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CHINA IN THE G20 SUMMITRY REVIEW AND DECISION-MAKING PROCESS

ALEX HE



**CHINA IN THE G20 SUMMITRY:
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Alex He



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67 Erb Street West
Waterloo, Ontario N2L 6C2
Canada
tel +1 519 885 2444 fax +1 519 885 5450
www.cigionline.org

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ABOUT THE AUTHOR



Xingqiang (“Alex”) He is a CIGI visiting scholar. Alex is a research fellow and associate professor at the Institute of American Studies at the Chinese Academy of Social Sciences (CASS). At CIGI, he is focusing on interest group politics in China and their roles in China’s foreign economic policy making, China and the Group of Twenty (G20), and China and global economic governance.

In 2009-2010, funded by the Ford Foundation, Alex was a visiting scholar at the Paul H. Nitze School of Advanced International Studies, Johns Hopkins University in Washington, DC. In 2008-2009, he was a guest research fellow at the Research Center for Development Strategies of Macau. In 2008, he participated in a short-term study program at the Institute on Global Conflict and Cooperation at the University of California at San Diego, which was sponsored by the US Department of State. In 2004, he was a visiting Ph.D. student at the Centre of American Studies at the University of Hong Kong.

Alex has co-authored the book *A History of China-U.S. Relations* and published dozens of academic papers and book chapters both in Chinese and English. He also periodically writes reviews and commentaries for some of China’s mainstream magazines and newspapers on international affairs.

Alex has a Ph.D. in international politics from the Graduate School of CASS. Before beginning his Ph.D., he taught international relations at Yuxi Teachers College in Yunnan Province, China.

ACRONYMS

| | |
|-------|---|
| BRICS | Brazil, Russia, India, China and South Africa |
| FSB | Financial Stability Board |
| G7 | Group of Seven |
| G8 | Group of Eight |
| G20 | Group of Twenty |
| IMF | International Monetary Fund |
| MAP | Mutual Assessment Process |
| NDRC | National Development and Reform Commission |
| PBoC | People’s Bank of China |
| RMB | renminbi |
| SDR | special drawing right |
| WTO | World Trade Organization |

EXECUTIVE SUMMARY

As the largest emerging economy, China believes that the Group of Twenty (G20), instead of the Group of Eight (G8), is the ideal platform for its participation in global governance. The G20, as the primary forum for global economic governance in the view of some Chinese scholars, reflects the new balance of power in the global economy — with 11 emerging economies now counted as members. China secured the chance to play the role of a responsible power within global economic governance by joining the G20.

China participated positively in the macroeconomic coordination in coping with the global financial crisis and promoting the recovery of the world economy in 2008 and 2009. By introducing a ¥4 trillion (about US\$580 billion) stimulus plan before attending the G20 Washington Summit, China joined the United States' call for coordinated large-scale fiscal stimulus. It also committed US\$50 billion to bolster the International Monetary Fund's (IMF's) crisis-fighting capacity. China gained a great deal, both domestically and internationally, in the first three G20 leaders' summits, and experienced relatively little pressure from developed countries.

In 2010 and 2011, as the emphasis in the G20 shifted from "strong" growth to "sustainable and balanced" growth, China increasingly found itself in a defensive position, as it began to receive strong criticism from the United States over its exchange rate policy. This shift also reflected a growing lack of cooperation among G20 members as a whole. Chinese scholars, however, provide an additional angle to explain the transition in the G20, arguing that there still existed a fundamental unwillingness by major Western powers to share leadership with emerging markets.

At the 2011 Cannes G20 Summit, China continued to defend itself, and avoided harsh language in the final statement on China's exchange rate while promising to enhance exchange rate flexibility. From 2011 to 2012, China cautiously dealt with, and carefully responded to, the European debt crisis. China pledged US\$43 billion in the IMF resource increase as an appropriate way to assist Europe, which was deemed to be a strong measure of China's interest. China resumed playing an active role in the G20 by proposing an open global market and responsible macroeconomic policy, after pressure on its exchange rate and global imbalances was relieved in 2013 at the St. Petersburg summit. It also insisted on its own agenda for international financial system reform; in particular, raising developing countries' voting shares and representation at the IMF and World Bank.

Since the 1990s, economic policy making in China can be described as a collective decision-making process, embodied in a "dispersed-centralized" governance model.

Under this model, each ministry makes its own policy in its respective field, but major economic and monetary policies are made collectively by top leaders in the State Council and the Politburo. In practice, the Politburo's advisory group in economic affairs — the Leading Group for Financial and Economic Affairs — acts as the highest-level coordinating agency and it is widely regarded as the core economic policy-making body in China. China's policy concerning the G20 is crafted by several major economic departments in addition to the Ministry of Foreign Affairs, and coordinated by a vice premier who is responsible for economic and financial affairs. The People's Bank of China (PBoC) and the Ministry of Finance play key roles in handling all financial issues, while the Ministry of Foreign Affairs is responsible for all bilateral relations and multilateral affairs among the BRICS (Brazil, Russia, India, China and South Africa) leaders.

China has gained immensely from its participation in the G20. Most importantly, it gained entry to the centre stage of global economic governance by participating in the leaders' summits. The G20 at the leaders' level represented and proved to be a perfect platform for the country to demonstrate that it is a responsible great power, and to communicate and maintain relations with major powers. China's critical weaknesses within the G20 summit process, from the perspective of some Chinese scholars, are the lack of capacity for agenda setting and crafting a strategic framework for engaging with other G20 nations, as well as inadequate communication and coordination among different government departments and between the Sherpa and financial tracks of the G20.

INTRODUCTION

The Asian financial crisis marked China's first major foray into international monetary affairs. Faced with mounting balance-of-payments challenges in the region, China made the decision to forego depreciating its currency, the renminbi (RMB), despite sharp falls in the currencies of many of its major trade rivals. This choice proved pivotal for helping crisis-wracked countries avoid further downward pressure on their currencies, thereby easing the adjustment process. This was a watershed moment for China's role in international economic affairs. For the first time, the Chinese government realized it could play an active role in the global community. China subsequently began to become more involved in international economic affairs (Breslin 2011; Wang 2013; Zhou 2007; Shao 2008). Being viewed as a "responsible power" began to emerge as a popular slogan in China (Das 2013; Xinhua News 2010a).

It was also the Asian financial crisis that prompted Paul Martin, then Canada's finance minister, together with Larry Summers, then US Treasury secretary, to conceive of a forum to deal with threats to global economic and financial stability, which required the cooperation of not

simply the Group of Seven (G7) nations, but also emerging economies, including China (Ibbitson and Perkins 2010). The result was the creation of the G20 at the ministerial level.

Through the subsequent decade, China took several critical, albeit tentative, steps to increase its participation in the governance of global economic affairs. China joined the World Trade Organization (WTO) in 2001 and played a significant role in the Doha Round of trade negotiations. China also participated in climate change negotiations under the United Nations Framework Convention on Climate Change mechanism. Accession to the WTO, in particular, brought greater integration into the global economy.

At this juncture, China was faced with the challenge of deciding which existing international fora would best serve its interests and values. In particular, the country was increasingly interested in demonstrating to major industrialized nations and its domestic constituents that it was able to take on the role of a “responsible” great power. Some Chinese scholars view the G20’s elevation to the primary forum for global economic governance since the 2008 global financial crisis as a reflection of the new balance of power in the global economy, given that 11 emerging economies are members. As the largest emerging economy, China believes that the G20 constitutes an ideal platform for its participation in global governance.

This paper examines the reasons why China joined the G20 rather than the G8, and then focuses on a detailed review of China’s participation in G20 summits since the enhanced forum began in 2008. China took a very active and cooperative attitude in dealing with the global financial crisis in 2008-2009. China joined the United States’ call for coordinated large-scale fiscal stimulus designed to “save” the world economy from a repeat of the Great Depression. When the G20 transitioned its focus toward the issue of global imbalances in 2010 and 2011, China began to receive strong criticism from the United States over its exchange rate policy. In response, China shifted from a proactive to a defensive stance within the G20. China cautiously dealt with, and carefully responded to, the European debt crisis from 2011 to 2013, resuming its active role in the G20, while continuing to offer its own proposals for strong, balanced and sustainable growth. The paper observes that China also insisted on its own agenda for reforms to the international monetary system, through reforms to the international financial institutions that manage it — in particular, raising the number of voting shares and the representation of developing countries at the IMF and the World Bank.

Based on the reviews of China’s performance in the G20 summits since 2008, the paper explores China’s policy making through its participation in the G20, determining that it is shaped by several major economic departments in

addition to the Ministry of Foreign Affairs, and coordinated by a vice premier responsible for economic and financial affairs. The PBoC and the Ministry of Finance play key roles in handling all financial issues, while the Ministry of Foreign Affairs is responsible for all bilateral relations and multilateral affairs among the leaders of the BRICS.

The paper concludes that China has gained immensely from its participation in the G20. Most importantly, China entered the centre stage of global economic governance through the G20, which allowed the country to demonstrate that it is a responsible great power, and communicate and maintain relations with other major powers. The main challenges China has faced since joining the G20, from the perspective of some Chinese scholars, are a lack of capacity for agenda setting and shaping initiatives, as well as inadequate communication and coordination among different government departments and between the Sherpa and financial tracks of the G20.

A CHINESE REVIEW OF CHINA IN THE G20 SUMMITRY

AN IDEAL PLATFORM FOR CHINA

As one of the world’s leading economies, by trade volume and economic size, China in the early twenty-first century showed interest in participating in various global economic governance institutions, regarding them as important platforms to showcase China as a responsible power (Wang and Li 2012). At one point in the early 2000s, the idea of extending an invitation to China was floated by some G8 members. This signalled the major developed economies’ increasing interest in the potential role that China could play in global economic and political affairs (Yu 2004).

China, however, saw the G8 posing a set of challenges for the country that tampered its enthusiasm for the forum. First, China would have been the only developing country within the grouping, which would conflict with its status as a developing country. In addition, Russia’s experience with the G8 highlighted the possibility of being treated unequally within a traditional Western organization. Second, China was concerned about being asked to bear responsibilities and risks that, as a developing nation, were beyond its capacity; in particular, the extent to which new G8 obligations would endanger China’s fundamental goal of rapid economic development. The fear was that it might be putting the cart before the horse. For these reasons, becoming a dialogue partner of the G8 became a reasonable alternative, allowing China to straddle the awkward line between emerging great power and emerging market economy.

To a certain extent, the creation of the G20 summit provided an immense opportunity for China, as it became the right

platform for China to play a larger role in global economic governance at the perfect time. It solved the dilemma China faced in joining the G8. And, more importantly, in the view of Chinese analysts, the ascendency of the G20 at the expense of the G8 as the pre-eminent forum for global economic issues, amounted to Western developed countries having to accept the reality of the rise of emerging economies as a whole (Chen 2009; Cui 2009; Li 2009).¹ For the first time, the emerging economies participated at the highest diplomatic table as equal partners to developed Western countries, reflecting the fundamental reshaping of geo-economics over the preceding decade. Some scholars argue that the Chinese leadership interpreted these changes as a confirmation of Western acceptance of China's "peaceful development approach" — an approach that emphasizes integration into, rather than contestation of, the existing international economic order (Chen 2009). China secured the chance to play the role of a responsible power within global economic governance by joining the G20.

“SAVIOUR” OF THE WORLD ECONOMY: SUMMITS IN 2008 AND 2009

The first three G20 summits (in Washington, DC, Pittsburgh, PA, and London, UK) centred on the theme of coping with the global financial crisis and promoting the recovery of the world economy. The United States encouraged major world economies to join it in introducing a stimulus policy aimed to push the global economy out of crisis. China, for its part, introduced a ¥4 trillion (about US\$580 billion) stimulus plan before attending the Washington summit. At the 2009 London summit, China joined other members of the G20 in declaring a US\$1.1 trillion stimulus plan and also committed US\$50 billion to bolster the IMF's crisis-fighting capacity. In 2009, then Chinese President Hu Jintao stated that, "all countries should keep up the intensity of their economic stimulus plans" (Hu 2009).

China's positive participation in the macroeconomic coordination earned the country praise from several major G20 nations. Then Australian Prime Minister Kevin Rudd, IMF Managing Director Dominique Strauss-Kahn, US Under Secretary of the Treasury for International Affairs David McCormick, World Bank President Robert Zoellick and Brazilian Finance Minister Guido Mantega, all lauded China's ¥4 trillion stimulus package (see China.com 2008; Xinhua News 2008). Without the replenishment of resources at the time of the London summit, the commitment capacity of the IMF would have been severely constrained (Pisani-Ferry 2012). US Treasury Secretary Timothy Geithner praised Chinese efforts to

boost domestic demand (Geithner 2009). The coverage by Chinese media, for its part, portrayed the country as the "saviour" of the world economy (Yang and Chong 2013).

During these first three G20 summits, China also became a member of Financial Stability Board (FSB), the Basel Committee on Banking Supervision and the Bank for International Settlements' Committee on the Global Financial System, three of the most exclusive international financial standard-setting bodies. China's proactive role in combatting the global financial crisis, similarly, provided greater weight to efforts to increase the voting shares of emerging market economies in the governance of the IMF and World Bank.

It would be fair to say that China made all of these efforts in the G20 out of national self-interest. The ¥4 trillion stimulus package was introduced because top Chinese leaders worried that the global financial crisis would act as a drag on China's economic growth, and endanger its political and social stability. Encouragement from the US government in 2008 also likely helped the Chinese leadership make the final decision to implement what was one of the largest stimulus packages of any G20 economy (Peston 2014).² Overall, China gained a great deal, both domestically and internationally, in the first three G20 leaders' summits and experienced relatively little pressure from developed countries.

FRUSTRATION OVERSHADOWS BREAKTHROUGH: 2010

The 2010 Toronto G20 Summit was a blow to China's enthusiasm and expectation for the G20. The summit was dominated by quarrels between the United States and Germany on macroeconomic policy — in particular, the phasing out of loose fiscal policies. As the G20 turned from crisis response to financial market reform, the voices of the developing countries slowly became less relevant. Compared with the agenda in previous G20 summits, the Toronto summit was more like a G7 meeting (He 2010). Proposals from China, especially the ones to strengthen the voice of developing countries in the Bretton Woods system, were neglected by the United States and European countries. The Toronto setback resulted in the G20 being downgraded on the list of China's chief foreign policy priorities. In sharp contrast to earlier events, the position and statements from Chinese leaders hardly figured in international press reports after the summit (Gottwald and Duggan 2011). The issues of development and anti-protectionism, two of the most relevant for developing economies, struggled to gain the prominence afforded to issues such as macroeconomic coordination and financial stability by developed nations.

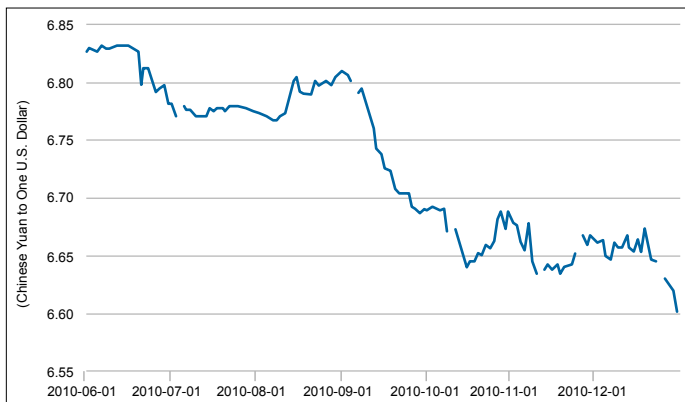
¹ At the same time, these Chinese analysts also emphasized that many uncertainties lie ahead in the evolution of this new economic governance forum.

² In both absolute and relative terms, the Chinese stimulus package was one of the largest. See Prasad and Sorokin (2009).

The Toronto summit and the Seoul summit, which followed only a few months later, also marked the end to the tentative détente between Washington and Beijing over the thorny issue of RMB valuation and global imbalances. The United States revamped its efforts — left dormant during the peak crisis years — to argue that the RMB was fundamentally misaligned and its undervaluation was the proximate cause of the large saving and investment imbalances that had developed through the 2000s (Chan 2010). China, for its part, anticipated that the Toronto summit would be used as a platform to press it to appreciate the RMB. With the backing of the PBoC, the Chinese government attempted to pre-empt this diplomatic manoeuvring. On June 19, 2010, just before the Toronto summit commenced, China announced the restart of exchange rate liberalization, officially ending the RMB's brief return to a soft peg against the US dollar, which had been triggered by the outbreak of the global financial crisis in 2008. This change in policy tact would hopefully complicate the efforts of the United States to corral needed support of those G20 members that remained ambivalent over their own willingness to spend scarce political capital on pressing the Chinese over such a sensitive issue.

Despite the posturing of Beijing, the RMB appreciated very little in the months following the June decision to exit its dollar peg, prompting another round of criticism from the US Treasury. The pressure reached a climax in the autumn of 2010. Between September 1 and October 15, the PBoC orchestrated a sudden 2.5 percent appreciation of RMB against the US dollar (see Figure 1; Federal Reserve Economic Data 2014). The move was widely seen as an obvious measure by China to once again pull the rug out from under the United States. The announcement of a second round of the Federal Reserve's unconventional monetary policy of quantitative easing, in the lead up to the Seoul summit, also provided the Chinese with additional political ammunition.

Figure 1: China/US Foreign Exchange Rate



Source: Federal Reserve Economic Data (2014).

China's Deputy Finance Minister Zhu Guangyao stated publicly that the Fed's easy money policies were jeopardizing financial and macroeconomic stability in emerging markets. Zhu found a receptive ear in the Germans, who also expressed concern over the short- and long-term risks posed by excessive "money printing" (Dyer 2010). This manoeuvring contributed to China's successful dovetailing of US accusations with the final summit communiqué, omitting any explicit mention of China's exchange rate framework. The final leaders' declaration, however, did state that members would commit to "moving toward more market-determined exchange rate systems, enhancing exchange rate flexibility to reflect underlying economic fundamentals" (G20 Seoul Summit Document 2010). The vague wording in the declaration ensured China could push exchange rate reform on its own schedule and its own terms.

During this time, the US Treasury also attempted to gain support among the G20 finance ministers and central bank governors for setting a numerical limit on current account imbalances. Secretary Geithner proposed, in Gyeongju, Korea in October 2010, that this limit be set at four percent of GDP, and phased in through 2015. Given that the United States' current account deficit stood at three percent of GDP for 2009 and 2010, this target choice appeared convenient. However, Yi Gang, deputy governor of the PBoC, had stated only weeks earlier at the annual IMF meetings that "China aims to reduce the surplus below 4 percent of its gross domestic product in the next three to five years, from 11 percent in 2007 and 5.8 percent in 2009 (Xie 2010). Judging from these two statements, the two countries initially seemed to come to a tacit understanding on the imperative of reducing global imbalances and the appropriate parameters. Just before the Seoul summit, the United States also moved quietly to turn down the volume on criticizing China over its RMB policy. The Treasury Department decided to postpone the release of its biannual *Report to Congress on International Economic and Exchange Rate Policies*, which sets out the Treasury's view on issues related to currency manipulation. Geithner, for his part, even noted publicly the strong appreciation of the RMB since the beginning of September (see Figure 1). It looked as if the Geithner proposal actually had some potential. Critically, it even implied a willingness by the United States to accept some external constraints on its policy choices (Truman 2010; Walter 2012).

The proposal was strongly opposed, however, by other surplus countries such as Germany and Japan, as well as Brazil and Australia, which belong to two categories of surplus countries in terms of the amount of favourable trade balance (Schirm 2011). They worried about the numerical targets and the idea that pressure would be brought to bear for breaching the four percent limit. After talking with the Germans, China backed away from its initial position (Walter 2012; Beattie 2010). This perceived backtracking

on the part of the Chinese brought strong criticism from the United States (Jin 2013; Guo 2013). Chinese scholars later concluded that China had likely missed an important opportunity to arrive at an agreement that could have been framed as a win-win for both sides (Guo 2013). As its current account has remained well below four percent since 2011 and is forecasted by the IMF to remain below three percent through 2019, China would have been fully compliant with the Geithner rule without the need for any additional macroeconomic adjustment. This, in turn, would have made it difficult for the US Treasury to argue that the RMB was undervalued to any meaningful degree.

It is difficult to know what exactly happened to China at the Seoul summit, but one possibility is that the different perspectives of PBoC and other ministries, which stand for different interests, failed to coordinate and these internal divisions finally lead China to shift away from the US proposal. For example, strong lobbying on the part of the Ministry of Commerce and the powerful export groups that it represents took place between October and November in 2010. Comments by Premier Jiabao Wen and a spokesman from the Ministry of Commerce during this period raised concern over a possible loss of competitiveness for Chinese exports if the RMB were to appreciate too rapidly (Bastion 2010). It is widely known that the PBoC supports the market-based exchange rate reform, while the Ministry of Commerce and National Development and Reform Commission (NDRC) prefer to maintain a stable RMB exchange rate in order to support the politically influential export industry (Steinberg and Shih 2012; He 2011).

To summarize, as the emphasis in the G20 shifted from “strong” growth to “sustainable and balanced” growth (Bertoldi, Scherrer and Stanoeva 2013), China increasingly found itself in a defensive position. The United States and other major Western members succeeded in shifting the agenda, casting China’s external surplus as one of the main culprits impeding global recovery. This shift, however, also reflected a growing lack of cooperation between G20 members as a whole. As the immediacy of the crisis subsided, preferences unsurprisingly also became far less aligned. For example, very prominent and public disputes emerged between the United States and Germany (and to a certain extent China) over the proper pacing of fiscal consolidation. Germany’s surpluses and perceived failures in its response to the outbreak of the euro-zone crisis also increasingly stressed relations between Washington and Berlin.

Chinese scholars provide an additional angle to explain the transition in the G20. While agreeing with the importance of the explanatory variables discussed above, these scholars also argue that there still existed a fundamental unwillingness by major Western powers to share leadership with emerging markets in the G20 (Pang and Wang 2013; Li and Hong 2013; Li 2013a). Since the Toronto summit, the United States was attempting to restructure the G20

as a multilateral diplomatic forum through which it could urge the emerging economies to bear more economic responsibility, while at the same time reducing its own commitments (Li 2013a; Fang and Tang 2011). From this perspective, it was inevitable that emerging markets would increasingly come into conflict with the United States. Unsurprisingly, the G20 lost momentum, proving incapable of forging further consensus and eventually degrading into another club of empty talk (Li 2013b).

For the Chinese in particular, the inability of the Obama administration to receive Congressional approval for the 2010 Seoul reform package to the IMF and World Bank increasingly became a point of contention. The package would see China’s voting shares rise to 6.07 percent from 3.65 percent, giving China the third-largest position in the IMF and World Bank, surpassing that of Germany, France and Britain. Other emerging economies, such as India, Brazil and Russia, would also see a similar change in their positions. Domestically, this was viewed as a rather significant achievement. Major Chinese media outlets, however, reported the news with relative calm, noting that there was no guarantee that Western nations would follow through on their commitments. Then, Chinese Vice Foreign Minister Cui Tiankai was cited as acknowledging that “this is obvious progress,” while Chinese Foreign Ministry Spokesman Hong Lei stated that he “welcome[d] this progressive step” (Xinhua News 2010b; 2010c). The subsequent, and still ongoing, delay in reform implementation, however, has risked tarnishing these accomplishments, particularly when viewed against the mounting pressure on China over its exchange rate policy.

FROM DEFENDING EXCHANGE RATE POLICY TO ASSISTING EUROPE: 2011-2012

China continued to defend its exchange rate policy, although it expressed its willingness to “move toward more market-determined exchange rate systems” at the 2011 Cannes G20 Summit. The euro-zone crisis, which erupted in 2011 and continues to unfold, has, however, shifted the focus of G20 summits to assisting Europe. China had to deal with facing this new crisis at the Cannes and Los Cabos summits.

Following commitments at the Seoul summit, the G20 ministerial meetings in Paris in February 2011 and in Washington, DC in April 2011 focused on working out a set of indicators that would help facilitate the policy adjustments required to tackle large imbalances between and within G20 economies. Between these two meetings, French President Nicolas Sarkozy insisted on holding a G20 seminar on reform of the international monetary system in China. France and the United States brought significant pressure to bear on China during this process.

Given China’s resistance, official ministerial statements by the G20 stressed only “enhancing exchange rate flexibility”

(Communiqué of G20 Meeting of Finance Ministers and Central Bank Governors in Paris 2011) by emerging market economies. On external imbalances, any decision arrived at would “take due consideration of exchange rate, fiscal, monetary and other policies” (ibid.). As IMF Managing Director Christine Lagarde explained, the term “consideration” was not a casual one, but a carefully chosen word to allow China to save face (Chen 2011). Domestically, this reflected the continued strength of pro-export voices inside the Chinese government, which maintained the upper hand over the PBoC and other reform-minded ministries. In the end, the final agreement reached would not set common numerical targets for current account balances. Instead, with the support of IMF staff, a set of “indicative guidelines” — based on both structural and econometric analysis — were developed to benchmark possible imbalances. These indicative guidelines form the backbone of the G20 Mutual Assessment Process (MAP). Designed to foster transparency of, and accountability to, the policy commitments made by G20 nations, the MAP is the primary coordination mechanism of the forum.

China, however, was also sending a signal that it would make further moves in its RMB policy. Chinese President Hu visited the United States in January 2011 and promised to promote the flexibility of RMB in a joint statement with the United States. Both countries also committed to supporting the G20 in playing a more important role in global economic and financial affairs and to promote the Cannes summit as an opportunity to arrive at important policy commitments. A draft communiqué released just one month before the Cannes summit, again stressed the need of emerging market economies to work toward greater exchange rate flexibility, but also successfully avoided China being directly mentioned. Chinese Deputy Finance Minister Zhu Guangyao commented that the final language of the communiqué was “comprehensive and balanced” (Ruan 2011). China endorsed the phrase “move toward more market-determined exchange rate systems and achieve greater exchange-rate flexibility to reflect economic fundamentals.” While reflecting a commitment toward reform, this carefully chosen language provided ample room for China to continue to pursue reform on its own terms, without risking strong and direct censure. If this were to occur, it would be regarded domestically as a humiliation for Chinese leaders, and might risk pushing China away from the G20 and other global economic governance regimes.

The focus on the global imbalances since the Toronto summit was based on the assumption that these imbalances remained a serious impediment to a strong and sustainable global recovery (Pisani-Ferry 2012). However, with the fast reduction of China’s surplus in 2011 and the rise in the surplus of oil-producing countries, the pattern of imbalances changed significantly (ibid.). Most

importantly, with the outbreak of the euro-zone crisis in 2011, more immediate concerns were foisted on the G20.

Both financial experts and the public doubted whether China, as a poor developing country, should assist Europe, one of the wealthiest regions in the world (Wu and Li 2011; Bloomberg News 2011; *China News Week* 2011). Both of these groups pushed China to pursue a cautious approach in assisting Europe. The IMF quickly became the most attractive vehicle for providing financial support to the euro zone.

At the Cannes summit, China took a wait-and-see attitude toward the European debt crisis. Chinese leadership stated that it was “ready to work with the international community to participate in resolving the European debt problem,” but also emphasized it believed that Europe had the capacity to overcome its difficulties and maintain economic stability and development (Wu and Li 2011). As reported by various Western news outlets, many Chinese officials and scholars opposed the purchase of Eurobonds, while senior officials emphasized China’s difficulties and troubles as a developing country (Bloomberg News 2011). Further, some experts argued that the fundamental criterion for evaluating assistance to Europe was the trade-off between the risk and return that China would receive from such investments. China should not promise assistance until a detailed and reasonable adjustment plan was offered by the EU commission, even though China understood that helping Europe would be in the country’s long-term interests (*China News Week* 2011).

With the euro crisis deepening in 2012 and China’s exports to the region suffering, the imperative of a strong response by Chinese leadership became evident.³ However, Europe could not meet China’s requirements for the purchase of Eurobonds for two reasons: the acknowledgement of China’s status as a market economy in various international forums (for example, the WTO); and a relaxation of controls on high-tech exports to China. Instead, China opted to copy the model used in 2009 for responding to the financial crisis, by providing large-scale resource contributions to the IMF. At the Los Cabos G20 Summit, China announced its decision to participate in the IMF resource boost with a pledge of US\$43 billion. Some Chinese scholars also began to emphasize the merits of China’s decision, for example, contributing to the IMF is a safe and better investment than purchasing sovereign debt directly (see Wang 2012). It provided a way for China

3 According to statistics released by General Administration of Customs of China, China’s exports to the European Union in the first half of 2012 dropped by 0.8 percent and for the whole of 2012 dropped by 6.2 percent compared to the same periods in 2011. Data available at www1.customs.gov.cn/tabid/49129/Default.aspx. Statistics from Eurostat cited by the Ministry of Commerce of China indicate that imports from China dropped by 9.7 percent from January to September in 2012. Available at http://countryreport.mofcom.gov.cn/record/view110209.asp?news_id=32682.

to diversify its foreign reserves away from a perceived over-allocation toward US Treasury Bills. Similarly, it was argued that working with the IMF would help facilitate the RMB's internationalization, and increase China's role in the governance of the international monetary system.

Public opinion in China also became an important factor in shaping China's policy toward Europe. The opposition by some experts toward assisting Europe in 2011, along with media coverage that focused on the numerous economic and social problems facing the country — in particular growing inequality — led to heightened public sensitivity to the issue (Jiang 2012).⁴ The PBoC, in particular, had to explain to the skeptical public why China, a developing country that has hundreds of millions of poor people, should help to bail out European countries that enjoy higher standards of living.

On the day that China announced the US\$43 billion plan, the PBoC issued an announcement to explain that, "The pledged amount of contribution is a line of credit to be provided by the committing country to the IMF and is a precautionary arrangement; thus, the amount that will be actually drawn by the IMF may be far smaller than the amount pledged by contributing countries." The PBoC further noted, "China pledged to contribute 50 billion dollars in the previous round of IMF resource increase in 2009 through note purchases, out of which only 5.7 billion dollars has been drawn until now." The PBoC stressed that, "The contributed amount is not a donation; it constitutes IMF borrowing from China and will be repaid with interest. The principal of the loan that China provided to the IMF through note purchase is safe with regular interest payment. Participation in the IMF resource increase is in China's interests, and proportionate to China's international status and responsibilities" (PBoC 2012). This announcement was reprinted by most of main media outlets in China.

With the benefit of hindsight, it appears that the PBoC is still not adept at using its non-quota contributions to the IMF as an effective way of signalling its willingness to contribute to the global economic stability. Huang Wei and others scholars (Huang, Gong and Guo 2013) concluded in 2013 that China should have learned from other developed countries, such as Japan, how to use international financial institutions to demonstrate its good faith, while still managing domestic political sensitivities. Japan's quick response to promise US\$100 billion worth of assistance to the IMF in 2008, was an excellent example of this strategy. Japan's contribution raised its political influence at the IMF and it obtained actual economic benefits. Because the

US\$100 billion just represented a claim on the entire IMF, rather than an individual or smaller group of countries, the credit risk of this exposure was almost zero, equivalent to the US Treasury (*ibid.*). China, for example, could have announced its eventual IMF commitments at the Cannes summit. However, such a decision was not possible, as the competing agendas of different ministries had to first be resolved.

A NEW START FOR THE G20 AND CHINA?: 2013

By the 2013 summit, the sharp decline of China's current account surplus reduced the sensitivity of the issue, while greater dispersion in countries contributing to imbalances required that the problem of imbalances be reconsidered in a broader perspective (Bertoldi, Scherrer and Stanoeva 2013). China continued to argue for broader international monetary system reform, as opposed to singling out any country or group of countries for imbalances. President Xi's statement at the St. Petersburg summit articulated China's objectives for the G20 moving forward: promoting global macroeconomic coordination; maintaining an open global trading system; continuing to promote international financial reform, especially regarding raising the voting shares at the IMF for emerging market economies; and putting the RMB into the special drawing right (SDR) basket.

China admitted it should adopt a set of structural adjustments that would focus on creating sustainable and high-quality economic growth (Xi 2013). This will entail the transition of its economy from an overdependence on exports and investment to consumption-led growth.⁵ On this point, China reached consensus with other members in the G20. The St. Petersburg Leaders' Declaration (G20 Leaders' Declaration 2013) stressed the need to achieve stronger domestic demand-led growth in large surplus economies, increased savings and enhanced competitiveness in deficit economies, and more flexible exchange rates. The emphasis on domestic demand-led growth at the summit is also, increasingly, in line with China's own domestic economic priorities, evidenced by commitments and agreements reached at the 18th National Communist Party of China Congress.

4 Surveys on Chinese public opinion on financial assistance to Europe are unfortunately not available. However, news reports on the subject are based on the tens of thousands of microblog posts that showed a high degree of sensitivity to the issue in China. For example, see Edwards and Kang Lim (2011) and Reuters (2011).

5 President Xi's speech on APEC CEO Meeting in October 2013 discussed this point. His speech is available at http://news.xinhuanet.com/world/2013-10/08/c_125490697.htm.

Table 1: G20 Summits: Agenda, Achievements and China's Assessments

| Summit | Main Agenda | Key Achievements or Failures | China's Assessments |
|---|--|---|--|
| 2008 November Washington, DC Summit | Coordinating response to the global financial crisis and the stabilization of the financial system. | Macroeconomic stimulus plans were introduced in order to prevent a repeat of a 1930s-style depression. | China contributed greatly to the recovery of the world economy; it gained both domestically and internationally: joined the FSB and the Basel Committee for Banking Supervision; G20 leaders committed to a 5% shift in IMF quota share and 3% of voting power of the World Bank to developing countries; gained entrance to the core platform for global economic governance; and obtained recognition and approval as systemically important and responsible economic power. |
| 2009 April London, UK Summit | | Increased financial resources of the IMF to strengthen global firewalls; and reconstituted Financial Stability Forum as the FSB as the influential financial regulatory arm of the G20. | |
| 2009 September Pittsburgh, PA Summit | | Launched a framework for strong, sustainable and balanced growth; creation of the MAP; committed to shift 5% of IMF quota share and 3% of voting power of the World Bank to developing countries; and designated the G20 as the premier forum for international economic cooperation. | |
| 2010 June Toronto, Canada Summit | Recovery and new beginnings: framework for a strong, sustainable and balanced growth; financial sector reform; international financial institutions; and fighting protectionism. | The summit was dominated by divergence and quarrels over fiscal policy, external imbalances and other macroeconomic measures for sustainable and balanced growth between developed economies. | China's proposals were ignored, acted more like a bystander; and was subject to increasing pressure on its exchange rate policy. |
| 2010 November Seoul, Korea Summit | Exchange rate; strengthened global financial safety nets; international financial institution reforms; and development. | Great divergence on global imbalances and how to deal with it; an agreement on IMF quota and governance reform; and the development issue was significantly strengthened. | The summit was used as a platform to press China on exchange rate and global imbalance issue; defended its position and promised to adjust the exchange rate policy properly; and IMF reform agreement on raising China's voting shares to 6.07% was a substantive achievement. |
| 2011 November Cannes, France Summit | Euro-zone crisis; growth and jobs; international monetary system reform; reform of financial system; commodity price volatility; development; and global governance. | Approved indicative guidelines for global imbalances; progress on the reform of the international monetary system; increasing transparency in commodity markets; and failed to come to agreement on assisting in the euro-zone crisis. | China took a wait-and-see attitude toward European debt crisis; avoided harsh language in the final statement on China's exchange rate while promising to enhance exchange rate flexibility; and declared the timeline for reform of composition of the SDR basket. |
| 2012 June Los Cabos, Mexico Summit | Promote growth and jobs; international financial architecture; reforming the financial sector and fostering financial inclusion; food security; development; and inclusive green growth. | Agreement reached to further increase IMF resources by US\$460 billion to address possible systemic risks; and euro area G20 members committed to take all necessary policy measures to safeguard the integrity and stability of the area. | China pledged US\$43 billion in the IMF resource increase as a proper way to assist Europe, which was deemed as a measure in China's interest. It also showed China's sense of responsibility as a great economic power. |
| 2013 September St. Petersburg, Russia Summit | Growth through quality jobs; financing for investment; financial regulations; tackling tax avoidance; and energy. | Committed to manage question of spillovers of unwinding monetary stimulus in the United States on other countries; understanding reached on ensuring fiscal sustainability; and stressed the importance of each nation's internal rebalance in global imbalance issues. | China postured to seek more active roles in agenda setting by proposing an open global market and responsible macroeconomic policy, after being relieved of pressure on its exchange rate and global imbalances. |

Source: Author. Data compiled from the G20 Information Centre, University of Toronto's Munk School of Global Affairs, available at www.g20.utoronto.ca/.

FOREIGN ECONOMIC POLICY MAKING IN CHINA AND ITS IMPACT ON CHINA'S PARTICIPATION IN THE G20

China's performance at G20 summits with respect to agenda setting, defending its macroeconomic policy coordination, dealing with the pressures on the RMB exchange rate from the United States and other powers, depends not only on China's capability measured by financial resources, technocratic expertise and diplomatic success, but also its ability to effectively coordinate its internal policy-making process that inevitably involves numerous government departments. Understanding the dispersion of policy influence and the inadequate coordination among different government departments involved in China's foreign economic policy making can help shed light on China's economic diplomacy within the G20 summit process.

CHINA'S FOREIGN ECONOMIC POLICY-MAKING MODEL SINCE THE 1990s

Economic diplomacy first garnered importance in China during the 1990s, with the negotiation that eventually led to China's accession to the WTO. Since then, China has joined dozens of international economic organizations — increasing the importance of economic diplomacy. Owing in part to the strong technical expertise needed, this aspect of Chinese foreign policy is led by the government's core economic ministries. For example, the Ministry of Commerce is responsible for issues of business diplomacy, while the Ministry of Finance and the PBoC dominate financial diplomacy. The Ministry of Commerce consists of multiple departments managing regional affairs, such as the Department of European Affairs, the Department of American and Ocean Affairs, as well as the Business Counselor's offices and diplomats stationed abroad at embassies and consulates. The Department of World Banks at the Ministry of Finance was renamed the International Department in the late 1990s, with its responsibilities subsequently expanded to include the management of broader international financial affairs. Similarly, the PBoC's Department of International Financial Organization was renamed the International Department, while a second Department of Monetary Policy was established with exclusive responsibility for RMB exchange rate affairs. There are also one or two vice ministers in both the Ministry of Finance and the PBoC who are responsible for international affairs — an arrangement that enhances

the significance of international departments inside both ministries.⁶

Making and executing economic diplomacy in different government departments inevitably breeds problems — namely, poor coordination among ministries and a lack of an integrated, grand diplomatic strategy. To manage these difficulties, departmental coordination is, in practice, the responsibility of a vice premier tasked with overseeing all economic diplomatic affairs. Therefore, Vice Premier Wu Yi from 2003–2008, Wang Qishan from 2008–2013 and Wang Yang from 2013 to the present, are the highest officials responsible for leading and coordinating economic diplomatic affairs (Li 2013c). Of course, the president and premier retain great influence, with the premier usually focusing more on the economic and financial desk than the president.

Since the 1990s, economic policy making in China can be described as a collective decision-making process, embodied in a “dispersed-centralized” governance model.⁷ It is characterized by a network of ministries that each have varying degrees of influence. Under this model, each ministry makes its own policy in its respective field, based on its own judgments — often reflecting the interests of its primary stakeholders. Coordination can vary markedly. In most cases, these policies primarily affect only the ministry's field, requiring little if any coordination — this is what comprises the “dispersed” part of the governance model. Major economic and monetary policies such as adjustment of interest rates, policies created to fight inflation or stimulate economic activity, reform of the RMB exchange rate, capital account and interest rate liberalization, however, are discussed and debated by the State Council, with the Politburo having the final say on

6 Vice Minister of Finance Zhu Guanyao is the principal official who is responsible for financial diplomacy. Another Vice Minister of Finance, Shi Yaobin, who has been in charge of the International Department since 2013, is also involved in international affairs within the Ministry of Finance. Within the PBoC, Deputy Governors Yi Gang and Hu Xiaolian are the two high-ranking officials in charge of international affairs. For additional information, see the websites of the Ministry of Finance, available at www.mof.gov.cn (in Chinese) and the PBoC, available at www.pbc.gov.cn:8080/publish/english/963/index.html.

7 “Dispersed-centralized” is directly translated from Chinese. This term is a combination of a decentralized and centralized policy-making model. Most decisions are made at the ministerial level and coordination is usually absent. Major decisions with significant influence are made at the cabinet level in a coordinated way. Final decisions are made by the highest leaders, collectively.

these issues.⁸ This constitutes the centralized part of the decision-making model.

Many of these characteristics are shared by Western democracies. However, important differences exist that greatly influence the policy-making process. The most important one is that, unlike the PBoC's counterparts such as the US Federal Reserve or the European Central Bank, the PBoC is just one of many ministries competing for policy influence over monetary and exchange rate policy. The PBoC can propose policies based on its expertise, but the final decisions are made by the State Council through executive or plenary meetings. Fundamental economic policies that are deemed to have a comprehensive influence on the future direction of development in China — for instance, reform of the RMB exchange rate, openness of capital accounts or marketization of interest rates — have to be decided by the highest organ of power, the seven-member Politburo Standing Committee. While the premier and president retain significant decision-making influence, decisions are largely made collectively by consensus, both in the State Council and Politburo Standing Committee (Hu 2013).

In practice, the Politburo's advisory group in economic affairs, known as the Leading Group for Financial and Economic Affairs of the Central Committee of the Communist Party of China, is the highest-level coordinated agency in economic affairs. The Leading Group is widely regarded as the core economic policy-making body in China. The role and operation of the Leading Group, as one foreign observer stated, is, "Somewhat like the White House's National Economic Council, influencing decision-making by framing the options leaders' debate" (Davis and Wei 2013). Its members consist of committee members who are in charge of economic affairs in the Politburo, leaders in the State Council, as well as heads of major economic departments. Specifically, the Leading Group is headed by the premier or president,⁹ and its members including vice premiers in charge of economic and

financial affairs, the state councilor in economic affairs, as well as ministers in main economic departments such as the NDRC, Commerce, Finance and the PBoC.

The Leading Group is a standing agency and has its own office. The current director of the office, Liu He is regarded as the top economic adviser to President Xi Jinping (*ibid.*). One of its most important tasks is to draft the documents for the yearly Central Economic Working Meeting, which makes the Leading Group the most influential in major economic and financial policy decisions. Traditionally, the director of the office is also concurrently a deputy director of the NDRC, which is supposed to contribute to the power of the NDRC in China's economic and financial affairs. In April 2014, Deputy Governor of the PBoC Yi Gang was appointed concurrently as the Deputy Director of the Office of the Leading Group for Financial and Economic Affairs. It was widely believed that this appointment implied the increased influence of the PBoC in China's financial policy making and the wish of top Chinese policy makers to further promote the reform of the financial sector. (Yang 2014; Liu 2014; Wei and Davis 2014)

All of the relevant ministries have their own means and channels in which to lobby the top decision makers — i.e., the premier of the State Council, the vice premier in charge of economic and financial affairs, and other members of the Politburo Standing Committee. For example, PBoC Governor Zhou lobbied the top leaders in the Politburo Standing Committee and State Council for tighter monetary policy in 2011 (Davis 2011). Other influential ministries like the Ministry of Commerce also exercise strong influence over exchange rate and monetary policy. The final decision rests with the State Council or the Politburo, depending on the significance of particular decisions. When the decision warrants the involvement of the latter, the Leading Group takes the initial lead, based on a principle that translates from Chinese to approximately "lead collectively and take responsibilities together." The head of the Leading Group, the premier or the president, may have the final say, but he has to take into account all of the opinions from other members and seldom makes a decision that would run counter to the consensus opinion. The Leading Group's final conclusion is eventually sent to the Politburo or the Politburo Standing Committee for final approval (Shaw 2005). Members of the Politburo Standing Committee also arrive at decisions through a similar process of negotiation and debate. The president and the premier, the most influential figures, take the lead role in arbitrating differences between competing positions and coalitions, to eventually arrive at a consensus (Hu 2013).

CHINA'S POLICY-MAKING PROCESS AT THE G20 SUMMITS

When China joined the G20 summit — the most important forum on international economic governance — China's

8 According to Article 22, chapter 5 of the Working Rules of the State Council, "Major policies and measures are those that involve plans for national economic and social development, the state budget, significant planning, macroeconomic control, as well as economic reform and opening up. These policies and measures are discussed by the executive or plenary meeting of the State Council." The original Chinese text of the Working Rules is available at www.gov.cn/zwgk/2013-03/28/content_2364572.htm.

9 Available Chinese literature holds different opinions on whether the president or the premier heads the Leading Group. It is generally accepted that President Jiang Zemin headed the leading group since 1992. Premier Zhu Rongji held the position since 1998 and Premier Wen Jiabao led the leading group during his term from 2003 to 2013. Since 2013, it has been unclear whether Premier Li Keqiang or President Xi Jinping held the post, as Chinese officials never verified who took charge of the Leading Group. Until June 13, 2014, the official Xinhua News Agency reported that President Xi presided over meetings as the head of the Leading Group. This remarkable change indicated that President Xi had grasped the power on economic and financial affairs.

policies concerning the G20 were made by several major economic departments in addition to the Ministry of Foreign Affairs, coordinated by then Vice Premier Wang Qishan and, from 2013, Vice Premier Wang Yang. The final say on important policy decisions, on some occasions, were made by Premier Wen and President Hu until 2013, and Premier Li and President Xi since 2013. Almost all high-ranking officials in China's economic policy and foreign policy making attend G20 summits to escort the Chinese president. The entourage includes: the vice premier who manages foreign economic policy; the heads of four economic policy departments — the NDRC, Commerce, Finance and the PBoC — as well as three high officials in foreign policy making — the state councillor, foreign minister and the vice foreign minister as the G20 Sherpa. For example, at the 2012 Los Cabos Summit, Vice Premier Wang Qishan, State Councillor Dai Bianguo, Foreign Minister Yang Jiechi, NDRC Director Zhang Ping, Finance Minister Xie, Commerce Minister Chen, PBoC Governor Zhou and Vice Foreign Minister Cui (China's G20 Sherpa) all attended.

In most policy areas, compared to other central departments such as the NDRC and the Ministry of Commerce, which are granted large discretion, the economic policy-making roles played by the PBoC and the Ministry of Finance are relatively small. However, due to their expertise in finance and the structure of the G20 summit process that accords the largest roles to the Ministers of Finance and the central bank governor, both the PBoC and the Ministry of Finance play key roles. In particular, these two ministries handle almost all of the issues related to financial regulation, IMF and World Bank governance reform, and macroeconomic coordination. The Ministry of Commerce is also responsible for all issues related to trade policy. Development, energy and climate issues, however, are still handled by the NDRC, while the Ministry of Foreign Affairs is responsible for official bilateral relations with other leaders and various plurilateral meetings, such as those between the BRICS leaders, which often occur tangentially at G20 summits.

Due to a lack of economic and financial expertise, as well as the absence of an internal department that specializes in international economics, the Ministry of Foreign Affairs (traditionally responsible for political and security affairs) has gradually been marginalized by the Ministries of Commerce and Finance and the PBoC in the economic diplomatic arena since the beginning of the twenty-first century. The Department of International Economic Affairs was created in October 2012, after years of preparation, and it was supposed to strengthen the role played by Ministry of Foreign Affairs in international economic affairs by bolstering its expertise in the field. G20 summitry was regarded as an important diplomatic platform and, naturally, the Ministry of Foreign Affairs became the primary agency to coordinate the diplomatic activities of

senior officials. With the creation of the Department of International Economic Affairs, and the first G20 leaders' summit held in 2008, the Ministry of Foreign Affairs was increasingly involved in foreign economic policy making. Similar to other G20 countries — for example, Canada — a vice minister of Foreign Affairs is appointed as the Sherpa of the G20 in China.

Under China's dispersed decision-making process, coordination among the various departments with different responsibility becomes highly important. Usually, before attending the G20 or other international meetings, all departments concerned engage in preparation work, designed to coordinate each other's policies and positions. On some occasions, preparatory work can be quite expansive. For example, as discussed previously, only a week before the Toronto summit, the PBoC announced a restart of RMB reform, while the Ministry of Finance, together with the State Administration of Taxation announced the cancellation of the export tax rebate on more than 406 categories of goods. The decision to announce both of these moves prior to the Toronto summit was made in order to ease the possible pressure China would face at the summit. This strong degree of policy coordination helped to buttress China's exchange rate policy from external criticism.

Despite some instances of strong coordination, however, much remains wanting in terms of China's policy coordination in the lead up to G20 summits and in other international fora. Generally, a lack of effective communication is one of China's major handicaps in leveraging international negotiations for the national interest (He 2004). The protection of departmental interests and misleading information are often regarded as the major reasons for failures in coordination. China's mechanisms of coordination and assessment with regard to the G20 summits need to be improved. There are several problems that require significant attention.

First, as currently structured, there is a lack of adequate, timely communication and coordination between China's Sherpa and financial tracks in the G20. The Sherpa track is responsible for planning and coordination of each nation's political participation in each summit, including agenda setting and working out the final leaders' communiqué. The Sherpa also takes the policy lead on all the non-financial issues, such as development, energy and natural resources, and protectionism. The financial track is responsible for the core G20 agenda. The two tracks' meetings are held in parallel several times, and the two finally join together to craft the final summit statement before it is held. Officials responsible for the Sherpa track frequently fail to sufficiently communicate with officials running the financial track before important G20 meetings. Financial track officials are often left in the dark on specific conditions and details of Sherpa meetings, which represent an important impediment to China's performance in the

G20 (Guo 2013). More work needs to be done to achieve sufficient, timely communication and coordination between China's Sherpa and the finance track officials.

Second, some ministries are not fully involved in relevant discussions. The NDRC and other non-central ministries should be more closely involved. Some scholars suggest that this exclusion sometimes frustrates the implementation of policy decisions arrived at through the G20 process (*ibid.*; Jin 2013). Third, high-level, trans-department coordination mechanisms in the State Council and the Party's Central Committee are not as effective as they could be. These two bodies usually focus more on information gathering from relevant departments, rather than analyzing main proposals and making critical decisions. While this institutional arrangement helps minimize interdepartmental conflict, it comes at the cost of strategic policy making. The strongest example of this dynamic is the dysfunctional decision-making process that surrounded China's handling of the Geithner proposal in 2010. Strong disagreement between powerful ministries lacked an efficient mediation mechanism. The result was clear inconsistencies in China's approach to the issues of global rebalancing and exchange rate liberalization, which ultimately left the country exposed to avoidable external pressure at the Seoul summit (Jin 2013).

CONCLUSION: CHINA'S GAINS AND WEAK POINTS IN THE G20 SUMMITS

First, and foremost, by participating in the G20 summits, China gained entry to the centre stage of global economic governance. The G20 at the leaders' level represented and proved to be a perfect platform for the country to demonstrate that it is a responsible great power. For the Chinese government and its elites, this marked a significant achievement. China seized the rare opportunity brought about by the global financial crisis, and joined the caucus of the global economic governance regimes, from which China had been previously excluded.

Facing the global financial crisis in 2008-2009, China took a very positive and cooperative attitude, joining the United States and the IMF in calling for large-scale fiscal stimulus by all G20 nations. This episode was arguably a high-water mark for China and its role in international economic affairs. However, in 2010 and 2011, with the immediacy of the crisis fading, the focus of the G20 shifted toward addressing deeper structural challenges in the world economy — namely, large domestic and external macroeconomic imbalances. China quickly faced strong pressure from several G20 nations, particularly the United States, to allow greater market determination of the RMB's value, and to take steps to boost consumption as a share of GDP. China demonstrated noteworthy acumen in timing reform decisions to coincide with G20 summits,

which likely tempered the saliency of US-led criticism of its policies. China cautiously dealt with, and carefully responded to, the euro debt crisis from 2011 to 2013. Its decision to support the creation of an additional line of defence for the IMF (in the form of new credit lines totalling US\$460 billion), underscored the heavyweight status of the country in international monetary affairs. It is worth noting that neither the United States nor Canada pledged resources, highlighting a potentially important transition in global monetary leadership. Within the G20, China continued to offer its own proposals for achieving “strong, sustainable and balanced growth,” while championing efforts to drive international financial system reform, by raising the voting shares of developing countries at the IMF and World Bank. China, arguably, gained in several ways through its involvement in the G20.

Second, China received recognition and approval as a major economic power in the G20. In the language often used in debates over Chinese foreign policy, China's “international status” (Deng 2005) — which concerns the international legitimacy of the Chinese government — was improved significantly. For example, President Hu's proposals for international financial system reform, which included themes such as “Strengthening Transparency and Accountability” and “Enhancing Sound Regulation,” can be found in the Washington summit communiqué. This is always translated as evidence of China's growing influence by its elites. Approval and recognition are of great importance for Chinese elites, as they serve as symbols of China as a responsible and respected power in the international community, which constitutes an important source of legitimacy of Chinese government. Chinese leaders are highly sensitive to “judgments from the people” concerning the efficacy of their governance performance, and international achievements often foster favourable public opinion domestically.¹⁰

Third, China materially increased its footprint in global economic governance. It joined several international standard-setting bodies and the country began to hold high-level posts at the IMF and World Bank. Notwithstanding the continued inability of the Obama administration to push the IMF reform package through Congress, raising the voting shares at the IMF and World Bank is still viewed domestically as a significant achievement — an objective that China has worked feverishly toward since joining the G20 (Li 2010).¹¹

10 For example, President Xi stated during the Party's Mass Line Education and Practice Working Conference, “winning or losing public support could decide the party's survival or extinction.” The original Chinese text of Xi's speech is available at http://news.xinhuanet.com/politics/2013-06/18/c_116194026.htm. See also Denyer (2013).

11 PBoC Deputy Governor Yi Gang expressed the idea when the US Congress once again failed to approve 2010 IMF quota reform in March 2014. See Xinhua News (2014).

It is the view of many Chinese scholars that the country's critical weakness within the G20 summit process remains its inability to shape the forum's agenda, and to craft a strategic framework for engaging with other G20 nations. The perception is that China has remained reactive to the initiatives of developed countries, rather than proactively pushing its own preferences (Guo 2013). Despite some noteworthy successes, since the Seoul summit China has consistently failed to steer the G20's agenda away from its current focus on external imbalances. Rather than take the lead or "call the shots," Chinese officials took a wait-and-see approach to both the Toronto and Seoul summits (Mackinnon 2010). The St. Petersburg summit demonstrated yet again that developed countries still have far greater capability in shaping the group's priorities. A positive change at the St. Petersburg summit is that China began to position itself as a leading proponent of open global markets and responsible domestic macroeconomic policies. The sustained contraction of global imbalances also relieved an important source of external criticism, which allowed China to cautiously begin to take a more assertive role.

Chinese scholars believe that Western economists and financial officials continue to hold a monopoly over how global policy challenges are framed, and they usually possess greater expertise and are more familiar with the rules and operations of global economic institutions. These two factors account for China's poor performance in agenda setting. In addition to these advantages of Western economists and financial officials is the reality that Western financial powers, especially the United States, are still far stronger than China and other developing countries in terms of international financial rule-making, holding important positions in international financial institutions as well as their expertise and ability to speak authoritatively on financial issues (Li and Hong 2013; Li 2013b). Furthermore, China still lacks a strategic vision of its role in global economic governance, narrowly focusing on short-term gains and interests, and defending its policies at the G20 summits. The only issue on which China clearly and consistently expressed its opinion since joining the G20 is the issue of governance reform at the Bretton Woods institutions. This approach highlights China's guiding principle for its participation in the G20: focus on issues that concern the country's vital interests. Chinese scholars always talk about improving the ability to set the agenda in international economic governance. This requires China to develop a global view and take into account how to integrate the interest of other countries with its own, and then to build the necessary coalitions around these common interests, rather than just narrowly focusing on its own interests. (Su 2011; Cai 2014; Chen 2014). Absent the internal capacity to take the initiative in international agenda setting, China will remain simply a reactive power in global economic governance.

The inadequate communication and coordination among different government departments, as well as between the Sherpa track and the financial track, represents other critical weaknesses of China's participation in the G20 summits. A possible policy solution to this problem would entail the creation of an effective, specialized high-level coordination mechanism between relevant departments, led directly by the State Council or the Party's Central Committee. This would help to clearly articulate the respective roles and responsibilities of the different departments. A G20 assessment mechanism also needs to be created. A strategic medium-term assessment of what China's national interests are in the G20 summit process would help to insure that the provincial interests of departments do not undermine the larger objectives. An annual review assessment should also be carried out to take stock of policy successes and failures. By implementing these measures, China could improve the efficacy of its G20 engagement, and ensure that the policies agreed are aligned with strategic medium-term national objectives.

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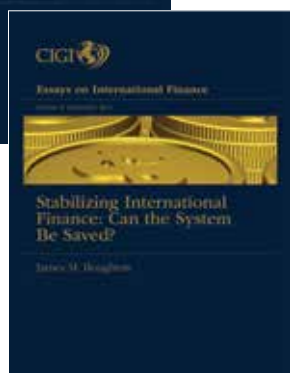
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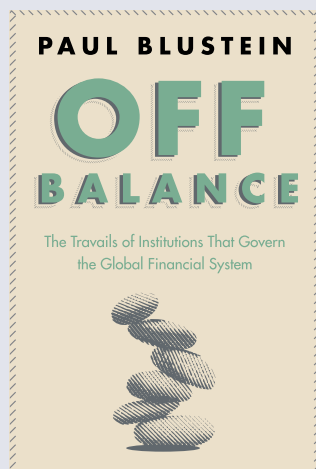
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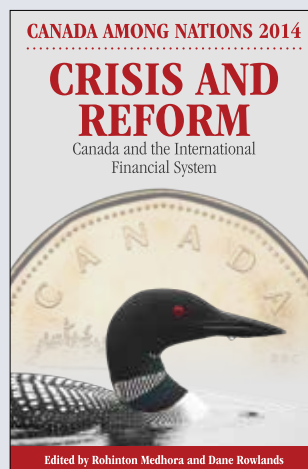
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