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China and the G20

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PROCEEDINGS

MR. CARIN: Thanks very much, it's a great pleasure to be here. Xue Lan has always been a great supporter of our work. He told me today that I should speak for maybe 30 minutes or maximum 40 minutes. I'm reminded of something that the former [inaudible] Brazilian primer minister said when he was given a certain amount of time to speak. The question is how can I possibly tell these people everything I know if I only have 40 minutes to talk to you. His wife and my wife would say, it's very simple: speak very slowly. So I will, for those of you whose first language is not English, I will try and speak slowly. So generally speaking when you talk to anybody about China and the G20, and the context this year is the decision that will be made very soon on the presidency of the G20 for the year 2016. This year, the presidency is Australia and they are organizing a meeting which will take place the first week of November. The decision has already been taken, Turkey is the president for 2015. There's a system in which the finance minister chooses the process, the chair, the presidency of the group. This informal group changes every year. And the presidency for 2016 will be either China, Japan or Indonesia. It's very strong likelihood that it will be China, and if it is China, then there's also an element of the G20 process called the troika where the past, current and future presidency have to work on organizing the meeting. What will happen is that in 6 months time, in November at the Australian G20 summit meeting in Brisbane, the decision will be made on the chair of the fall of Turkey and China will then realize that it's not very long before its our year and we're in the troika and have responsibilities for organizing. Two things usually happen when you mention the G20, the first is 'Oh no, China follows, it's not going to lead anything. And the second concern is 'what will the US think, the US will not like it'. So generally speaking, the reaction to the notion that the G20 should be a high priority to Chinese leadership, there's a general prejudice against it. So what I want to talk about today is to make a couple of arguments. First, we could argue

persuasively that continued sustained global economic growth, stability, has helped if there's a strong and effective G20. That's an argument that few people would disagree with. We don't have any substitute forms. A few years ago in Pittsburg, the G20 was announced that that was going to be a premiere international economic form, the G8 hardly exists anymore since the Ukraine problem. There's no other steering group, no other agenda setting group. So continued growth in China requires stable economic conditions worldwide, ideally prosperity worldwide. The second point I want to make is that the G20 is in trouble. Its future and effectiveness, its relevance will depend on the leadership and China is likely to be the leader following Turkey in the year 2016. The dilemma is that many people remember advice from Deng Xiaoping about what foreign policy should be and I'll come back to that. I want to dispute that and that at the time he gave that advice, it was appropriate but it no longer applies. Finally, I want to make several suggestions about what would happen if China were to take over and lead the G20, what procedural changes will have to be made in terms of the G20 process for preparing the meeting and for taking decisions. And what substantial decision in terms of policy could be made. But I want to underline that in being optimistic, I'm not naïve, that there are a lot of very difficult constraints that face any G20 host. If you've seen any photographs of the G20 summit meetings, you will realize that nothing can be decided at that meeting because there are 55 people around the table. Anybody who's an expert in decision making will tell you, that you need a smaller group. So what the G20 has is a preparatory process called the Sherpa process. A couple of years ago, the Mexicans really made a significant strategic error by splitting the process in two, into a Sherpa and finance deputies process. By chance in Moscow a year ago December, I walked into the Sherpa meeting and the ushers didn't realize that the many badges I had did not entitle me to be in that particular meeting. I was with something called the Think 20, where the Russians invited people from the think tanks from the G20 countries to meet. When I walked in I was

astonished at what a Sherpa meeting looks like in comparison because the dinner table was much bigger square than this, there were two other tables around the 3 and there were over 100 people in the room, 10 international organizations were present so it's clear not much can happen, no decisions' going to be made there. So we've got big procedural problems. Even if the leaders would take their time to make these decisions, they don't have the technical expertise, especially since we're dealing with finance issues. Many of the presidents and prime ministers present at meetings did not ascend to their position by first being finance ministers, so many of the financial or economic issues are beyond them. The expectations are unrealistic, there are thousands of media [inaudible], there's pressures something has to be produced, it's all unrealistic. Civil society provides pressure, excluded countries want to be there, there's virtually no time, these meetings last a day and a half, the meetings are supposed to be informal but there's no compliance mechanism, there's no sanctions, there's no legal follow-up for anything, and you can't make decisions without consensus. So it's a really difficult problem. Undertaking leadership which I'll suggest later, and I'll underline that point later, it's an over constrained problem this is reflected to a large extent by the severe critics of the politicians which are the editorial cartoonists. In every country there are editorial cartoonists, let me give you a sample of them (showing slides). This is at the time of the Pittsburg summit how the editorialists characterized the G20. By the way, anybody who wants any of these slides, you can come up to me afterwards and I'm happy to send you a copy so you can have the slides. So this is an American one back in Pittsburg 2009, and that was a relatively successful one. This is an Indian editorial cartoonist characterizing their view of the consensus. This is Gordon Brown, after Pittsburg, probably the most successful of the G20 meetings, and this is how the editorial cartoonist make fun of him. I'm just making the point that the proponents for action on the G20 will have to explain to the leaders that if they try to provide some leadership, they'll have to have

this expectation unless they're extraordinarily clever and successful. This is a Mexican one, for those of you who don't know Spanish, "mañana" means tomorrow. At the time of the Mexican G20 the year before Russia a couple of years ago, the Euro crisis was the critical issue. This is your [inaudible] it's for graduate students I always recommend you look into the cartoon bank, [inaudible] is the cartoonist, he's got brilliant stuff and he's got a good cartoon for virtually every political theme you might be writing about. So this is a very large stack of things the [inaudible] experts have to [inaudible] and it's not going to be simple.

What is Deng Xiaoping saying? I'll come back to this, I've been chastised by Ambassador Wu Jianmin, former ambassador of China to France, that this translation is not correct and we'll come back to that later. He didn't like the word 'hide' but I'll come back to it. The basic point which has really had extensive influence I believe in China is the notion that China should never claim leadership in multilateral affairs. This is the legacy of Deng Xiaoping. So my argument is that continued growth rates in China in a well over 6 – 7 % is really necessary for social stability for all kinds of reasons. It's critical to maintain high growth rates, the domestic challenges require that growth so I wish we were able to sit down with Deng Xiaoping today and get his advice today, does he still advice China should not claim leadership. So this basically is the logic of the argument. If you don't have a stable rules-based global market, then you're not going to get the economic growth that you need. The only way to get economic growth is to have the rules clear, the stability, that permits international investments that are required and you're not going to get that from any other informal groups than G20. I think China has very specific national interests that it has to defend. Over time, I think the renminbi has to become an international reserve currency, for all kinds of selfish interests for China. I think the Chinese like any other financial industry wants better international regulation of financial derivatives, it's clear that the

international financial institutions which were created just after World War II, they're 70 years old and generally 70 years old you retire. If you can't retire at least you should be reformed. And something has to be done about agricultural subsidies in developed countries. We'll also have to come to some sort of peaceful resolution on international disputes, especially with respect to underseas resources. Where are you going to get these things? Not in Washington at the IMF or the World Bank, not in NY at the UN, the most likely place is around the table of the G20. The reality is that the last four years have not done the concept of G20 any good. There's a large literature that denigrates the efforts of the G20, they haven't been able to come through on the IMF reform, the work on inefficient fossil fuel subsidies is very very slow, I think their greatest advance has been lowering the cost of international [inaudible] it's not too much progress. I don't see any alternative. The Americans (by the way when anybody says what will the US think, you have to ask yourself, which US? Because the US is not a single homogenous intelligence, there's not a single entity, the US is a Hodgepodge of conflicting interests and I don't see the stalemate in the US government changing anytime in the next four years or so). So I think you could argue quite logically that the future relevance of the G20 is not going to be determined by any improvement on the side of the Americans, the Europeans especially with what's going on these days in terms of EU elections, it looks like there are more people who want to break up the EU than to strengthen it. If there's any improvement or increase in relevance it's going to have to come from I believe Chinese leadership. The scholar [inaudible] Zu said this. So my premise is that the role of research institutions, think-tanks and scholars is to find the win-win options on the multilateral stage. Everything doesn't have to be conceived as a zero sum game. Many of the issues, especially in international growth and international investment is involved in positive-sum games. Last September state councilor made this, very encouraging to me anyway, comment that sort of belied Den Xiaoping's advice. One of the nice things about presentations is that you can

pick and choose your quotes, even Deng Xiaoping said something quite helpful to my point. In terms of the definition of hiding capacities and the question of whether or not the translation works, so even Wu Jianmin believes that you can still keep a low profile, but that does not mean that you don't lead, it's a question of attitude, of the approach you take, of whether there's a degree of arrogance in which you propose your ideas. So there's a potentially Chinese way that can be the antithesis of how some people characterize an American approach, which is that you put your cards on the table and this is the way it's going to be, there are other ways to proceed. So what I'd like to do is presume that the Chinese government decides that yes they're going to make something of the G20, what will they do. So my argument is that there's a series of reforms with respect to the G20 process to make it work, efficient, and I have a couple of substantive suggestions I'd make. Of course these are suggestions to generate ideas in China. You have to remember by the way what does the G20 do? It's not an army of bureaucrats to go in and implement stuff, basically what the G20 does is that when leaders agree to do something, then when they go home their governments will take those particular approaches. Occasionally, if they really don't know how to deal with a problem and they do this in many many cases, they commission a report from the appropriate international institution, organization or sometimes teams of organizations, they ask the World Bank, they ask the International Energy Agency, people from the various community, they basically establish the research agenda for a whole multilateral system by calling for a report to be delivered at their next meeting. The other thing the G20 does is that they can create an international institution, they create financial stability to deal with financial regulations so if there's a vacuum in global governance, the biggest one today is the energy, and the only international institution on energy is an OECD creature, China, Russia are not the member of International Energy Agency. It does make sense since we don't have a global institution. The G20 could create an institution. But to do anything you need to have a

process. So the first suggestion is that they have to do something about the troika. Now the point here is that all members of the G20 are equal except there are two that are more equal than others, nothing is going to happen at a G20 meeting of any serious consequence unless both China and the US agree. It's a consensus organization and unless China and the US are strongly in favor of a reform, it's not going to happen. So rather than trying to convince them after the fact, the suggestion is that they should stop this business of the troika being the preparatory group and having the current, previous and subsequent posts to get together and have a meeting, change it into an executive committee with five members and you have each year as a permanent member China and the US in the group. So I think when China becomes president should they become president in 2016, they should invite the Americans at the beginning to help plan the subsequent meeting and they should actually put pressure on the Turks to do the same sort of thing. Otherwise, the reality is you're just not going to have any process. The other problem is that the G20 is the big show, so every international organization fought to be invited to the preparatory meetings, to the Sherpa meetings, and every head of every major international organization wants to be invited to the summit. Now, you cannot have a real discussion with 40 or 50 people around the table. So one of the difficult things is to take the international organizations and remove them from the preparatory process, they should be the servants of the countries that are making decisions. We can come back to that, it's going to be contentious. Each international organization is really going to be unhappy if they're disinvited from the preparatory process, but they should be people who are implementing and delivering decisions that the G20 take, not making those decisions. The G20 tells them what to do. The other problem is that as soon as the first G20 meeting was held in 2008, President George Bush invited the G20. The difficulty is there's no logical criteria for who to invite, do you the countries with the biggest population, as a Canadian I say no, you should invite those with the largest territorial land mass, since otherwise Canada

will not make the cut. There's no logical way to do it. So what Larry Summers and Paul Martin had decided when they set up the G20 finance ministers was to do it arbitrarily, they didn't invite Spain, and Spain and the Netherlands complained bitterly in 2008 and did they [inaudible] diplomatic pressures to get themselves invited. And then the Africans correctly pointed out what's going on, there's only one African country in the G20, they were originally going to have Nigeria come but there was real political difficulties and personal difficulties with the Nigerian leader so they didn't invite Nigeria that's why there's 19 countries in the G20 if you count. In any case, what we have now is the African Union and NEPAD are invited and each host invites a regional guest, another country, and every country wants to be in the room but the consequence of pandering to this is that you expand the group beyond an efficient size. So I think what has to happen is that China should be really bloody-minded and say no. The other thing that is going on now is that there's a mad effort at outreach, each G20 presidency is going out there and talking to everybody. There's now a B20 where businesses gets together, there's a C20 for civil society and NGOs, the T20 the think tanks where we come up with sustainable ideas. There's just too much outreach and the reality is there's only so much time in a year, and how much time do you want to spend listening to an endless list of demands, of things that should be done. You have to have some faith in the fact that the think tanks, the executive committee and the presidency have a good idea of what has to be done, I would outsource the outreach but they have to cut back on outreach and work on just get agreements on the critical substance of the policies they want to pursue. Then there's a problem of people putting stuff up on the agenda. Well there should be new processes where a written justification explains in clear terms that why there's a positive sum game for the agenda, what the strategy would be for a win-win operation and if you can't do that in the first place, then it shouldn't be considered. We have a very poor precedent now of each host putting new items on the agenda each year, it can't work that way. I have a suggestion

about non-secretariat, any serious multi-year process requires institutional memory and it requires substantive input from officials of key countries that help you organize the process. So what the leaders without exception want is to not have a new world bank or a new OECD secretariat where international bureaucrats tell them what to do, they want to control the process, they want to maintain informality. The way to do that is you have each country [inaudible] a couple of officials who are high in administration, so the Chinese should send people from the finance ministry, the foreign ministry to Ankara to work with the Turks on the agenda. When it's in China in 2016, if that's the case, the Turks should be invited. There's precedent for this as seen with the Americans, the Canadians, the UK, the Australians all invite officials from partner countries to come work with them, to help prepare the meeting. This has to be systematized, maintaining the informality, paid by their own governments, no new organizations or positions created, but we can have all the benefits of the secretariat without any of the problems that would ensue, the thing, the attributes the leaders do not want. China should establish this non-secretariat. Some ideas on the substantive side. I think the financial stability board has to be strengthened dramatically, it's in China's interest to have international financial stability. Nobody profits aside from some hedge fund pirates, from volatility. How can we strengthen it? Give it legal personality, give it financial autonomy, it's one of the things I would do. Similarly, there's tremendous agenda to be done on shadow banking, over-the-counter derivative regulations. On climate change, it's very clear that the current process is broken and has no chance of success, if you think for a second about burden sharing formulas, once the international community agrees to do something that cost money, there's burden sharing. So think of paying dues at the UN, the Americans fought hard not to pay the 28% that they were doing, they got their dues cut to 22%. Think back to Copenhagen where the promise was made to raise 100 billion dollars a year in climate funds. The UN, everybody subscribes, the Green Climate Fund everybody is not going to

subscribe, only the rich developing countries are supposed to subscribe. What do you think the prospects are that US Congress agree to pay 30 billion dollars a year to this fund, or even the Canadian government, whose bill would be 5 billion dollars a year. People keep talking about 100 billion dollars but it's a complete fantasy it's an Alice in Wonderland fantasy, there's not going to be any financial transfers but the Indians every meeting insist that there's going to be "new and additional finance". The second thing is legally binding target on emissions, it's never going to happen. Climate change is difficult to tackle. What has to happen is that there's got to be bottom up, and the way to do it is that we should have an R&D consortium, there are examples of international community getting together and deciding we're going to work together on a very expensive research and development projects, I know of three: International space station, the large hadron collider, fusion reactor. These things cost billions of dollars, but there's real cooperation on funding it. The thing about an RND consortium is that governments decide to pursue it, if China convinces everybody to do it, the institutions don't have to be all in poor countries, they could be in the countries that pay for them. So the US money could stay in the US. I believe there's much greater chance of getting US to appropriate money if it's spent on US scientists. The trick is that the results have to be license free, patent free, universally available on new research and development. On standards, we can have a bottom up process, major economies forum has already been doing a lot of work, phased in gradually. Furthermore, there's going to be border tax adjustments, we're going to get the WTO to back that up. It could be done. Internet governance is a problem, there's a real chance of damage unless a global agreement can be made on it. And then there's an inter-governmental process that's starting to place the millennium development goals. I characterize it as a pending train wreck. China has a lot of credibility in terms of demonstrating what's the new narrative, it's not the Washington Consensus, and China has the credentials of having brought hundreds of millions of people out of

poverty. What's that new narrative look like? So I think there's a lot of need and I hope for that. So what I've done is given you a list of suggestions on the preparatory process, because nothing has happened at these meetings by chance, it has to be prepared over time, there has to be a structure and it's going to be systematic. And there's the idea that China will benefit greatly from an effective G20 and furthermore, the G20 is not likely to be effective unless China actually makes some effort and takes some action. So my last slide is the ball is in your court. I would stop there. I have one other thought, whenever you're presented with counter arguments trying to remind people that the perfect is the enemy of the good.