

Proposals for China's Participation in Global Economic Governance

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Introduction

As the world economy struggles to recover from the global financial crisis in 2008, the global economic governance has undergone profound changes. Currently, US is recovering well. Fading out quantitative easing, the Fed is making arrangements to increase federal funds rate and normalize market interest rates. As the darkest moment of European Sovereign Debt Crisis has passed, structural reform and European integration are underway. While the Abenomics has been effective in the short run, it remains to be seen whether it can sustain Japan's economic recovery. Emerging economies find themselves started to diverge, powering less momentum into economic growth. In this new context, how should China participate in global economic governance? This paper intends to offer some analysis for further discussions.

Changes are brewing in global economic governance

Generally speaking, no fundamental change has taken place in global economic governance as the old system continues to dominate. Yet, positive factors have emerged, brewing changes. Following points have featured current global economic governance:

First, developed economies as a whole have recovered well while divergence occurs in emerging economies. International capitals start to flow back to developed economies. Risks involved in global financial system are increasing. Negative spillover effect from International capital flow, especially under the influence of Fed's monetary policies, is growing stronger on emerging economies. In some emerging economies, currency depreciation and financial markets fluctuation have occurred over the last two years. For instance, Indonesia, Argentina, Turkey, Russia have all witnessed capital flight, currency depreciation and stock market fluctuations. Overall, China is stable. The central bank of India has managed to control inflation. Its economy is now deepening reform and structural adjustment. Russia and Brazil, on the other hand, are undergoing adjustment.

Second, global landscape for financial governance remains unchanged, to some extent, even shifting back to the old system. The veto right of the U.S. in IMF has delayed the organization's reform over and over since 2010, leaving the quota and voice of emerging economies like China unchanged. In October, 2013, the US Federal Reserve, European Central Bank, Bank of England, Bank of Japan, Bank of Canada and the Swiss Central Bank reached long-term currency swap arrangements, rebuilding international currency system. The U.S. has adjusted its monetary policies, drawing international capitals back to developed economies. Financial markets in developing countries have been left in fluctuations as U.S. dollar enhanced its role as major currency in global economy. At IMF spring meeting 2015, an "IMF reform Plan B" was raised. But it failed to keep the G20 authority from dropping. Now, the U.S. dollar resumes its dominant position in international currency system, challenging the establishment of a diversified international reserve currency system much expected by emerging economies.

Third, emerging economies have made progress in participating in global economic governance. On the fifth annual BRICs summit held in South Africa in March, 2013, three new platforms were proposed, namely, BRICs Business Council, BRICS Development Bank and a reserve currency pool. Such platforms are designed as useful supplements for WTO, the World Bank and IMF. In July 2014, BRICs leaders achieved consensus in Brazil on building the New Development Bank (NDB). This bank headquartered in Shanghai and equally funded by the five BRICS, marks that BRICs financial cooperation has moved into substantial phase. On October 12th, 2013, President Xi Jinping proposed the establishment of Asian Infrastructure Investment Bank (AIIB). On June 29th, 2015, *Asian Infrastructure Investment Bank Articles of Agreement* was officially signed in Beijing. Financial ministers or authorized representatives from AIIB's 57 prospective founding members have attended the signing, 50 of them have gained domestic approval and signed the Agreement on the ceremony. It is agreed that AIIB will be officially founded before the end of 2015.

Fourth, as free trade negotiations under WTO framework stall, regional FTA negotiations have flourished. For example, the US-led TPP and TTIP are in full swing. As financial crisis fades and developed economies regained their footing, the U.S is trying to rebuild a set of international rules that would favor the developed countries. But it has excluded China from the TPP negotiation. The ASEAN-led RCEP, with comparatively low standards, is quite difficult to pursue as ASEAN can be overwhelmed by such a huge project. The China–Japan–South Korea FTA negotiation, in particular, involves lots of conflicts of interests, casting a shadow of uncertainty over Asia economy,

Fifth, inherent defects exist in Asian financial stabilization mechanism. Chiang Mai Initiative Multilateralization fund was launched by the 10 ASEAN countries and 3 non-ASEAN countries, namely, China, Japan and South Korea. However, the fund is more of a commitment as it does not have an actual money pool. If any "10+3" member countries were to be struck by financial crisis, all the "10+3" pack will offer bail out money proportionally as previously agreed. This mechanism is not flexible enough to respond immediately to early signs of financial crisis. Besides, cooperation among the three non-ASEAN members, between China and Japan in particular, may be a matter of concern.

Challenges for China to participate in global economic governance

As the second largest economy, China naturally assumes the responsibility of engaging actively in global economic governance. But for China to fulfill this responsibility, there are many challenges now.

First, China lacks sound knowledge of new trend, new standards and new rules of today's economic globalization. China does not have in-depth studies on multilateral service agreements, free trade agreements such as TPP, TTIP and BIT. In China, there is not sufficient awareness regarding the gap between its reality and new standards and rules internationally. The risks involved in borrowing and introducing those new rules and standards are not assessed. Overall, China is not well prepared.

Second, Chinese economy is far from fully opened. Since the entrance into WTO in 2001, China has fulfilled its commitments. Still, many sectors in China maintained their limitations. This is mostly showed in Agriculture and service trade. Take finance for example, to protect domestic financial industries, China only opened its financial sector a little since the WTO entrance. By the end of 2013, foreign capital accounts for less than 2% in Chinese Banking industry, lower even than that in 2001.

Third, there is a significant gap between existing rules in China and new international rules. For China, there are only a few FTA agreements with limited coverage. BIT involves only a few national treatments, which are mostly post-establishment national treatment rather than pre-establishment national treatment. China's negotiations with the U.S on BIT reveals a great gap between its existing rules and the international ones regarding negative list, foreign exchange transfer, labor regulation, financial services, competition neutrality, tax law transparency, environmental protection etc.

Fourth, China is yet to establish a multilayer foreign affairs system to fully leverage public diplomacy. China lacks a specialized institution to coordinate public diplomacy, which leads to unclear responsibilities in setting and carrying out diplomatic strategies. Immature NGOs and think tanks, incompetent professionals under new circumstances, as well as scattered efforts have all limited the soft power of China. All these can take a toll on China in terms of its enterprises going global, its ideal of forcing reform domestically by furthering open-up as well as its hope to be recognized as a responsible major country.

Proposals for China in terms of global economic governance

To forge iron, one must be strong. China needs to work on sustainable development, coordinating "steady growth, structural adjustment, reform promotion, livelihood improvement, risk control and broader open-up". By solving its own problems properly, China is making great contributions to world economy and the development of human being. On top of that, faced with new circumstances, China should take initiative to play its role. China needs to facilitate the reform of global economic system, especially the reform in international monetary and financial systems, so as to steer global economy towards a fairer and more reasonable direction. Also, China shall play an active role in G20 and other global economic governance mechanism. Taking a comprehensive, balanced, incremental and result-oriented approach, China can help build a multilateral trade mechanism that features balance, inclusiveness and win-win solutions, as part of the efforts to combat trade protectionism in all forms. By means of this, international economic order and global governance systems can be both fair and efficient.

First, multilateral governance system should be upgraded under multilateral framework. All levels of cooperation should be enhanced to give a full play to global governance. Internationally, cooperation is needed in UN, WTO, IMF, WBG, G20 etc. Cross-regional cooperation is required in OECD, G7, and BRICS etc. Regional collaborations are also wanted in EU, OPEC, NAFTA, SCO etc. Last but not least, bilateral coordination shall be supported in mechanisms like China-Africa Cooperation Forum, China - ASEAN FTA. G20 shall be promoted as the main platform of this multilayer global governance system. As the host of G20 in 2016, China shall work to restore and improve G20 authority.

Second, China shall help build a multilateral trade mechanism that features balance, inclusiveness and win-win solutions, as part of the efforts to combat trade protectionism in all forms the role of WTO as multilateral trade authority shall be enhanced by facilitating Doha Round to produce a comprehensive and balanced result as soon as possible. By means of equal conversation, China shall handle properly trade frictions so as to facilitate trade. Also, trade barriers need to be broke down in order to build a free, open, just global trade system with a sound trade environment.

Third, China shall help advance global monetary reform so as to improve financial regulation system. The first step shall be reforming in IMF and the World Bank. The management of international organizations shall be selected in a just and meritocratic manner. And international monetary system shall be reformed into one that enjoys stable currency, orderly supply and

adjustable total amount. China shall work to add RMB into SDR basket in this year's regular SDR assessment with a view to boost RMB's global status. Meanwhile, China shall help expand the scope of SDR uses in order to reform SDR. As for regulation, information sharing shall be enhanced among countries and international organizations. We need to enhance global capital flow regulation, hedge funds in particular, regarding "hot money" and "money laundry". On top of that, an international financial security network shall be established to secure global finance.

Fourth, China should boost regional economic cooperation by carrying out free trade area strategies. As the world economy shifts to Asia-Pacific region, to Northeast Asia in particular, it is imperative to upgrade China-ASEAN FTA and lay the groundwork for China-Japan-South Korea FTA negotiations. China, Japan and South Korea have a lot to offer to each other. To enhance industrial cooperation, China can, among other things, facilitate trade liberalization, financial cooperation so as to promote settlement in local currency in bilateral trade as part of the efforts to develop the offshore RMB market.

When it comes to FTA negotiations with the US and the EU, China shall take three steps so as to deepen bilateral cooperation and promote FTA strategies. First step, BIT negotiations. Second step, BIIT negotiations. Third step, FTA negotiations. In terms of regional cooperation, South-South cooperation needs to be handled properly. Under South-South cooperation framework, China shall aid other developing countries in their development. Also, China shall give AIIB, New Development Bank, SCO a full play in translating savings in developing countries into investments. By building a long-term financing mechanism, China can help world economy, especially those developing economies to achieve strong, inclusive and balanced growth.

Fifth, China shall participate in the revision of trade and financial rules in the world. The three major rating agencies have monopolized global credit market, which can give rise to fluctuations in financial markets. The monopoly must be broken by setting standardized practice, regulations and rules so as to build a fair and reasonable international credit system.

Lastly and most importantly, China needs to build its capacity in providing public goods to fulfill its international obligations. China shall play an active role in organizations like the World Bank, the UN, IMF, and WTO to create global public goods. Meanwhile, China can make innovations in macroeconomic control so as to build counter-cyclical capacity, which will enable China to smooth economic cycle and to guard against systemic risk caused by significant fluctuations in financial markets.