China's Engagement in the G20 Process and Reform of International Economic Governance

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What does China think of G20?

- Hu Jintao: "G20 is the platform for the international community to deal with the international financial crisis."
- Yang Jiechi: "G20 is an important and effective platform for the international community to counter-attack the international financial crisis and strengthen global governance."

To institutionalize the G20 summit

- Wu Hailong, a FM official, said:
- It's better to institutionalize the G20 summit on the following three principles:

- representation for both developed and developing countries;
- equality for all sides in setting up the schedule, writing the documents and discussing issues;
- effectiveness needed to avoid just talk and talk.

What should G20 do?

1. Strengthen international financial supervision and regulation.

- Establish standards and norms to be accepted by every country;
- Improve the rating system;
- Set up a warning system;
- Increase financial transparency.

2. Oppose protectionism

- No prejudice actions against foreign workers in the name of protecting domestic employment;
- No trade restrictions against imports in the name of protecting domestic market or applying trade remedies;
- No restrictions for FDI from the developing countries;
- Facilitate the Doha Round.

According to Fabrizio Saccomanni

- "Low intensity protectionism is spreading. Over 450 protectionist measures have been introduced last year by G20 members, both industrial and emerging countries, of which one-third is against China."

3. Pay more attention to the developing world

- Fulfill the promise of development aid (0.7% of GDP);
- Increase the capability of the World Bank and other multilateral development banks to help the developing countries;
- Open more for the developing countries;

4. Reform the international financial system.

Fives positions:

1) To create an international reserve currency. This currency should

- be disconnected from individual nations;
- remain stable in the long run.

- Zhou Xiaochuan, Governor of the People's Bank of China, China’s central bank, said,
- “Back in the 1940s, Keynes had already proposed to introduce an international currency unit named "Bancor", based on the value of 30 representative commodities. Unfortunately, the proposal was not accepted. ”

According to Zhou

- A super-sovereign reserve currency not only eliminates the inherent risks of credit-based sovereign currency, but also makes it possible to manage global liquidity.
- A super-sovereign reserve currency managed by a global institution could be used to create and control global liquidity.

- Special drawing rights (SDR) should play a greater role as it has the features and potential to act as a super-sovereign reserve currency.
- An increase in SDR allocation would help the IMF address its resources problem and the difficulties in the voice and representation reform.

- The scope of using the SDR should be broadened, so as to enable it to fully satisfy the member countries´ demand for a reserve currency.
- A settlement system between the SDR and other currencies can be set up.

- SDR, which is now only used between governments and international institutions, could become a widely accepted means of payment in international trade and financial transactions, and also for commodities pricing, investment and corporate book-keeping.

- The basket of currencies forming the basis of SDR valuation should be expanded to include currencies of all major economies.
- The allocation of the SDR can be backed by real assets, such as a reserve pool, so as to further boost market confidence in its value.

2) Part of the global reserve can be managed by a trustworthy international institution with a reasonable return to encourage participation.

- The IMF, equipped with its expertise, is endowed with a natural advantage to act as the manager of its member countries' reserves.

3) The IMF should strengthen its regular monitoring and assessment, and offer timely and early warnings of any financial risks.

4) To carry out reforms of the international financial organizations like the IMF and the World Bank by increasing the representation and voting power of the developing countries in such organizations.

Voting power at IMF

- Belgium: 2.08
- Canada: 2.88
- France: 4.85
- UK: 4.85
- Germany: 5.87
- USA: 16.74

- Brazil: 1.38
- India: 1.88
- China: 3.65 /

5) To encourage regional financial cooperation and making best use of the regional fund assistance mechanisms.

China-EU cooperation

- G2 of the U.S. and China is a mirage.
- Wen Jiabao: Five areas of cooperation

1. Speed up the negotiation process of PCA;
2. Encourage mutual direct investment; strengthen IPR protection; promote trade/investment facilitation and cooperation between the medium- and small-size firms;

3. Expand cooperation in energy saving, etc;
4. Strengthen cultural exchanges and people-to-people contact;
5. Coordinate macroeconomic policies and financial regulation/supervision.

The de Larosiere report
February 25, 2009

- **VII. Deepening the EU's bilateral financial relations**
- "With Japan and China, Brazil, India, Russia, Saudi Arabia, and other emerging countries the EU should work to develop common understanding on the global financial reforms that are needed."

A Chinese Central Bank report (March 2009)

- A regime of international financial regulation/supervision is yet to be established.
- Given the fact that there are no uniform standards nor information exchange platforms in the world today, regulators/supervisors know little about ~

- the cross-border activities of the international financial institutions.
- The related world organizations only ask the emerging markets to take care of their macroeconomic policies, including exchange rate."

How to cooperate in global financial regulation/supervision

- Limitations:
- China and EU have different standards for regulations/supervision;
- China and EU might have different interest and purpose;
- China's financial system is still in the stage of further development.

But there are some possibilities

- Exchanges of information;
- Consultations over policy issues;
- Monitor cross-border flow of capital;
- Joint efforts to fight against money laundry
- More consultations and dialogues within and/or outside the G20 framework.

Thank you