

# **Proposals for Establishing a Permanent G20 Secretariat and Constructing the“5+1” Macroeconomic Policy Coordination Mechanism**

*Dr. XU Hongcai*, Director of Economic Research Department, China Center for  
International Economic Exchanges

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The G20, as an important platform for the world economic cooperation, has played a significant role in tackling the 2008 financial crisis. However, it is also facing a series of problems, such as its lack of authority and executive power. Currently, with changes on going in the world economy, the mission and strategic position of the G20 are under transformation, in which the short-term of dealing with financial crisis is transforming to promote the long-term sustainable development of global economy. The eleventh summit of the G20 will be held in Hangzhou in September this year, and all kinds of preparation are being done now. During its presidency of the G20 this year, China should seize this special opportunity to actively make relevant proposals to lead the transformation of G20 mechanism and to play a more proactive role in global governance. In my opinion, one of the most urgent and crucial issues is to establish a permanent secretariat for the G20 and to improve the macroeconomic policy coordination mechanism of systematically important economies.

**I: the background and significance of establishing the G20 secretariat and**

## **improving the macroeconomic policy coordination mechanism**

Recently, Chinese President Xi Jinping has called on the international community to strengthen macroeconomic policy coordination at many important international occasions. He advocated improving global economic governance through the G20 platform and other mechanisms to avoid negative spillover effects of the macroeconomic policy from major economies so as to promote a strong, sustainable and balanced growth of world economy. However, this initiative has not been well implemented yet.

Firstly, the world economy has been undergoing a slow growth in recent years. The economic trends and policies of different countries seriously diverged. Especially, the spillover effects of macroeconomic policies from the systematically important economies are increasing. The systemic financial risk in the world is rising, which requires relevant countries to improve current global macroeconomic policy coordination mechanism urgently. Nowadays, the economy in the U.S. takes the lead in recovery and is in the phase of raising its interest rates. Economic recovery in Europe is relatively weak and the quantitative easing (QE) policy of the European Central Bank is still expanding. Abenomics has shot “new three arrows” with only limited effect and the Japanese central bank has released a negative interest rate policy. Meanwhile, bulk commodity prices continue to slump and short-term capital flows are accelerating in the global markets. Besides, foreign exchange market fluctuates intensively and emerging economies are facing new risks. Under such complicated context, establishing and improving macroeconomic policy coordination mechanisms of major economies in the world are strongly needed to avoid another financial crisis.

Secondly, the current global macroeconomic policy coordination mechanism could not meet the need of nowadays global financial stability and the sound development of world economy. After the World War II, the troika of Breton Woods System- IMF, World Bank and WTO were set up. For 70 years, the heritage of the Breton Woods System has been evolving and still plays an important role in the global governance after experiencing the emerge of floating exchange rate system in 1970s, the set-up of G7 in 1980s, and the replacement of WTO for GATT in 1990s as well as

the establishment of G20 in 1999. Currently, facing the new challenges, the problems of the Breton Woods System are fully exposed. For instance, in the aspect of fiscal and monetary policy coordination, G20 members have a biennial assessment on each country's fiscal stand, public debts and potential financial risks. It is meaningful to reveal risks so that under-assessed state attaches great importance to the problem and adjusts economic policy to reduce risks. However, this assessment system relies on the conscientiousness of members and lack of constraint force. Especially, the Breton Woods System could not provide an efficient solution when facing the problem of clearly interest polarization and the increasing negative spillover effects of macroeconomic policy from systematically important economies. In the aspect of trade policy coordination, all kinds of bilateral and mutual FTA are surging, and the WTO Doha round negotiation is severely hindered. Besides, major economies in the world are all facing own structural problems. G20 financial ministers and central bank governors meeting has absorbed the structural reform into the framework of "strong, sustainable and balanced growth". In the aspect of structural reform, members of G20 are required to strengthen policy coordination as well.

Thirdly, as the core platform of international economic cooperation, G20 has played a significant role in the global governance. On the basis of this achievement, a reform within G20 is feasible to improve the global macroeconomic policy coordination mechanism. G20 gathers the main policy makers in the global, including representatives both from developed countries and emerging economies. The population, land area, and GDP as well as total trade volume accounts for large proportions of the whole world, which has great economic influence. For a long time, the G20 meeting is as a platform for information exchanges and policy communications for the leaders of main economies of the world, but its biggest weakness lies in the lack of executive force, which is likely to become a talking shop. This would negatively affect the G20's authority. Now, the main form of G20 consists of meetings organized by the rotating presidency country, including the G20 summits and the G20 finance minister and central bank governor meetings. Derived forms include G20 business meetings (B20) and G20 think tank meetings (T20), etc. Various

affiliate groups provide supports for related meetings. However, due to the fact that topics and contents are largely broad and multifarious and there are too many parties of interests involved, it is extremely difficult to push forward the coordination work needed in the process in an effective way. In recent years, there were voices among members of the G20 that call on the establishment of a permanent secretariat for the forum. The G20 secretariat proposed as a standing body is to organize and coordinate various work to be finished when the G20 meeting itself is adjourned. A permanent secretariat has its advantages in that: as a long-standing mechanism for the institute, it could improve the timeliness and effectiveness of the communication and coordination of its members' decision makings; it could help supervise and push forward the implementing of resolutions made by the G20 meetings; it could help enhance the cooperation between the G20 and other international organizations; also, it could help avoid topics and themes of the G20 meetings influenced too much by its hosting countries each year.

## **II. Establish the G20 secretariat under IMF's support, and construct the "5+1" macroeconomic policy coordination mechanism**

Firstly, establish the G20 secretariat under IMF's support. The IMF, as part of the Breton Woods System built after the World War II, has played a unique role in coordinating macroeconomic policies in the international community for a long time. Especially, the IMF has been active in dealing with the global financial crisis. Furthermore, as an international organization, the IMF has abundant experience in global economic and financial governance, and is well familiar with how internal operational mechanism works in multilateral organizations. The IMF is capable of helping building up a well functioning G20 secretariat. Given that there were similar appeals in previous relevant meetings, a proposal from China is a follow up with the trending consensus. With China's the presidency this year as a home advantage, it could be positively expected that such a proposal may be well supported by the G20 members.

Secondly, construct the "5+1" global macroeconomic policy coordination mechanism. Besides the establishment of long-term mechanisms such as the G20

secretariat, the five economies, currencies of which are in IMF's SDR basket, say, the United States, European Union (Euro Zone), China, Britain and Japan, are the major players in today's world economy of systematical importance. Changes in macroeconomic policies of anyone of them could impose significant influence to the global economy. Undoubtedly, enhancing the communication and coordination of macroeconomic policies of these five economies will help effectively control negative spillover effects of policy changes, reduce possible risks underlying of all kinds, and therefore maintain the stability of the global finance system and promote a strong, sustainable and balanced economy of the world. The so-called "5+1" is the U.S., Euro zone, China, Britain and Japan, and plus the IMF. Regular meetings of the "5+1" will be organized, the contents of which will focus on their macroeconomic policies: fiscal, monetary, foreign exchanges, trade and structural reforms, and so on. The objective is to enhance positive spillover effects of the coordination of the macroeconomic policy of these five major parties of the world economy while reducing the negative spillover effect to its minimum.

Thirdly, facilitate the IMF to scale up the usage of SDR. At the current stage, the international monetary system is still dominated by the United States. That means so much risk and responsibility have been shouldered by the dollars. It is not only unhelpful for the stability of global financial systems, but also due to the Triffin dilemma, it is in fact not good for the independence of the US Federal Reserve's monetary policy. In a lot of situations, the Fed faces a difficult choice between the value stability of the US dollar and the balance of supply and demand of global liquidity. Promoting the status of the SDR in international payments as a "super sovereign currency" could help reduce the level of risks in the international monetary system, and it will also help increase IMF's financial resources, which will help it to execute its responsibility in a more effective way. Currently, the SDR as the unit of account in adjusting international payment unbalance has many restrictions with it, including the very limited size and usage scale. The call for a scaled up usage of the SDR has a relatively long record. In 2009, on the eve of G20 London summit, Russia and China has openly proposed to level up the status of the SDR in the international

monetary system. Zhou Xiaochuan, governor of the People's Bank of China, once wrote an article on this topic. In what ways we could expand SDR's usage? One might be revising relevant regulations regarding SDR, including its valuing and issuing methods, and also establishing the settlement relation with other currencies. Second, expand SDR's usage in international payments among IMF members and in crisis-reliving assistance. Third, broaden the usage of SDR as the pricing unit in international trade and investment. Fourth, the IMF could provide SDR loans to central banks of its members and other multilateral development banks, the World Bank for example, which could as a result promote the usage of SDR in key infrastructural investments in the world.

To sum up, China as the presidency country of the G20 summit this year should take affirmative action on bringing up the topic that advocates the establishment of a G20 secretariat backed up by the IMF and the "5+1" macroeconomic policy coordination mechanism. In regards to the implementing of these suggestions, it would be better to let out some voices and build a smooth atmosphere for follow-up actions. Seminars on the topics could be organized by think tanks to initiate academic discussions on these issues, including the organization framework, rules of decision, operational mechanism and so on. During the meantime, China could actively communicate with relevant parties informally, trying to reach more consensuses. After that a formal proposal could be brought up at the G20 finance minister and central bank governor meetings. At last, in September, a resolution regarding the topic could be finalized during the G20 summit.