



High expectations



Geethanjali Nataraj is a Visiting Scholar with the Brookings Institution India Centre and Observer Research Foundation, New Delhi, and Pravakar Sahoo is Visiting Fellow, Bruegel and Associate Professor, Institute of Economic Growth, New Delhi

The G20, which came into being in response to the East Asian crisis in 1997-98, played a key role in responding to the global financial crisis of 2008-09. China's Presidency of G20 is being looked at with a lot of anticipation. The theme for the G20 summit in September was *'Towards an Innovative, Invigorated, Interconnected, and Inclusive World Economy'*, and the agenda of all the meetings in the run-up to the summit revolves around this theme. China has added another 'I', innovation, to the three 'Is' of the 2015 Turkish Presidency—inclusiveness, implementation, and investment. Under this framework, members can discuss how to formulate a G20 blueprint for innovative growth and deepen international cooperation in the areas of innovation and digital economy.

However, there are members, like India, which would focus on poverty alleviation and sustainable development besides trade and investment. Against the above backdrop, this note provides an overview of the Chinese Presidency of the G20, with a focus on its agenda and its role in making the G20 a success.

Introduction

The G20 played a key role in responding to the global financial and economic crisis of 2008-09. Its decisive and coordinated actions in ensuring sufficient liquidity in their respective economies, strengthening the capital adequacy of financial institutions, protecting savings, and deposits, addressing regulatory deficiencies, unfreezing credit markets, and working to ensure that international financial institutions provide critical support for the global economy boosted consumer and business confidence and supported the first stages of economic recovery. The G20 continues to focus on measures to support global economic growth, with a strong emphasis on promoting job creation and open trade.

During 2008 to 2010, deliberations in G20 summits focused mainly on building consensus on measures required to stem the global financial crisis. Since the Seoul Summit in November 2010, the agenda has focused on issues such as building the framework for strong, sustainable, and balanced growth; international financial architecture; regulation and supervision of the financial sector; climate change finance; fossil fuel price volatility; clean energy and energy efficiency; green growth; food security; disaster risk management; labour and employment issues; corruption; and trade.

In sum, the G-20's efforts to date speak to its power as an emerging forum and suggest that the hard work of coordinating policy among the major economies can pay off. Apart from the success that the G20 has achieved by taking joint actions on financial regulation, the G-20 leaders have also helped marshal a collective response to other social and political challenges, like Ebola, hydro-fluorocarbons, and worker safety. The achievements of the G20 over the years can be grouped into four stages:

1. 2009: responding to the historic crisis;
2. 2010: the turn to consolidation;
3. 2011-12: keeping the euro area intact; and
4. 2013-14: addressing weak global growth.

From 2015 onwards, the G20 has focused on 'national growth strategies' that would collectively raise G20 GDP by 2 per cent by 2018. These efforts are still a work in progress.

Today, the global economy and international economic cooperation have reached another crucial juncture. As a result, the Federal Reserve's planned withdrawal of quantitative easing (QE), through which central banks purchase sovereign debt, is currently destabilizing India and other emerging countries. Accelerated fiscal adjustment in advanced economies may reduce the pressure on developing currencies, but given the extent that this negatively affects growth in advanced economies, their own faltering recovery would be at greater risk.

The asymmetric impact of fiscal management in advanced economies through the trade and financial channels is another conundrum that emerging market economies (EME) would need to sort out. It is imperative that the G20 nations get together and strengthen the foundation for a global recovery and growth and get over the crisis. The G20 is in a position to seize the historical opportunity presented by technological breakthroughs and a new industrial revolution and usher in a new round of global growth.

Henceforth, the G20 has promised to act with a broader vision and deliver concrete outcomes. It would continue to address critical issues affecting the global economy and endeavour

to promote strong, sustainable, and balanced growth. During and after the global financial crisis of 2008, while advanced economies experienced dwindling growth, India was one of the countries that continued to grow. In addition, India has not been a contributor to the global imbalance. By virtue of these, India has emerged as an important member of G20—one able to influence the reshaping of the world economic and financial order and contribute towards it. Thus, it is of utmost importance that India bring to the table its own assessment of the G20 agenda in the light of the global developments and offer considered views on global cooperation without compromising on its own interests.

China's role in international economic management and its Presidency of the G20

With a population of 1.35 billion, China recently became the second largest economy and is increasingly playing an important and influential role in the global economy. The role that China plays in international economic management is significant, and in this year's G20 summit meeting, China is expected to guide world economic growth and international cooperation. China has assured the world community that it would work towards transforming the G20 from a crisis management mechanism to a long-term governance platform.

The G20 is a huge platform. It brings together the world's major advanced and emerging economies, and represents around 85 per cent of global GDP, 80 per cent of world trade and 67 per cent of the world population. Hosting the G20 is a huge opportunity for China as it provides a perfect platform to actively drive international economic management issues. As the host country for this year's G20 summit, China can play three leadership roles—bridge builder, facilitator, and catalyst.

The agenda of a G20 summit is generally set by the country holding the chair. China is expected to work together with other members to consolidate and strengthen the partnership within the G20; fully implement the commitments at Antalya and the previous summits; improve the effectiveness of the G20 in decision-making and implementation; and extend its influence. The economic backdrop of the Chinese G20 Presidency is not much different from other G20 presidencies. The global economy continues to face significant short- and long-term challenges associated with the sluggish recovery from the global financial crisis, and 2016 is likely to be characterised by disappointing growth and persistently high unemployment.

The world economy faces several risks, including the slowdown in the Chinese economy; slow and negative growth in emerging

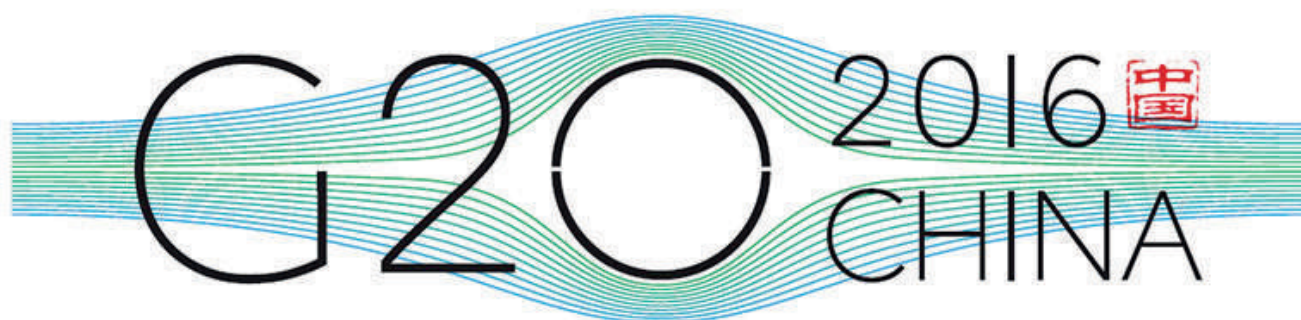
“China hopes that its advocacy for an innovative, invigorated, interconnected, and inclusive world economy... can help coordinate and implement the national policies of G20 members for a robust and sustainable growth model for the world economy”

markets such as Brazil and Russia; debt concerns in several G20 nations; and ongoing EU problems related to migration flows, Greek debt, and Brexit. Hence, economic policy makers and multilateral institutions like the G20 need to be alert to evolving economic conditions and stand ready to respond to events that can cause contagion. The G20's central mandate of strong, sustainable, and balanced growth, which has been repeated by successive G20 presidents, remains elusive. This has raised questions about the efficacy of the G20 as a forum for addressing key international problems.

Ultimately, the G20's credibility is linked to its ability to restore global growth on a sustainable basis. China has started with an ambitious and broad-based agenda, and has generated a sense that the G20 is back to focusing on pressing economic challenges. China faces the challenge to balance the high expectations of 2016 with the natural limitations of the G20 as a forum that has conspired to constrain its ability to address the primary global economic challenges (G20 Monitor, 2016).

It will be imperative for China to manage expectations about what the G20 can accomplish. If it can achieve this, it can to some extent defy critics and prove the credibility of the G20 and show that it is relevant, and also ensure that it makes a positive contribution to global economic governance and leave a positive legacy for future G20 hosts.

Another great opportunity for China's G20 Presidency will be the implementation of the post-2015 development agenda. Recognising its importance for global economic growth and stability, Chinese President Xi Jinping has highlighted this task as one of its priorities for the 2016 Hangzhou summit, in addition to fostering innovation and strengthening trade and



investment. China's 2016 Chairmanship can drive progress by formulating a roadmap and timetable for the implementation of the post-2015 UN Sustainable Development Goals and the Paris climate change agreement. With regard to fostering innovation, China could work with other G20 members to garner support for the promotion of innovation—including technological revolutions, infrastructure development, and green growth—thereby providing even more positive spillovers for the world economy.

In sum, it can be safely said that the China's role in international economic management has been significant. So far, China's influence has been constructive and, despite recent signs of political assertiveness in the Asian region and at home, China's policy strategies have worked to support the status quo in managing the global economic order, and not to undermine it. This is despite the fact that the Chinese economy has shown signs of slowing, and is grappling with the problem of severe excess capacity in its manufacturing industries, which reflects fundamental problems in the Chinese economy. It also has significant implications on international trade, given the growing influence of China in the global trading system.

China is trying to reform its growth model to reduce its reliance on investment and exports, and move up the global value chain. In light of the current economic slowdown, the capacity elimination programme is likely to continue in the medium run, while the Asian Infrastructure Investment Bank (AIIB) and the 'One Belt, One Road' strategy may help tackle the problem in the long run. Meanwhile, exports of industries with excess capacity have recovered to pre-crisis levels and will continue to grow.

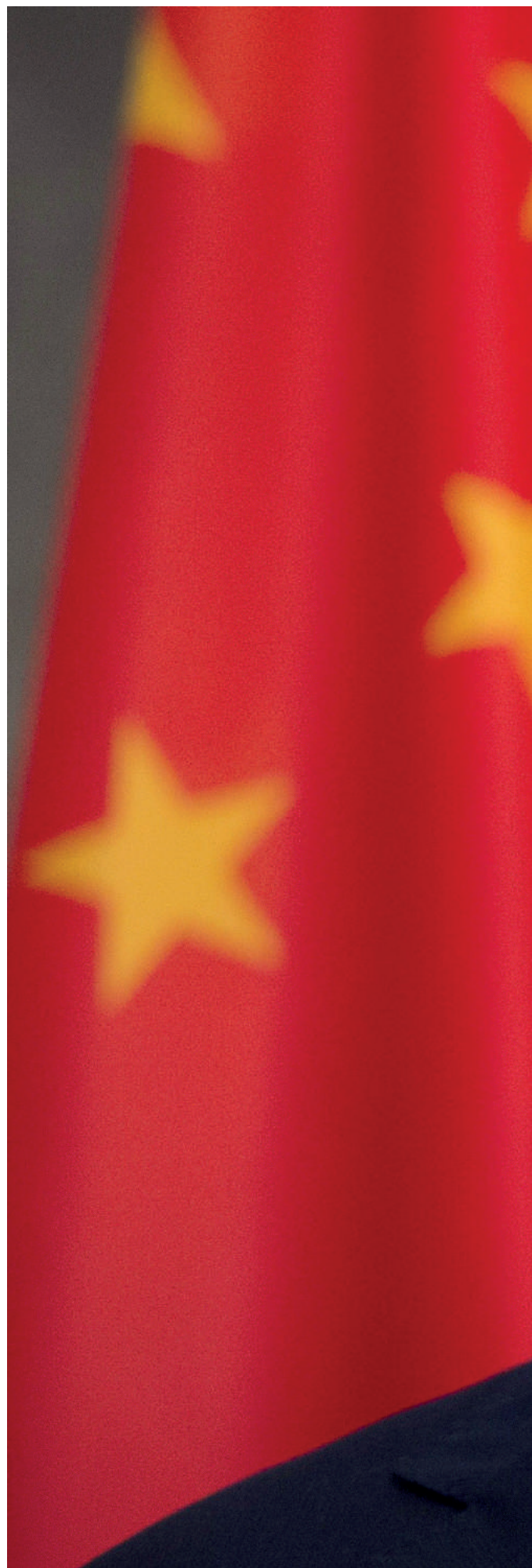
Given these developments, it is imperative that China ensures the success of the G20 during the year of its Presidency. Internationally, the establishment of the G20 has opened up a cooperative space within which China and the other emerging economies can, together with established powers, contribute to constructing a more robust set of rules to make markets work better. Here, too, China can continue playing a constructive role, and its power and influence in the management of the international economic system is only set to increase.

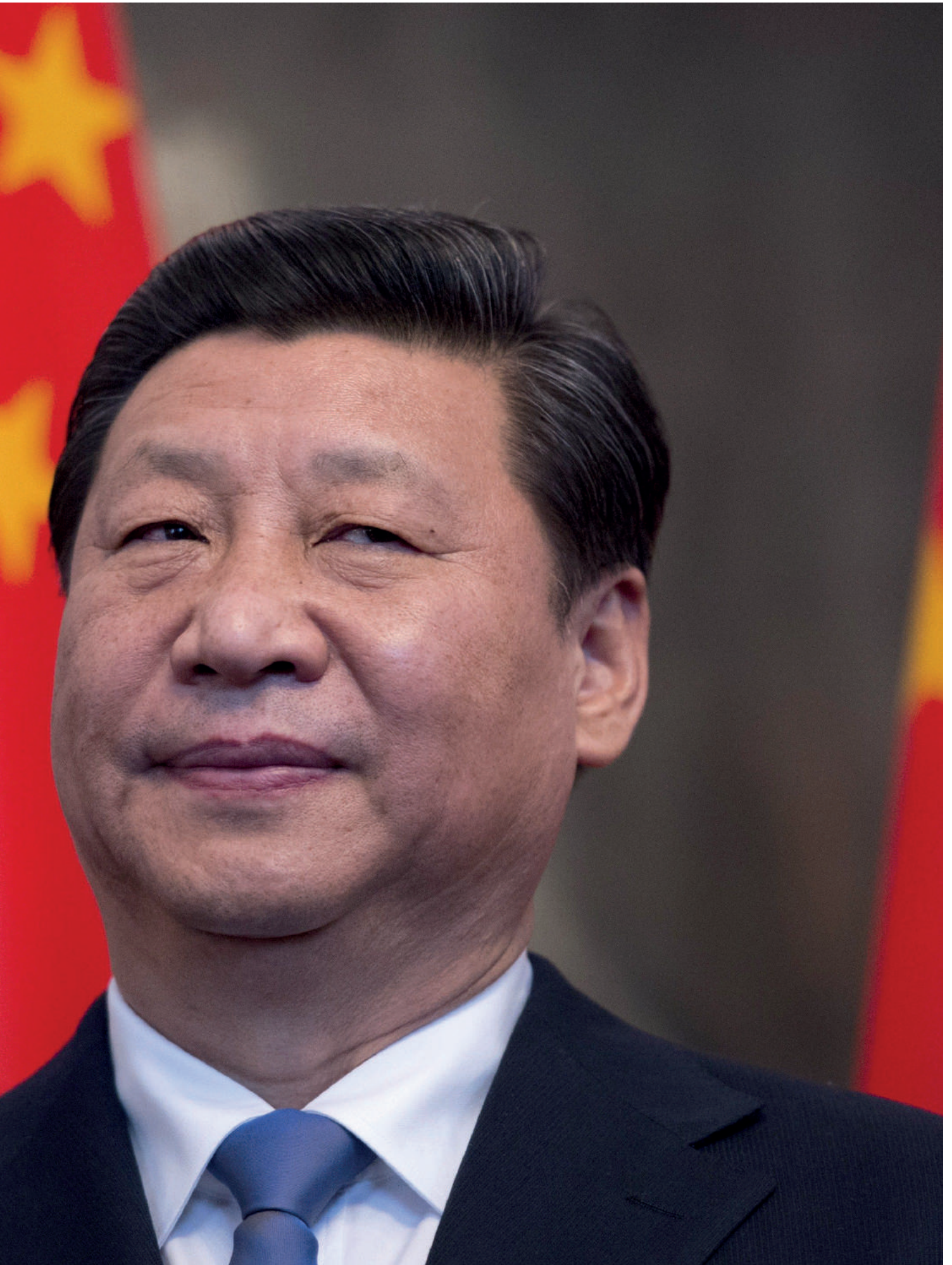
G20 agenda-2016

Because of the proliferation and intricacy of global challenges, the G20's agenda keeps expanding, but how can the process of setting the G20 agenda be streamlined and more coherent so that it still responds to the most important challenges to global governance? As the role of the G20 shifts from crisis response towards longer-term global economic governance, it is advisable to draw a medium-term plan, such as a five-year road map, to focus the group's priorities and agenda across several host countries. China can work with other stakeholders to help focus members' interests to articulate such a plan.

The agenda of all the G20 meetings in the run-up to the G20 summit in September would revolve around this year's theme '*Towards an Innovative, Invigorated, Interconnected, and Inclusive World Economy*'. This ambitious theme not only continues and expands on the three 'I's of the 2015 Turkish Presidency—inclusiveness, implementation, and investment—but also incorporates Chinese policy preferences and development concepts. China has added another 'I', innovation. The theme emerged from the fact that the G20 has reached another turning point since its formation.

Many countries are suffering from a series of unfavourable factors, including anaemic global growth, decline in potential output, volatility in financial markets, weakening global trade and investment, high levels of unemployment, and inequalities. Due to growing divergence in economic performance and policy priorities among major economies, the world economy is witnessing increasing difficulties in macroeconomic





policy coordination. The world economy needs a fresh impetus and therefore the theme of this year's G20 are apt and in line with the changing global needs and requirements.

Key items on the agenda of the Chinese Presidency

Breaking a new path for growth

Since the 2008 global financial crisis, the G20 has stressed the importance of coordinated fiscal and monetary policies to stabilise the global economy and promote growth. The Pittsburgh summit in 2009 set up the framework for strong, sustainable, and balanced growth. Further, efforts were made at the Brisbane summit in 2014 in formulating a comprehensive growth strategy, implementation of which started in 2015. At the Turkey summit in 2015, leaders of the G20 reiterated the need to be bold in making more effective policies to achieve these goals. Hence, in keeping with the earlier mandates, China would continue to upload the spirit of partnership of win-win cooperation to enhance macroeconomic policy coordination and cooperation, address potential risks, and increase synergies in promoting growth.

Maintaining the momentum of world economy recovery

All G20 members would continue to remain committed to responsible macroeconomic policies and would continue to enhance coordination to increase the synergy of their policies and reduce negative spillovers, maintain financial market stability, increase investment and consumption, and jointly boost global economic growth.

Lifting mid- to long-term growth potential

To achieve this objective, the G20 is expected to enhance cooperation on innovation, including innovation in science and technology and in the development of concepts, institutional arrangements, and business models, to explore new growth engines of the world economy.

Second, the G20 needs to continue structural reforms to lift total factor productivity and potential output and expand growth boundaries. G20 members are encouraged to carry out and benefit from structural reforms in line with their own development status.

Third, the G20 needs to advance the merging new industrial revolution, taking full advantage of new technologies and new organisational models in industrial production to lift domestic production and create more jobs. Fourth, the G20 needs to enhance exchanges and coordination in economic innovation and entrepreneurship policies to reduce inconsistencies.

Helping the implementation of the UN's 2030 Agenda for Sustainable Development

Development was a key agenda item during the South Korean and Turkish presidencies in 2010 and 2015 respectively. In 2015, there were several key development milestones: the Third International Conference on Financing for Development in Addis Ababa in July; the Global Development Summit in September that endorsed the 2030 Agenda for Sustainable Development; and the Global Climate Summit in Paris in December, which reached a new agreement on climate cooperation.

The Presidency is an opportunity for China to build on these issues. China has been one of the best performers in meeting the Millennium Development Goals and, with special advantages in promoting a global development agenda, should maintain development as one of the ongoing priorities for the

G20 and propose the same to the G20's members. It needs to ensure that the 2030 agenda for sustainable development is a priority and key issue in all G20 policy discussions. It can help member countries, especially low-income countries; prepare a roadmap for implementing the 2030 development agenda, which focuses on health, education, occupational training, e-commerce infrastructure etc. China also needs to support and facilitate the participation of low-income countries in global value chains.

Strengthening G20 collaboration in the energy sector

The energy sector is core to almost every aspect of the world economy, including growth, poverty reduction, and environmental sustainability. All member countries have agreed to the G20 principles on energy collaboration, which include energy access; global governance, data, and market transparency; security; efficiency; technologies; and sustainability. These principles provide the G20 a systematic framework to deal with energy issues. The main objective of the Chinese Presidency would be to:

1. integrate energy into other items on the G20's agenda, in particular prioritising clean energy projects in infrastructure investment to improve energy access for low-income countries;
2. expand to all G20 countries the peer review mechanism for reduction of fossil fuel subsidies; and
3. Establish a Global Energy Network, as proposed by President Xi Jinping at the UN Sustainable Development Summit in September 2015.

Several other key aspects in the agenda include the promotion of global trade growth, developing green finance, improving international tax regime, implementing consensus on anti-corruption, etc. Undoubtedly, the agenda is not only comprehensive but also challenging. Given that expectations are high, China has to put its best foot forward and use all its experience in global governance to ensure that the G20 not only meets its objectives but also remains effective in addressing global challenges of low growth and downside risks.

India's agenda and its role at this year's G20

India has emerged as an important member of G20—able to influence the reshaping of the world economic and financial order and to contribute towards it. India has an ambitious multi-pronged agenda for the G20 summit; it ranges from deploying global surpluses for infrastructure development and inclusive development to energy efficiency and global action to mitigate terrorism, corruption, and black money. India's core agenda at the summit would centre on global economic growth and stability, stable financial markets, and global trading regimes and employment generation. India would also seek global support for accelerating its infrastructure development, which includes digital infrastructure and ensuring access to clean and affordable energy. India is also expected to highlight the importance of international cooperation against black money and tax evasion with respect to the Panama Papers.

According India's Sherpa at the G-20 Summit, India will push for poverty eradication and sustainable development, besides trade and investment, at the G20 meetings and the final summit this year. Although trade and investment have been on the G20 agenda from the beginning, China is trying to take

these to a higher level; therefore, it is imperative that India connects these to the issue of poverty.

Another important issue where India is going to push this year is clean energy. The US contends that India must commit to ending fossil fuel subsidies by a specific date, but India is not in a position to do so, although it is expected that India will endeavour to eliminate these subsidies at some time in the medium-term. Automatic exchange of information among countries to check black money is also a top-priority item on India's agenda; though there is an agreement among all countries on this issue, there has been hardly any concrete progress.

On India's agenda is also base erosion and profit sharing (BEPS), which refers to tax planning strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low- or no-tax locations where there is little or no economic activity, and which therefore result in little or no overall corporate tax being paid. The BEPS is of utmost significance for countries like India due to their heavy reliance on corporate income tax, particularly from multinational enterprises.

Since a new government came to power in India in 2014, China-India relations have been at an all-time high, and the last two years have been the most productive phase of the Sino-Indian relationship, as shown by frequent high-level exchanges, especially the two landmark visits by the leaders of the two countries.

In 2015, China and India, together with other BRICS partners, worked to launch the New Development Bank (NDB), which is headquartered in Shanghai and headed by an Indian president. India also supported China in establishing the AIIB last year; India is the second-largest shareholder. The two countries coordinated their positions before and during the international climate change conference at Paris in December 2015, and participated in the negotiations in a responsible and constructive manner.

Terrorism is another common threat for China and India. During the visit of the Indian Minister of Home Affairs to China in November 2015, China and India agreed on closer security and anti-terror cooperation. It is amply clear to the world that the vision of a prosperous Asia cannot be realized without a prosperous India and China.

Against the above backdrop, and given that the relations between the two countries are at an all-time high, China can expect complete cooperation and support from India at the forthcoming G20 summit in Hangzhou. It is apparent that in recent times they have approached several key global issues with similar perspectives and that this has led to greater collaboration between the two countries. Of course, it cannot be said that the relations are very smooth—they are still plagued by border disputes—but the two countries are firm

that they will not allow their bilateral issues and problems come in the way of projecting a unified front to the world and enhance mutual relations.

However, when it comes to international issues, it is not enough if the two countries merely exchange notes; it is essential that they actively shape the agenda and outcomes of all discourses at the international level. Further, India expects China to promote BRICS as a leading global platform that influences global economic issues. India believes that it is a good opportunity for the grouping to increase its influence in the forum and lay the foundation for posing as a unified voice for more representation in international institutions.

The grouping would also need to adopt a more coherent position on global economic governance. With the establishment of the NDB and the AIIB, the BRICS along with other emerging and developing economies can ask for greater role, power, and inclusion in multilateral finance institutions.

The expectations of India, as of the rest of the world, from the Chinese Presidency of the G20 are quite high. India hopes that China will use its Presidency to bring a new life to discussions on new sources of growth—such as structural reforms, infrastructure investments, and reform of the global financial system—which are important from India's perspective. India expects the focus to remain on core issues, especially infrastructure financing, poverty alleviation, and decrease in protectionism, and may not be interested in tackling broader issues, such as the international refugee crisis, which may be important for other countries.

Conclusion

Despite many failures, the G20 still provides countries a very useful platform for discussion and dialogue. Information sharing is another area where the G20 has been very successful. Focusing on country-specific commitments instead of international ones was a good strategy on the G20's part.

Moreover, as the Chair of the G20, China is expected to attach great importance to, and take, advice and suggestions from non-G20 members. China has promised to invite international regional organisations as guests at the summit, and seeks contributions from UN, IMF, World Bank, WTO, ILO, and OECD. China has also sought to promote dialogues between the G20 and other groups like G77 and APEC.

China's Presidency of the G20 has raised huge expectations and excitement in the world economy. China hopes that its advocacy for an innovative, invigorated, interconnected, and inclusive world economy (4 'I's) can help coordinate and implement the national policies of G20 members for a robust and sustainable growth model for the world economy. However, it is important that expectations of China's Presidency of the G20 be realistic and that it be focused on what can be achieved in any single year. ■

References

- Sainsbury Tristram Et al (2016), *G20 Monitor: The Chinese 2016 G20 Host year*, Lowy Institute, February 16, Australia.
www.g20.org, Government of China, G20 China 2016.
www.g20india.gov.in, G20 India Secretariat, Department of Economic Affairs, Ministry of Finance, Government of India.
World Bank (2016), *China Overview*, Washington DC.
Dongxiao Chen (2016), 'The G20's Challenges and China's Leadership Opportunities for the 2016 Summit', Council of Councils, January 28, New York.
Peterson Institute of International Economics (2015), 'The G-20 and the Global Economy' prepared for the Deputy national Advisor of the United States, November 4, Washington DC.