Participation in Global Economic Governance

There is more room for China to play a greater role in global economic governance and promoting reforms to the governance system. Further efforts can be made in the following areas.

Paying equal attention to reform and innovation and optimizing the global economic governance system. The evolution of global economic governance is closely linked with changes in the international power structure. The rise of China and other developing countries will inevitably change the distribution pattern of interests in various fields of global economic governance, thus bringing about competition among

17 Jacqueline Best, Paul Bowles, Rachel Epstein, Kathryn Hochstetler, John Ravenhill and Wesley W. Widmaier, “International Political Economy Meets the Unexpected: Brexit, Trump and Global Populism,” *Review of International Political Economy*, Vol.24, No.2, 2017, pp.177-178.

different countries. Developed countries have vested interests in maintaining the existing governance system, so that they can seek to formulate more restrictive rules for newly emerging and developing countries. As for emerging countries, it is their basic pursuit to improve the existing global economic governance. On the one hand, owing to the fact that newly emerging countries are absent from or inexperienced in most current rules-making process, the existing system fails to adequately reflect their interests and appeals. However, on the other hand, emerging countries are also beneficiaries of the existing global economic governance. The existing governance system has created a stable external environment for the economic development of emerging countries, and reduced the global challenges and uncertainties which the emerging countries had to cope with. Therefore, to maintain stable development of the existing system is a realistic option for emerging countries, including China. That means efforts should be made to transform and improve the existing system without radical changes. However, it should be stressed that when reforms to economic governance lag far behind the actual global political and economic situation, the establishment of new international mechanisms and rules will contribute to formation of the driving forces for improving the existing system, at least to a certain extent.¹⁸

Creating new impetus for South-South economic cooperation and enhancing influence of proposals from developing countries.

Although the voice of developing countries in global economic governance is not on a par with that of developed countries, developing countries are still important participants instead of being mere observers, and a force that China has to rely on. Under the framework of global economic governance, the developed economies have the G7 to represent their own interests. G7 countries have frequent internal communications and consultations on many issues, and form common positions and opinions, so as to protect their interests. However, because of the absence of an efficient

18 Xu Xiujun, "Looking at the World Economic Order from the Chinese Perspective," *Quarterly Journal of International Politics*, No.1, 2016, pp.90-117.

communication and coordination mechanism, developing countries have great differences among themselves and are often unable to establish a common position, thus putting themselves in a disadvantageous position in competition with developed countries. Therefore, China, together with other developing countries, should coordinate their policies on various platforms of global economic governance, speak with one voice, and constantly expand the discourse power of developing countries in global economic governance. In this process, the BRICS cooperation mechanism can play an important role, and its expansion by integrating more developing countries into its framework would enhance the overall influence of developing countries. In addition, the framework of international development cooperation based on South-South cooperation should be strengthened, and new multilateral development institutions should be developed. While promoting multilateral economic diplomacy, China should work hard to build a global network of equal, inclusive, peaceful and constructive partnerships.

Strengthening platform construction and giving full play to pragmatic mechanisms. In the field of global economic governance, the G20 and the BRICS mechanism are important platforms for China to engage in practical cooperation with the world's major countries. At present, both the G20 and the BRICS mechanism have formed a structure, which is guided by the summit, supported by the dual tracks of Sherpas and Finance Deputies channels, and supplemented by ministerial meetings and working groups. However, the two mechanisms have not been formalized with secretariats or charters. The theme of each meeting is proposed by the host country, thus the summit agendas are not guaranteed to have continuity. Moreover, since these exchange and coordination mechanisms are at different levels and play different roles in international rules-making, they should be treated and utilized on their merits. To conduct exchanges and cooperation at different platforms and levels, there is no need for all countries to reach consensus or take the same position on all issues, because countries have diversified interests and strategic considerations. What

is most important is to solve common practical problems and conduct maximum pragmatic cooperation in the fields of trade and investment, monetary and finance and development. In the emerging global economic governance platforms such as the G20 and the BRICS, pragmatic cooperation at the working-group level often plays a basic role in rules-making negotiations, which directly tests the ability of developing countries including China in agenda-setting and rules-making. Therefore, more attention must be paid and corresponding inputs must be made.

Attaching importance to agenda-setting and elevating the status of the development issue. Global economic governance includes a wide range of issues and areas, and new ones are emerging. The development issue has replaced crisis response and returned to the core position of global economic governance. At present, problems such as lack of growth momentum, uneven development, unequal development opportunities and unfair distribution of development achievements have become increasingly prominent in the world economy, hence the urgency of reforming the global economic governance system. The defects in and obstacles to the economic growth, cooperation, governance and development models of various countries are one cause of the continuous emergence of global problems. As the largest developing country in the world, China has accumulated rich experience in development, and creatively put forward the new development concept of innovative, coordinated, green, open and shared development. The objective, inherent concept, mode of cooperation and approach to implementation of China's Belt and Road Initiative, with development as its core, have global significance; so do China's efforts to solve the problems of unbalanced development, governance dilemma, digital divide and distribution disparity.¹⁹

Maintaining a peaceful and stable environment for development, and building a protective network for economic security. Maintaining international public security is of vital interest for every country, and it is

19 Wang Yi, "Construction of Belt and Road at a New Starting Point," *Qiushi*, No.11, 2017, pp.5-8.

also the responsibility of every country.²⁰ At present, policy coordination and risk control among the international community, especially among the major countries, are one of the important variables that impact the effectiveness of global economic governance. The developed economies, such as the United States, the European Union and Japan, frequently adjust their economic policies with each doing things in its own way, while the economic growth of emerging and developing countries are in general slowing down and disintegrating. All this casts a shadow on the prospects for global economic recovery. International commodity prices are at a low level, which not only impacts the stable economic growth of energy producing countries, but also increases the risks of global deflation. The high level of debt in developed countries and the rapidly rising debt in emerging markets have further increased their economic vulnerability to external shocks. Trade and investment growth is weak, and protectionism and even populism are on the rise, restricting further development of global economic integration. Politically, the risk of geopolitical instability in West Asia and North Africa, the Korean Peninsula, Latin America and the South China Sea has increased uncertainties in maintaining regional security and world peace. China's Belt and Road Initiative covers a number countries and regions where economic and social development levels are relatively backward. Some of these countries face problems, challenges and risks such as war, domestic ethnic conflicts, social unrest, deteriorating security environment, terrorism, sudden infectious diseases and natural disasters. These problems have a negative impact on China's participation in regional, trans-regional and global economic cooperation. Therefore, it is necessary to establish and improve the security system according to the risk categories and levels of different countries and regions, and build a protective network for economic security in key countries and regions to safeguard China's participation in global economic governance. 🇨🇳

20 Yang Jiechi, "Actively Shouldering International Responsibilities and Obligations," *People's Daily*, November 23, 2015, p.6.