Reshaping the Global Financial Governance: the Challenges that the G20 Faces and Its Response

Research report released on the
“Great Finance and Global Comprehensive Growth: the Second Annual G20 Think Tank Summit”

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September 4th, 2014
Chongyang Institute for Financial Studies at Renmin University of China (RDCY) was founded on January 19th, 2013. RDCY is the main project funded through a RMB 200 million donation to Renmin University of China (RUC) from alumni Mr. Qiu Guogen, who is Chairman and CEO of Shanghai Chongyang Investment Management Co. Ltd. Professor Chen Yulu, the President of Renmin University of China and Member of the Monetary Policy Committee of the People’s Bank of China, is the Dean of RDCY.

RDCY is a new style think tank with Chinese characteristics, with more than 30 full time employees, It has taken on 47 Senior Fellows from over 10 countries and diverse fields including government, banking, and academia. RDCY has initiated cooperative relationships with think tanks from close to 30 countries. RDCY aims to grasp finance, bring the insights of scholarship to bear on reality, advise policymakers and serve the public.
The origin and the development of the Group of Twenty (G20) is closely related to addressing the financial crisis through a mechanism of global governance. In 1999, the mechanism of the G20 Meeting of Finance Ministers and Central Bank Governors was set up to prevent the reoccurrence and spread of a crisis similar to the Asian financial crisis. In 2008, due to the "financial tsunami", the then French President Nicolas Sarkozy and British Prime Minister Gordon Brown suggested that the G20 be upgraded to a leaders summit, and the then US President George W. Bush agreed to organize it.

Since 2014, the signs of economic recovery in Europe and America have been positive. The sustainable growth of the global economy is expected to increase. Thus the role of the G20 in the global governance system needs repositioning. Meanwhile, the International Monetary Fund (IMF) faces difficulty in reform, the Group of 7 (G7) “expelled” Russia from the Group of Eight (G8), and all these challenge the G20 both internally and externally. And the challenges the G20 have exposed the dilemma confronting global governance.

The original intention for creating the G20, as stated by the then British Prime Minister Gordon Brown advocated in his speech at the second G20 summit in April of 2009, was to rebuild global prosperity through a “global ethic.” He said,“We believe that in this new global age our prosperity is indivisible. We believe that global problems require global solutions. We believe that for growth to be sustained it must be shared.” Both Mr. Brown and the then Prime Minister of Australia Kevin Rudd agreed that markets need morals. Globalization was shattered by the financial crisis, and should be rebuilt on our shared values.

As for the future mission of the G20 mechanism, US President Obama said in September of 2009 at the third G20 Summit held in Pittsburgh, “we can't wait for a crisis to cooperate. That's why our new framework will allow each of us to assess the others' policies, to build consensus on reform.” At the same summit, José Manuel Barroso, President of the European Commission said “it is time for the creation of a new global order reflecting the reality of economic interdependence.”

The G20 upholds its original intention and mission to lead the global economy to the path of recovery. We need to carry out research on how to stay on the right path and avoid moving backwards. This report deems China as a key factor to keep the G20 mechanism effective.

According to the communiqué released on the sixth G20 Summit held in Cannes, France, many countries hope China will host the 2016 G20 Summit. China, which has consistently adhered to the spirit of cooperation and development, mutual benefit and win-win collaboration, is willing to offer opportunities and room to all the countries for common development. We welcome everyone aboard China’s development train, and we would like to improve the governance order of the international economy with other countries.

1. The G20 Faces New Challenges

1.1. Challenges to the governance system

The IMF’s setback in its reform exposes the obstacles that confront improving the global governance system. During the Meeting of G20 Finance Ministers and Central Bank Governors which was held in Washington D.C. from April 10-11, 2014, the IMF quota and governance reforms came to a deadlock. “We (G20 finance ministers and central bank governors) are deeply disappointed with the continued delay in progressing the IMF quota and governance reforms agreed to in 2010 and the 15th General Review of Quotas (GRQ) including a new quota formula. We reaffirm the importance of the IMF as a quota based institution. The implementation of the 2010 reforms remains our highest priority and we urge the US to ratify these reforms at the earliest opportunity. We are committed to maintaining a strong and adequately resourced IMF. If the 2010 reforms are not ratified by year-end, we will call on the IMF to build on its existing work and develop options for next steps and we will work with the IMF to schedule a discussion of these options,” said the communiqué issued after the meeting.

That a member state was clearly condemned in a G20 meeting communiqué is unprecedented. Moreover, it was the hosting country, the United States, which was condemned. At this time, the U.S. is not condemning other countries, but has been condemned by others.

Back in 2010, IMF’s member states agreed to double the IMF’s lending capacity to about US$733 billion, and also to increase the share of the emerging economies. The Seoul G20 Summit 2010 also approved the program. According to the program, the share of the developed economies should be reduced from the current 57.9 percent to 55.3 percent, among which the US fell from 16.75 percent

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4 The Communiqué of the Meeting of G20 Finance Ministers and Central Bank Governors in Washington D.C., in 2014, Article VII.
5 The Seoul Summit 2010, Article IX.
to 16.5 percent, the EU from 30.9 percent to 29.4 percent. Meanwhile, Europe’s board seats will be
decrease from 9 to 7, with two vacant positions to be reallocated. The share of developing countries
should increase from 42.1 percent to 44.7 percent, and China’s share will rise from the current
3.72 percent to 6.39 percent, only less than the US and Japan. What’s more, China’s votes will also
increase from the current 3.65 percent to 6.07 percent. However, according to the IMF’s rules, any
resolution requires an 85 percent supermajority approval vote; while the U.S. has a 16.75 percent of
voting share, thus the U.S. has the veto power. The US failed to agree on the IMF reforms because
of its partisan quarrels. Therefore, the reform program was halted.

The stranding of the IMF reforms actually dooms most of the follow-up reforms related to
the international financial institutions to failure. This exposes that the G20 system lacks the
implementation capacity. In this governance system, if a large country like the U.S. delays or
refuses to implement a resolution, the G20 won’t be able to function properly.

1.2. Challenges to governance capability

Since the Toronto Summit in 2010, the G20 has made promoting “a strong, sustainable and
balanced growth framework” its primary task. However, the implementation process in 2014 poses
challenges to G20’s ability to build the framework.

During the G20 Finance Ministers and Central Bank Governors’ Meeting held in February 2014
in Sydney, Australia, the participating members committed to increase the G20’s overall gross
domestic product (GDP) by at least two percent above current trajectory over the next five years.
However, the G20 Finance Ministers and Central Bank Governors Meeting which was held in
Washington in April required its members to submit their own comprehensive growth strategies in
September, and to formally present their strategies at the Brisbane G20 Summit in November.

“A two-percent increase in growth” and “comprehensive growth strategies” have a clear numerical
target and a policy system, but this specific goal poses huge challenges to the G20’s governance
ability. “Now the G20 can only coordinate the fiscal and monetary policies of the member states,
however, the two-percent growth cannot be achieved through coordination,” said He Weiwen, a
representative in this think tank summit.

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6 The Toronto Summit 2010, Article VII.
7 He Weiwen: “The G20 mechanism innovation: to achieve the world economic growth targets through infrastructure
investment and trade facilitation”, see the thesis of the Second G20 Think Tank Summit (Beijing).
The G20’s governance is currently limited to the coordination of the fiscal and monetary policies and financial regulation in member states, yet it sets an extremely difficult growth target. Without the coordination of a unified comprehensive international economic policy and the guidance of a comprehensive theoretical framework on fiscal, monetary and industrial issues, the G20 has slim hopes to achieve its goal.

1.3. Geopolitical challenges

The G20 acts as “the main forum for international economic cooperation” and therefore is reluctant to intervene in geopolitical issues. However, international developments have introduced geopolitical variables to the G20.

On March 24, the G7 held an emergency meeting in The Hague, the Netherlands on Crimea joining Russia, and decided to hold a G7 meeting in Brussels over the summer, instead of attending the G8 summit scheduled to be held in June in Sochi, Russia. Thus Russia’s G8 membership has been “suspended”. Since then, the US, the EU and Japan have imposed sanctions on Russia, which has also taken counter-sanction actions. The expanding rift between the two sides has even lead to concerns over “a new Cold War.”

Presently the Ukraine situation is still grim, and the confrontation between the G7 and Russia continues. Will a similar split occur in the G20, like in the G8? Since the G20’s focus is limited to economic cooperation, the risk of a similar disunion in the G20 is much smaller. But it is still a cause for concern for the G20. The integration of the G20 members is much weaker than that of G8. The G20 only requires voluntary participation, and its agenda needs all members’ approval. Therefore, if the contradiction between the G7 and Russia happens in the G20 summit, it will certainly have a severe impact.

Although geopolitics is an external factor of the G20, it is the most important element in state-to-state relations. Thereby it affects the relationship among the G20 members, making the G20’s structure quite fragile. The Ukraine crisis has exposed this vulnerability, and the solution is the structural reform in the G20 mechanism.

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8 “The estrangement of US-Russian relations does not mean the beginning of a new Cold War,” said President Barack Obama at the White House press conference on July 29. This can prove the existence of the concerns over “a new Cold War”.
2. G20's "Identity Dilemma" in the International Order

The challenges that the G20 faces in every aspect regarding the governance system and governance capability, originated from the "pertinence" of the G20 mechanism. Currently, Europe and the United States show signs of "revival," so the issue of financial crises which the G20 targeted on is not urgent anymore, and the "pertinence" mechanism is facing a dilemma. This kind of dilemma actually raises an essential question: How to define the G20 reasonably in the international order? Compared with the G7 mechanism, the G20 governance system seems to clearly be experiencing an "identity crisis."

2.1. "Responsibility sharing mechanism" or "Equal participation mechanism"?

If you look at its origins, the G20 is an extended version of the G7. The G20 imitates the work model of the G7 and follows the action philosophy of the G7. It is safe to say, the establishment of the G20 was initiated by the G7, which also decided which countries and organizations they would invite to join the G20.

The concept of the G7 is a kind of responsibility sharing mechanism. In the 1970s, a series of significant events happened, impacting global political and economic systems, including delinking of dollar and gold, the collapse of fixed exchange rate system, the oil embargo crisis, and stagflation. This series of events caused "the traditional organs of international co-operation to be no longer able to reconcile the differences among the leading Western powers, or to give them a sense of common purpose."

After one blow after another from crises, the United States, the hegemon in the world of the capitalist countries, could not afford to cope with crises alone. So France proposed the G7 mechanism of "major powers sharing responsibility", and the G7 was established gradually.

After the financial crisis in 2008, the G20 summit mechanism was established and called together through the G7. From the perspective of "order expansion", the G20 should be seen as the extension of the G7's "responsibility sharing." But from the perspectives of emerging market economies, especially the developing countries, the G20 is an unprecedented opportunity to participate in the global governance. They would treat the G20 as a platform of equal participation.

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So what category should the G20 be placed in, "responsibility sharing mechanism" or "equal participation mechanism"? If it strictly follows the "responsibility sharing mechanism" rules, the G20 should be actualized and have fixed members, and have the same international power as the G7. They should build a multilevel governance system structured like a pyramid, make it institutionalized and bureaucratized gradually, and make it function as more than just a leaders summit. If they strictly go by the "equal participation mechanism," then every party should have the equal right to participate, and members can join in according to certain rules. The resolutions should be decided by being put to a vote.

"Responsibility sharing mechanism" or "equal participation mechanism?" This is in fact the most essential question that the G20 is facing. The answer defines the basic structural issues, like what position the G20 will take in the international order, who the membership will be, and how influential it should be. This also decides the future development and reform direction of the G20. Now several situations such as the G7's split with Russia and the G7 lead Transatlantic Trade and Investment Partnership (TTIP) negotiation, will all contribute to keeping the G20 out of the significant processes that are relevant to changes of the world order. Global governance is facing the danger of a lack of top level design mechanism.

2.2. Full scale framework or restricted framework?

The G20's official definition is "the major forum on international economic cooperation," but this is actually a restricted position. The G20 is an international mechanism comprising of 19 major economies with big populations, plus the European Union, so why doesn't it discuss wider topics than just the “economy” and function at a level higher than just a “forum”?

Compared with the G7, the G20 is more representative, it covers a majority of the world’s population and GDP. But regarding its organization structure and functions, the G20 is just a simplified version of the G7, and can only make limited contributions to global governance. Global governance mechanism lacks a supreme and broadly representative forum.

From the perspective of system design, the United Nations is a structure that simulates a nation's government. The organizations and institutions under it participate in most areas of global governance.

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governance, such as the IMF, the World Health Organization (WHO), and International Court of Justice (ICJ). The staff of the UN are international public servants who don't belong to any sovereign states' government. Beyond the UN, the G7 forms a transnational network structure which includes four levels: the top is the leaders summit, the second is the communication mechanism of sherpas, or the leaders' personal representatives. The third is the joint meeting mechanism by ministers. Ministers from more than half of the G7 member nations will meet regularly, including financial ministers, foreign ministers, central bank governors, development ministers, education ministers, labor ministers and energy ministers, etc. This is independent from the leaders summit. The fourth level is more than 80 professional organizations or working groups. The G20 is similar to the G7 from perspective of the system design, but is different from the United Nations. But currently the "transnational networks" among the G20 member nations are loose. They only set up the regular coordination mechanisms in a few areas. It has not yet established a perfect mechanism to interact with and complement the functions of the United Nations system.

The G7's full scale framework and the G20's restricted framework define the difference between the two in their abilities. It is safe to believe that this design will not make the G20's function more powerful, so the G20 cannot take actions beyond the economic cooperation issues. The simplified structure makes the G20 mechanism very loose, without a strong enough executing power, and it is in danger of falling apart. Currently, the emerging market economies and developing countries account for nearly 50 percent of total global GDP, the world urgently needs a transnational network besides the G7, however, and the structural design of the G20 renders it unable to transform into a global translational network.

2.3. Long-term system or temporary system?

From the perspective of the need of the global governance, the G20 should be built into a long-term system, but the G20's current structure is temporary. At the beginning of the G20, it was just a temporarily convened summit. Later in 2009, at the third Leaders Summit, held in Pittsburgh in the US, it was said in a statement "we expect to meet annually thereafter." But this statement obviously doesn't have binding power.

At the sixth Leaders Summit of the G20, held in Cannes, France in 2011, the meeting made arrangements for the mechanism to elect the presidency from 2012 – 2015, and how to choose

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12 According to calculation based on World Bank Group's statistics, the new rising market economies and developing countries have taken up 49.1% of global GDP total.

13 G20 Leaders' Statement, Pittsburgh, 25 September 2009; the 56th article
the presidency after 2015.\textsuperscript{14} This is more specific than the 2009 Pittsburgh summit statement in making it long-term, but it doesn't erase the "temporary" nature of the G20. In November 2014, the ninth G20 summit will be held in Brisbane, Australia, and it is very important since it will elect the presidency nation for 2016. This is the watershed for the G20 to decide which way it will go, transforming into a long-term system, or continuing as a temporary mechanism.

As a governance system, what members should the G20 include? Actually, there are no precise standards other than the G7's invitation. Compared with the G7, the G20 members do not have very close relationships either. As for why the G7 can be a stable long-term system, it should be known that besides the institutional reasons, the cultural factors also must not be ignored. Compared with the G7, the G20 has more diverse cultures, and they have to try even harder to seek common grounds based on the different values of these diverse cultures.

This year, deciding the future development direction of the G20, and on what basis the G20 long-term system can be built, will be a significant question. As the G7 may have different opinions than the other members of the G20, consensus may not easily be reached. So high political wisdom is needed in order to establish the long-term system.

\textbf{3. “Function Crisis” of the Global Governance System}

The G20 has been positioned as the “major forum for international economic cooperation,” theoretically meaning that the G20 as a "designing mechanism" should attained the status of "most authoritative" in the global economic governance system and act as a prompter in a wide range of global economic governance reforms, including international financial mechanism reform. In fact, the G20 has worked hard towards this direction over the past six years, but has hit a snag when IMF reform has gotten bogged down, and has inadequate tools to meet the two percent additional growth target. How to meet the global governance targets demonstrates the capacity of global governance to tackle crises.

\textbf{3.1. Monetary Governance or Financial Governance?}

The G20 was established to cope with financial crisis, and logically directs its agenda at the root cause of financial crisis. Is the international monetary system or international financial system (including financial institutions, financial markets and financial regulation) the root cause of

\textsuperscript{14} Communiqué of G20 Leaders Summit–Cannes, 2011; the 31st article
financial crisis? It is obviously the international monetary system. Yet the G20 agenda actually targets international financial system reform, rather than international monetary system reform.

The Declaration of the first G20 Leaders Summit held in Washington D.C. in 2008, when commenting on the issues that needed to be addressed, set forth: “Major underlying factors to the current situation were, among others, inconsistent and insufficiently coordinated macroeconomic policies, inadequate structural reforms, which led to unsustainable global macroeconomic outcomes. These developments, together, contributed to excesses and ultimately resulted in severe market disruption.”\(^\text{15}\) Obviously, the statement took international capital market turmoil as the primary issue encountered. The ensuing measures proposed by the declaration turned out to be the injection of liquidity into financial institutions to strengthen capital, the improvement of market regulation, and reform of international financial institutions. At following G20 summits, although proposed measures became more detailed and complex, they never went beyond financial market reform.

What is the root cause of the turmoil of international financial markets? We think the international monetary system is the culprit. In the composition of world’s foreign exchange reserves, the US Dollar holds around 60.9 percent while, Euros hold 24.5 percent.\(^\text{16}\) The US and the Euro area make monetary policies in accordance with domestic economic situations, while for peripheral non-reserve-currency nations, monetary authorities have to not only set rates and monetary policies in accordance with domestic economic situations, but also in accordance with an external equilibrium, and employ the same tools to make and implement proper exchange rate policies. However, the two sets of policies often clash with each other in terms of targets and means.\(^\text{17}\) Reserve-currency nations often criticize the monetary policies, the exchange rate policies in particular, of non-reserve-currency nations, and let economic turmoil and financial risks spill over to those nations and regions.

Industrial exporters, including China, import raw materials and also components, and export industrial goods to the US, Europe and other nations. The interconnected global value chain has been denominated by US Dollar, Euro and Yen, among others. The arbitrage mechanism prevails in such an economic structure, bringing about currency fluctuation and turmoil in international financial markets.

\(^{15}\) The 4th clause of the G20 Washington Declaration.  
\(^{17}\) Li Yang, “Reform of International Monetary Reform and China’s Opportunities,” Modern Bankers, July, 2008.
According to a RDCY research, several currencies are trying to copy the framework of US Dollar and establish their own global financial infrastructure. But they only possess partial traits of world reserve currency, so cannot be considered as world reserve currency, but as sub-reserve currency. The interplay between these sub-reserve currencies and the US Dollars has perked up. Such important economic change has been left out of the G20 agenda and thus has raised the most fundamental question facing global governance capacity: No mechanism can handle the most important issue of monetary governance, and the capabilities of the only highest-level forum, the G20, are confined to financial market governance.

3.2. Global Governance or Regional Governance?

The G20 should be a global governance system, but de facto, the G20 agenda largely concerns advanced economies, was rarely touched upon the topics that developing economies concern, including infrastructure investment and development. The G20 actually is more like a dialogue scheme for the “G7+12” (the EU counted in G7), G7 is interconnected and well built, with high capabilities of effective governance, while non-G7 nations talk separately with the G7 in a loose way and in the absence of basic architecture that governance capabilities need.

Precisely speaking, the G20 also includes the BRICS nations and MIKTA (Mexico, Indonesia, South Korea, Turkey and Australia) nations, but their governance bond is far looser than the G7. The link between BRICS nations and MIKTA nations are only built through indirect channels like the IMF.

The situation has limited the G20’s execution magnitude within the G7 or within the ties between the G7 and a nation or a national bloc, making the G20 exist in name only as a global governance mechanism and confining its capacity to regional governance.

The paradox facing global governance is the absence of an effective governance system that can address core issues despite the fact that national blocs are all talking about global governance. In early summer of 2014, for instance, the Fortaleza Declaration issued at the BRICS Summit voiced support to the G20’s major agenda including overall growth strategy, the two percent additional growth rate and the IMF reforms, and also paid attention to and offered suggestions concerning the

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19 At the UN Conference in September 2013, leaders of five nations, including Mexico, Indonesia, South Korea, Turkey and Australia, met for the first time in the name of MIKTA. See conference delegate Molly Elgin’s paper.
20 See http://www.chinanews.com/gj/2014/07-17/6394506_z.shtml
geopolitical situation facing the Ukraine, Syria and Iraq, as well as the situations in some African countries. In the Brussels G7 Summit Declaration\(^\text{21}\) released on June 5, we can see similar concerns, and the majority of clauses have homogeneous positions. However, the two declarations that have similar topics and positions cannot be combined into one.

Therefore, the G20 should have been the most efficient platform for coordinating conflicting interests among nations and national organizations, but the platform hasn’t been well built and used. On the contrary, suspicion and misunderstanding among nations have put what is called the governance system with most potential in the world in predicament.

The governance targets set by the G20 are extensive and profound, including the realization of global sustainable growth, job creation, reforms of international financial system, establishment of network overseeing capital flow, and even fighting against corruption and climate change. But as for governance tools, the G20 is an intergovernmental informal negotiation mechanism with the establishment of annual conferences including the Leaders Summit, Financial Ministers and Central Bank Governors Meeting, as well as the Labor and Employment Ministers Meeting, but lacks the depth and width of governance. Moreover, the roadmap to accomplish targets lacks execution mechanism and regulation measures.

The mismatch between governance target and governance tools has caused for an inadequacy of governance capabilities, and difficulties in fulfilling pledged targets. Effective governance should rely on designers, executers, regulators and capital installment system. In regard to the reality of the G20, many governance targets are designed and offered, but executers fail to implement them, regulation system and capital supply system depend on interim plans due to lack of conventional measures.

Many of the governance targets proposed by the G20 smack of defensiveness, and actually are preventive measures or contingency suggestions in case of crisis, which are adopted under the circumstance that there is no execution system. Despite that, these defensive governance targets are couched in similar rhetoric: “We call on member countries to examine how our own domestic laws contribute to BEPS and to ensure that international and our own tax rules do not allow or encourage multinational enterprises to reduce overall taxes paid by artificially shifting profits to low-tax jurisdictions.”\(^\text{22}\) These targets are no more than suggestions lacking executioners and regulation.


\(^{22}\) See the 50th Clause of 2013 G20 Leaders’ Declaration in St Petersburg.
When it comes to global governance, the vested interest groups will benefit rather than emerging forces if its measures can not serve its target. Without effective cooperation established between the G7 and emerging market economies, global governance framework will teeter on the brink of collapse.

4. China Holds the Key to Sustaining the Effectiveness of the G20 Mechanism

Since the financial crisis broke out six years ago, the G20 mechanism has been making great contribution to leading the global economy out of turmoil and back on the path of growth. During the five years between 2008 and 2013, China had been the “powerhouse” of the global economy, with its contribution rate to the global GDP growth standing at 37.6%. Facts have shown clearly that a G20 mechanism with China’s participation in the global economic governance is of great significance for the recovery of the global economy.

The G20 mechanism, born to meet the urgent need of global governance, has developed a fine tradition among its member countries of sharing wisdom in international decision making. In the next five years, the global economy will come to a key stage of sustainable growth. The fine tradition of the G20 needs to be continued and carried on to break away the tendency that cooperation is dismissed unless crises are around the corner.

Based on the spirit of the Communiqué issued at the sixth G20 leaders summit in Cannes in 2011, an increasing number of countries would like to see that China holds the 2016 G20 leaders summit23. China, as a leading power and a developing country, is capable of participating in the global governance, and understands the urgency of economic development and growth. As the “engine” of the global economic growth, China is willing and able to chair the 2016 G20 summit so as to better share its development experiences and promote strong and sustainable global economic growth. In 2013, China for the first time became the world’s largest consumer market. Now, as the world’s largest manufacturing economy and the largest consumer market, China still expects to see significant economic growth. As a country which always sticks to the spirit of cooperative development, mutual benefit and win-win, China wishes to provide other countries around the

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23 The Joint Declaration by the People’s Republic of China and the French Republic on Opening up the New Era of a Close and Enduring China-France Comprehensive and Strategic Partnership issued on March 26, 2014, states that “France hopes China who has never held such summit can hold the G20 summit as soon as possible.” France, as one of the initial organizers of the G7 and the G20 mechanisms, officially supports China to hold the 2016 G20 summit in the form of joint declaration, which is rare in international relations.
world with both opportunities and room for common development. All countries are welcome to get on board the express train of China’s development. As a saying goes, “If you want to go fast, go alone; if you want to go far, go together”. If the next G20 leaders summit to be held in Australia in November, 2014 announces that China holds the 2016 G20 summit, we would like to propose the following suggestions.

4.1. Propose the concept of “Great Finance” and its financial values

For the past six years, the G20 has put the global financial crisis under control and the global economy has been recovering. However, the recovery is nothing but the restoration of the old mode of economic growth, and the global economy has not yet embarked on a new road of strong and sustainable growth. To achieve the “post-2015” global development goal set by the United Nations, we must break away from the accustomed notion of development, treat the global financial system and the global real economy as an integrated whole, and review the current global economic growth policies. Therefore, the concept of “Great Finance” and its financial values are needed. “Great Finance” integrates macro financial theories with micro financial theories, and treats finance and real economy as an integrated whole so as to promote the integration between financial development and “a country’s factor endowments.”

* Finance serves the real economy

China, as the leader of the emerging economies in the G20, has been the “powerhouse” of the global economic growth thanks to the steady development of its real economy against a background of the financial crisis. China can actively promote the idea that “finance that serves the real economy” to make it a core value of the G20. No organization can last long without core values. All the member states of the G20 should restrict the over-virtualization of finance and guarantee that capital flows to real economy in order to expand production and increase employment. We should promote international cooperation of the world’s emerging industries, actively foster new points of economic growth and fully release the internal driving force of science and technology advances in promoting economic growth.

* All countries should enjoy the right to common development

In this era of globalization, no country can develop itself independently and no regional trade bloc can prosper long. China should promote the notion of “common development” to deny the policies that intentionally hamper the free flow of global wealth resources, as a result of which each country’s development can be interacted with other countries’ growth, thus bringing positive
spillover effect to each other. In this way, countries around the world can make full use of their comparative advantages and jointly optimize the use of global economic resources in order to achieve the mutual-benefit and win-win development.

* Financial development should align itself with the “global eco-civilization”

Nowadays, “carbon emission reduction” has become a major environmental issue on the global agenda. However, “carbon emission reduction” only focuses on the environmental burdens in production while the environmental burdens caused in consumption have been ignored. We hold that in the era of globalization that the global production center does not overlap completely with the consumption center. The major picture is “produced in East Asia but consumed in the West.” Therefore, it is unfair to only pay attention to the environmental burdens caused in production but ignore the resources consumed by over-consumption. Because the eco-system which is closely related to human beings, such as the atmosphere, is of global nature, we should treat environmental protection from the global perspective. The eco-civilization is a system of thoughts on the relationship between human civilization and nature from a philosophic view. Only by recognizing systematically the relationship between human activities from production to consumption and the environment, can we find a really sustainable development road for man and nature.

In this era of globalization where production hubs are always separated with the consumption centers, only by global governance can we achieve global eco-civilization. Finance, as an important link in this era, should make its contribution to the global eco-civilization. Only when we design a fair and just compensation mechanism for consumption goods “resources footprint”, are the environmental issues likely to be solved.

4.2. Develop the G20 governance system featuring “large-scale cooperation”

The G20 should, from the perspective of top-level designing, push forward extensive cooperation and build a full-coverage and profoundly extensive network of inter-governmental cooperation, so that the economic growth benefits all and common development is shared by the world.

* Build a comprehensive governance framework

As the G20 deals with a wide range of affairs in various fields, it is necessary to build a comprehensive governance framework. China, if it is to hold the G20 summit, should, based on the new changes of the international relations, establish a systematic framework covering the participating parties, the cooperative parties and the dialogue parties. The framework should
include governments, international organizations, multinational corporations and civil societies, and provide a platform for multi-level diplomatic patterns. To begin with the ministerial level, we should improve and extend the inter-governmental coordination mechanisms, and establish more routine or special ministers’ conferences, for example, economic ministers, trade ministers, education ministers, housing and urban development ministers, energy ministers and culture ministers. We should expand the G20’s dialogue network on the non-governmental level. Apart from the existing dialogues such as Think 20 (T20), Business 20 (B20), Civil 20 (C20) and Youth 20 (Y 20), we should establish University 20 (U20) attended by university headmasters and Finance 20 (F20) attended by financial leaders.

* Improve the “variable geometry” governance structure

Variable geometry, an approach where representatives from non-member states can participate in discussions on issues of concern to them, became an official mechanism of the G20 in 2009. The G20 has established channels for dialogue with relevant countries and international organizations. China may further develop the “variable geometry” governance structure and include all kinds of bilateral and multilateral dialogues on economic governance into the G20 framework, for example, China-US Strategic and Economic Dialogue and Middle Power Dialogue. In this way, we are able to establish a governance structure outside the existing “G7 +12” structure and make the G20 rules more flexible and effective without changing the “unanimous consent principle”.

* Build the G-PPP mechanism on infrastructure investment

Based on the “A-PPP” model proposed in the report "Through Public Private Partnership, Promoting Infrastructure Investment in APEC Regions" issued by Renmin University of China at the 2014 APEC Third Senior Officials’ Meeting, we can envision a G-PPP mechanism (G20-PPP or Global-PPP). The G-PPP mechanism could include a capital pool that absorbs both public and private investment and a project storehouse, which could invest in the G20’s and the world’s infrastructure construction and solve the funding gap problem caused by overly relying on government in infrastructure construction.

4.3. Promote the G20 agenda framework featuring “extensive governance”

* Reform the international monetary system.

The international monetary system with the US dollar as the world currency has been increasingly out of step with the global real economy, which is the root cause of the financial crisis and turmoil.
Early in 2009, Zhou Xiaochuan, President of the People’s Bank of China, argued in his article “Thoughts on Reforming the International Monetary System” that the global financial stability will not be guaranteed unless the international reserve currency can avoid the inherent flaws of sovereign reserve currencies. The current international financial governance reforms in the G20 only focus on the regulation methods. However, to build a stable and risk-resistant international monetary system, just doing some patchwork is far from enough. China should explore how to propose the international monetary system reform agenda in an appropriate way.

* Promote the institutionalization of the G20 and build a financial cooperation platform for serving the global real economy

The G20 has so far largely been a “temporary negotiation mechanism”: no permanent institutions, no binding force and no power of execution. We should transform the G20 from a temporary mechanism to deal with the international financial crisis into a major platform for international economic cooperation, and from a temporary forum into a permanent international organization. In light of this, the G20 should consider to establish a permanent secretariat to better coordinate among member states their macro-economic policies, financial policies and financial regulation policies. We should come up with a roadmap and timetable for the institutionalization of the G20. The institutionalization of the G20 will upgrade its role from coordinated stimulus to coordinated growth, from short-term response to long-term governance, and from passive reaction to active planning. In the post financial crisis era with growing economic integration and economies closely intertwined, the G20, as the top platform for institutional design in global financial governance, urgently needs to strengthen its institutionalization and operability construction.
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