



ANALYSIS

China, the G20 and global economic governance

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EXECUTIVE SUMMARY

At the closing of the 2014 G20 Brisbane Summit, the presidency of the 2016 G20 was awarded to China. This is the first time China will chair the world's 'premier forum for economic cooperation'. Yet the G20 is just one way that China, now the world's largest economy on purchasing power parity terms, may seek to shape global economic governance. China is both seeking changes to the 'traditional' global economic governance model, centred upon the Bretton Woods Institutions, and experimenting with new processes such as the BRICS forum and the Asian Infrastructure Investment Bank.

For the moment at least, China will not 'place all its eggs in one basket'. It will likely pursue a combination of pragmatic and opportunistic approaches that do not reflect any overarching 'grand strategy' toward global economic governance. The G20 has the potential to help China expand its role in global economic governance while retaining the fundamental building blocks of the current governance architecture.

At the closing of the 2014 G20 Brisbane Summit, the presidency of the 2016 G20 was awarded to China. The announcement is timely. The IMF's recent World Economic Outlook estimates that, on a purchasing power parity (PPP) basis, China is now the world's largest economy.¹ The accuracy of this estimate is less interesting than whether or not the world has the right governance architecture — the rules and institutions that underpin the global economy — to accommodate this shift in economic power.

Given its meteoric ascendancy, China has a growing incentive to pursue global economic rules more favourable to the Chinese economy, while retaining those aspects of the international system that have facilitated China's prosperity.² China's global economic governance preferences will help to shape the future distribution of global governance responsibilities between the post-war G7-dominated Bretton Woods Institutions (BWIs) and the more diversified set of emerging twenty-first century governance actors.

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The goal of this Analysis is to understand China's approach to global economic governance. It examines China's relationship with existing governance structures and its role in establishing new forums and processes, most notably the BRICS, but also new institutions such as the Asian Infrastructure Investment Bank. We explore the extent to which these new initiatives challenge or complement the incumbent Bretton Woods-centred system.³ In light of China's 2016 G20 presidency, we also look at the incentives for China to utilise the G20 process as a means to increase its role in global governance.

CHINA AND THE GLOBAL ECONOMIC GOVERNANCE DECISION-MAKING SPACE

Three main factors seem to motivate China's growing participation in global economic governance. First, increased representation for China (and similarly other emerging and developing countries) can be seen as a logical end in itself. The current governance structures, particularly in the BWIs, are no longer appropriate when compared to the actual distribution of global economic weight in the twenty-first century.⁴ An adjustment of these governance arrangements would at least yield a system that more closely mirrors modern economic reality.

Second, there is an implicit opportunism underlying China's behaviour: more representation and influence means a greater ability to modulate any future developments in global economic governance that may threaten to undermine China's interests. Even if China does nothing with its improved representation in the forums of global economic governance, it would still prefer to have that increased representation in

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the face of future 'unknown unknowns'. Nevertheless, as this Analysis will show, there is little evidence to support theories predicting that China has a plan for the BWIs as part of a 'grand strategy' to reorganise the global economic governance system.⁵ This is based on a general recognition in China that the country has benefited, and continues to benefit, from the current architecture.⁶

Third, greater representation aligns with China's desire to demonstrate its 'good intentions' as a responsible stakeholder.⁷ China wants to convince other countries that its economic and political rise will be peaceful, and that it is serious in its self-proclaimed commitment to be an advocate for developing countries. Chinese analysts still point to a 'learning by doing' mindset with a view to further improving the country's capacities in economic diplomacy and governance.⁸

There is no straightforward answer as to how China might navigate the evolving global economic governance system. China has three main options: it could increase its involvement with the 'traditional' governance actors, in particular the BWIs; it could place more emphasis on governance actors that do not feature the G7 as founding or dominant members, chiefly BRICS-like processes; or it could revert to a pattern of non-participation or indifference. Because of its high level of interdependence with the global economy, this last option is the least likely course that China will pursue and for that reason this paper does not explore it in any detail.

These three options are not really stark alternatives. There is no real incentive for China, much the same as for any other important player, to put all its eggs in one basket. It is very likely to choose a combination of approaches. Indeed, the line between the family of BWIs and newer China-instigated processes is blurred, with increasingly complex interactions occurring between the two, spurred by the increasing maturity of the Chinese processes.

Since the 1970s, China's focus has been on the Bretton Woods Institutions. China has developed deep links with these 'traditional' governance actors, varying in nature between the respective institutions.⁹ The World Bank's development-financing role has certainly generated less tension in China than the IMF's politically fraught exchange rate surveillance of the renminbi, for example. Yet China has remained engaged in active dialogue with both processes, disagreements notwithstanding.¹⁰

Recent sentiment in China seems to point to an increasingly proactive approach to global governance that is less beholden to the status quo.¹¹ In particular, China has developed closer links with a set of 'emerging' governance actors, and has, in some cases, been instrumental in their inception.¹² In this section, we will analyse China's evolving relationship with the key traditional and emerging governance actors, particularly the

BWIs and the BRICS, and what this may imply for the future configuration of the global economic governance system.

CHINA AND THE BWIS

Over the last three decades, China has become an active member of the BWIs and has often utilised their services. Indeed, even though China has not always agreed with the IMF's assessments, the country has benefited significantly from IMF technical assistance (although it has never borrowed significantly from the IMF).¹³ China also continues to be a major recipient of loans from the World Bank.¹⁴ Having graduated from the World Bank's financing program for the world's poorest countries, the International Development Association (IDA), 15 years ago,¹⁵ China was the third-largest recipient of new commitments made by the International Bank for Reconstruction and Development (IBRD), the World Bank's main non-concessional lending arm, and the fourth-largest beneficiary of commitments from the World Bank's International Finance Corporation (IFC) in FY2013.¹⁶ China has also received significant technical assistance from the World Bank since its admission as a member.¹⁷

While this section focuses mostly on the IMF and World Bank, it is worth briefly saying something about the World Trade Organization (WTO). China's admission to the WTO in 2001 was a milestone in the country's quest for closer integration into the existing global economic governance system. Between 1995 and 2013, China's share of global merchandise exports increased from 2.9 to 12.1 per cent, equating to a nominal increase of around \$148.8 billion to \$2.2 trillion.¹⁸ Given the role international trade has played in China's growth, China has a strong interest in a functioning and efficient world trade regime.

However, this does not necessarily mean that China's primary incentive is to take a proactive and leading role in revitalising multilateralism under the auspices of the WTO. China has also pursued more pragmatic solutions such as bilateral and regional preferential trading agreements (PTAs), like the Regional Closer Economic Partnership (RCEP — a trading agreement for the ASEAN plus 6 countries, namely the Association of Southeast Asian Nation countries and Australia, China, India, Japan, Korea, and New Zealand).

One of the reasons for China's pursuit of its own PTAs is the fact that it is the only top five economy that is not currently part of at least one of the two major US-driven plurilateral PTAs: the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP). There seems to be a strong consensus in China that the standards contained within the TPP are unacceptably high relative to the country's current economic development stage and administrative capacity.¹⁹ Moreover, it is seen as a process led by advanced economy interests, chiefly those of the United States and Japan, which discriminates

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against emerging market and developing country economies such as China.²⁰

Nevertheless, even if China remains outside the TPP in the short term, such indirect regulatory pressure could be a potential catalyst for further domestic reform, similar to what occurred in the case of China's WTO accession.²¹ Cognisant of the risk that processes such as the TPP may make the WTO less relevant, China is aware of the need to ensure it is part of any future endeavours to revise the world trade regime.²² This has been a motivating factor in China's pursuit of a 'Free Trade Area of the Asia Pacific' (FTAAP), a more inclusive alternative to the TPP, which would involve all APEC economies, and would allow China to play a much more central role in trade rule-setting. While the FTAAP concept has made little progress since it was first proposed in 2006, China worked hard as chair of APEC 2014 to convince APEC leaders to endorse the 'Beijing Roadmap for APEC's Contribution to the Realization of the FTAAP'.

Historically, China's engagement with the 'traditional' governance actors has reflected a 'low-profile' approach — a pervasive principle since the premiership of Deng Xiaoping — and an avoidance of outright international leadership responsibility.²³ Even as the 2008 global financial crisis revealed fundamental weaknesses within the Western-led global economic governance model, China did not assume an essentially more assertive stance.²⁴ It appears that China sees at least short- to medium-term value in upholding the core tenets of the BWI system. This is hardly surprising, as China has benefited from the existing system in the past and it aligns well with China's traditional preference for formalism and predictability.²⁵

Nevertheless, the Chinese government has also pursued BWI reform.²⁶ BWI governance reform is regarded as a crucial component of re-establishing trust between developing economies and the BWIs.²⁷ This is especially true for the IMF, where the reputational damage it suffered in Asia due to its handling of the Asian financial crisis still lingers on in the minds of policy-makers in the region.²⁸ These concerns also seem to motivate the assessment by some scholars that the G20 remains too dependent on the IMF for technical analysis.²⁹

While China openly and strongly supports increasing the representation of emerging market and developing countries in global economic governance structures, it is keenly aware of its capacity to play a larger role in these structures and the added responsibilities entailed in assuming a greater leadership role.³⁰ The result is an approach that seeks incremental change. This view was summarised by a Chinese policy analyst as follows:

China recognises the fact that the reform of the existing institutions in terms of voice and representation is a long process. There is no simple recipe for this. Still, China has to

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enlarge its own role in international affairs: if China can play a more active and constructive role in international affairs, that will make this process easier and easier.³¹

Chinese policy analysts interviewed by the authors stressed the importance of ensuring that the process worked on a quid pro quo basis, so that China was seen to be both meaningfully contributing to as well as benefiting from global economic governance.³² Whether China has actually achieved an appropriate balance between responsibility for and return from participation in these governance structures is a point of contention.³³

The 2008 financial crisis provided momentum for accelerating BWI governance reform. Specifically, it produced a modest improvement in the representation of emerging market and developing countries in the World Bank and the IMF. In line with commitments made at the Pittsburgh G20 Summit in 2009, both organisations agreed to an increase of about 3 per cent to the voting power for developing and transition countries.³⁴ The continued refusal of the US Congress to ratify the proposed changes to its governance structure has become a major obstacle to the implementation of these commitments. But even though these reforms, if implemented, would elevate China to the status of third-largest member by voting share in both the IMF (6.071 per cent of voting shares) and the IBRD (5.55 per cent of voting power), the BWI governance structures continue to reflect the post-war economic world order more than the economic realities of the twenty-first century.³⁵ Our consultations in China suggest that there is an expectation that the BWIs will eventually deliver on their promise that these quota reforms are only the first steps in a long-term plan for reform. However, for the time being, the political impasse over IMF reforms makes the political feasibility of any further quota reform an uncertain proposition.

One way that China is increasing its representation in global economic governance structures is through the appointment of professional staff. Because this is not subject to quotas and the political process associated with altering them, it may be the most obvious avenue of promoting inclusivity. China has recently had a few successes in this area. In particular, Zhu Min was appointed as the IMF's deputy managing director in 2011 — the highest ever position for a Chinese national. However, at the same time, China has only recently attained a representation among IMF staff that is similar to its current quota (3.7 per cent in 2013 — a substantial increase from only 1.9 per cent in 2007) and only 1.5 per cent of all IMF senior (B-level) staff are Chinese nationals.³⁶

European and American claims to the primary leadership positions in the IMF and World Bank also compound Chinese frustration. In 2009, China's then-Finance Minister Xie Xuren argued that the "selection process ... should be open, transparent and merit-based."³⁷ That said,

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the BRICS countries did themselves no favours by failing to unite around a single candidate in the most recent elections for the heads of the IMF and the World Bank.³⁸ However, two other major multilateral organisations have elected heads from emerging markets in recent times: UNIDO (China: Li Yong, who is the first Chinese national to head a UN agency) and the WTO (Brazil: Roberto Azevêdo).³⁹

CHINA AND THE BRICS

Based on our consultations in China, it seems clear that there are no illusions about the long-term and uncertain nature of any further reform process being achieved within the BWIs. Yet we also found that Chinese scholars have well-developed ideas about a 'Plan B' beyond IMF reform, revolving around increasing China's political influence in other forums. Despite China's clear commitment to strengthening the role of the BWIs, China is now actively and openly encouraging the development of emerging governance actors and processes, with a view to widening its options for participating in global economic governance.

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The archetype of these new actors is the BRICS. The BRIC acronym was coined by Goldman Sachs economist Jim O'Neill in 2001 to describe a set of countries (Brazil, Russia, India, China) with particularly promising economic futures. The concept gained momentum and an unexpected political currency within the designated countries with the BRIC leaders holding their first formal summit in Yekaterinburg in 2009. A year later, South Africa received an invitation to come on board as the capital S in BRICS, reflecting the "BRICS' ambition to represent the 'global South'."⁴⁰ Since the BRICS' inception, members have pushed to institutionalise the process, with annual Leaders' summits, ministerial meetings, and more recently, a BRICS development bank.

The BRICS process is one of the few global governance initiatives to have received the explicit support of the Communist Party of China (CPC). In the report of the 18th CPC National Congress in 2012, the United Nations, the G20, the BRICS and the Shanghai Cooperation Organisation (SCO) are the only multilateral bodies referred to as a part of China's effort to play "an active role in international affairs."⁴¹ China analyst Yun Sun argues that "the unprecedented level of emphasis the new Chinese leader is attaching to the BRICS nations reflects the profound changes in China's perceptions of itself and the outside world."⁴²

However, the diversity and ad hoc nature of the BRICS group continues to raise doubts about its political longevity. O'Neill himself has noted: "I never dreamed they would get together as a political group."⁴³ Indeed, apart from their relative underrepresentation in relevant institutions, there does not seem to be an obvious political or economic argument that would lend itself as a unifying global governance objective for the BRICS.⁴⁴ Even though, politically, there is a convergence within the

BRICS over “the principles of national sovereignty and non-interference in domestic affairs,” their political and ideological differences are significant.⁴⁵

At the same time, aggregate economic interdependence among member countries as a proportion of their global interdependence remains relatively low. Despite impressive growth in recent years, the absolute figures for intra-BRICS trade broadly range between 10 and 20 per cent of each member’s global total (somewhat lower for exports).⁴⁶ Trade with China equals roughly 5 to 15 per cent of trade with the rest of the world for BRICS countries.⁴⁷ That makes China a more important trading partner for the other BRICS members than the United States, but it still lags behind the EU. From China’s perspective, exports to the rest of BRICS are less than half of those sent to the EU or the United States.⁴⁸ China’s most important trading partners will continue to be Western countries for some time to come.

China’s economic size relative to other members also poses a potential problem for the BRICS. China’s GDP is larger than the other four member economies combined, constituting around 55 per cent of total BRICS GDP.⁴⁹ It also responsible for the vast majority of intra-BRICS trade accounting for around 50 to 85 per cent of exports to and 70 to 90 per cent of imports from the other BRICS economies.⁵⁰ In order to maintain harmonious relations within the BRICS, China will need to actively and continually reassure fellow participants of its commitment to equality within the forum.

All of these factors are hurdles to the BRICS becoming a strategic and proactive voice in the international arena. Three years after the forum’s creation, *Time* magazine’s Michael Schuman pointedly decried the BRICS summits as “real snoozers, producing statements of such vague blandness that they make G20 resolutions read like Harry Potter page-turners.”⁵¹ Critics argue that the forum’s agenda is still largely ‘negative’, in the sense that it is predominately a kind of protest against the BWI status quo and has “not yet translated into a common ‘positive’ agenda.”⁵² These concerns seem to resonate with the Chinese scholars we interviewed, who expressed scepticism about whether the BRICS could make a substantive contribution to global economic governance in the near future.⁵³

Yet given China’s massive currency reserves already allow for unilateral development financing, it is telling that China has actively pursued the establishment of a \$100 billion ‘New Development Bank’ (NDB) under the BRICS authority, as well as a new contingent reserve arrangement (similar to the Chiang Mai initiative). The NDB announcement shows China is prepared to push for the BRICS evolution as a practically focused process.⁵⁴ The equal division between BRICS members in terms of their equity stakes in the NDB pointedly contrasts with the proportional World Bank and IMF governance structures outlined earlier.

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How sustainable the NDB's 'equitable' financing arrangements are in the long term remains to be seen; South Africa evidently will struggle to provide the same kind of long-term financial backing as China.

The newly proposed Asian Infrastructure Investment Bank (AIIB) further reflects China's desire to experiment with alternative development financing actors, free from the capital-share limits it faces in either the World Bank or the Asian Development Bank (ADB). With an initial capital base of \$54 billion and 21 founding members from Asia, the AIIB will enhance China's ability to work with fellow AIIB participants in financing Asian infrastructure projects. However, as the AIIB's Articles of Agreement are yet to be drafted, regional US allies South Korea and Australia have taken a 'wait and see' approach before accepting invitations to join the initiative, ostensibly due to their uncertainty the AIIB will have "the sorts of governance and transparency" of the traditional multilateral institutions.⁵⁵ While China may rightly regard the call for the AIIB to live up to the 'governance' structures of the World Bank as somewhat hypocritical, China's probable financial dominance over the AIIB's capital base does raise questions about the relative influence other participants will have over the proposed bank's activities.

Yet in our interviews, these new multilateral banks — the NDB, the Asian Infrastructure Investment Bank (AIIB), the SCO bank — were not seen as an alternative to the Asian Development Bank and the World Bank, but as an opportunity to learn about "how to play a more positive role by setting the agenda and ... be involved in the organisation of a new international institution" and a way to demonstrate that "China really has the intention to become a responsible stakeholder."⁵⁶ Nevertheless, the BRICS and AIIB were regarded as valid 'hedging options' to the BWI (and BWI-linked) institutions that are yet to recognise China's new-found financial power.⁵⁷ While Chinese experts saw "no need to abandon" existing forums such as the BWIs, they did note that "there will be some room for arbitrage" between traditional and emerging governance actors.⁵⁸

THE G20: WHAT'S IN IT FOR CHINA?

One international forum that could potentially be a key instrument of China's efforts to play a bigger role in global economic governance is the G20. The G20 was established to push for greater inclusion of emerging economies within the existing global economic governance architecture, rather than requiring a major overhaul of the post-war system.⁵⁹ It is no longer a viable proposition that the G7 or OECD economies maintain primacy in the design and management of economic rules absent of Chinese input. The fact that the G20 is the first leaders' forum to accommodate the G7 powers and China on an 'equal say' principle is thus a significant milestone in the transition away from the G7-dominated, post-war economic governance model.⁶⁰

For a number of reasons the G20 provides China with opportunities to shape global economic governance that are not provided by legacy processes. First, it helps that China is an original member of the G20, with an involvement stretching back to the forum's establishment as a finance ministers and central bank governors' process in 1999. China's equal 'historical ownership' over the process is politically and symbolically important for Chinese participants, especially in comparison with other processes where China's involvement has been an afterthought, such as the short-lived G8+5 meetings where the Chinese president, alongside the leaders of Brazil, India, Mexico, and South Africa, would be allowed to briefly join the G8 leaders for a two-hour breakfast, and then be asked to leave before the 'real' discussions resumed.⁶¹

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Second, as opposed to the 'G8+5' or a 'G7+China' model, the G20 is, by and large, composed of economies selected on the primary criterion of 'size'. Because the other emerging economies within the G20 are also foundational members, engaging with the G20 process does not weaken China's claim to the category of — and its self-perception as — a 'developing economy'.⁶² As Marcos Troyjo from the BRICLab forum has noted:

China wants to go on being taken, especially among its Asian neighbours and in Africa and Latin America, as one of them, as a power from the south, a developing nation ... [The new BRICS development bank] gives China a sort of still-emerging nation status when it reality it is a major economic superpower.⁶³

The G20 is thus useful for China in that it affords it a space at the 'top table', without noticeably affecting China's claims to the special allowances awarded to developing countries within the prevailing rules of the global economy. As a counterfactual, a 'G7 + China' model would have been more likely to undermine China's insistence that it may be eligible for 'differentiated' (meaning fewer) responsibilities than the G7 members in bodies such as the WTO or the United Nations Framework Convention on Climate Change negotiations, among others.

Third, the G20 affords China a pre-eminent yet informal space where it can regularly engage with other G20 members as it 'grows into' a more significant leadership role in the global economy. Although China has so far demonstrated a preparedness to rise from 'within' the present multilateral system, its foundational role in the AIIB and in the establishment of the NDB point to a willingness to experiment with alternatives to the BWIs. A particular challenge for China therefore is to determine how best to move away from the 'low international profile' advocated by Deng Xiaoping to a more activist approach, while preserving a global governance system that has largely served China well for the past three decades.

Given that Chinese officials are very aware of the international concern surrounding China's rise, and whether it will truly be a peaceful one, the 'elasticity' of the G20 process provides a 'widening' of the multilateral space in which China can build trust with the major economies.⁶⁴ Although some Chinese officials have declared their support for a permanent G20 secretariat,⁶⁵ there is at the least a general view that the usefulness of G20, like the BRICS, is primarily derived from its ability to progress dialogue on global economic governance in a manner that is intended to strengthen, rather than undermine, the BWIs.⁶⁶

Fourth, the G20 provides an important avenue for negotiation on global economic governance matters between China and the United States. With a combined responsibility for approximately one-third of global wealth,⁶⁷ the direction that the China-US relationship takes in the early twenty-first century will shape the future of the global economy. Yet the challenge facing the 'G2 within the G20' is both acute and exceptional: the international community has not had to accommodate the geopolitical consequences of a hegemon's demotion to 'second biggest economy' since the United States surpassed Great Britain's GDP in 1872.⁶⁸ How willing the United States and other major powers are to facilitate a greater global economic governance role for China is a matter of debate.⁶⁹ Given China's recent (probable) overtaking of the United States as the world's largest economy (by PPP)⁷⁰ it follows that the degree to which the 'G2' is able to constructively engage with one another through key global economic forums like the G20 will help define the "global bounds of the possible."⁷¹

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The agenda-setting ability of the 'G2' was recently highlighted at the conclusion of the APEC 2014 meeting, where a China-US agreement on carbon emissions gave a much needed boost to global climate change negotiations. This is a major reversal from the fractious breakdown of negotiations at the 2009 UNFCCC COP-15 meeting in Copenhagen, where disagreement between China and the United States over whether China should have equal or lower emissions reductions targets than the United States effectively scuttled any prospects of an agreement. In contrast to Copenhagen, the momentum engendered by the G2's announcement at APEC 2014 flowed through to the G20 Brisbane Summit held a few days later, where all G20 members committed to the successful adoption of a successor to the Kyoto protocol at the UNFCCC COP-21 meeting in Paris in 2015, and to mobilise financing for the Green Climate Fund.⁷²

While it is true that the G20 is consensus-based and all members technically have an equal say, the sheer economic weight of China and the United States effectively renders these two economies 'more equal than others'. Nothing will occur in the G20 without Chinese and American support. In this regard, the G20 can help to 'lower the pressure' on controversial 'G2' topics by embedding them, over time, within a broader multilateral context. For example, the G20 provides an

additional forum for debating contentious US-China issues, such as the role played by each other's fiscal, monetary, and exchange rate policies in the perceived causes and effects of 'global imbalances'.⁷³ In response to critics of the G20's progress in dealing with currency matters, former Australian Sherpa, Gordon de Brouwer, notes:

to say that [appreciating the RMB] is the test of whether [the G20] works or not is voodoo economics ... it has no sound theoretical or operational analytic basis ... what you need is a programme where the policies are clear ... accountable and transparent and that's what our conversations [on this issue] are about.⁷⁴

Whatever the differences between China and the United States over the value of the Chinese renminbi and America's quantitative easing program, it is surely better for officials from these two powers to have a wider variety of forums for advancing dialogue, not fewer.

CHINA'S G20 PRESIDENCY

The announcement at the end of Australia's 2014 G20 presidency that China will chair the forum in 2016 provides China with an immediate opportunity to focus and push for progress on a few key policy priorities.⁷⁵ The successful management of its first ever leaders-level G20 presidency should help to bolster China's global reputation. The presidency also presents an opportunity to promote complementarity between China's foreign and domestic political-economy concerns. However, China will need to manage expectations about what its presidency can, and cannot, achieve.

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A WELL-MANAGED G20

As 2016 is the first year in which China will have custodianship over the G20 Leaders' process, China has a strong incentive to demonstrate its capacity as a 'safe pair of hands' when it comes to managing 'the premier forum for economic cooperation' between the major economies.⁷⁶ This also holds true for Xi Jinping and the present senior Chinese leadership, as the 'bucket system' by which G20 presidencies are selected would preclude another Chinese presidency until at least 2032.⁷⁷

As for every G20 president, the challenge is to take up and advance core agenda items from the previous presidency while simultaneously strengthening the overall G20 process. Recent presidencies have not always met this objective. As a number of our senior Chinese interviewees lamented the decline in G20 'solidarity' post-2009, there is reason to believe that China may exceed some of the previous hosts in its attempts to coordinate an agenda that 'value-adds' to the G20.⁷⁸

However, putting together a focused and well-managed G20 agenda is not only important for the G20 but also for China's reputation and legacy as president. Leaders have a much greater incentive to attend a summit that is likely to produce substantive outcomes. For China, full attendance at the leaders' summit, not least by the G7 leaders and especially the US president, is critical to China's global reputation. While this is a concern felt by every G20 chair, it was a point made on multiple occasions throughout our consultations in China.⁷⁹ Granted, there is an enhanced incentive to take a Chinese G20 presidency seriously due to the sheer size of China's economic weight but this does not guarantee the attendance of all G20 leaders to the summit itself. For example, concern was expressed to us by advisers who were involved in preliminary discussions about the 2016 Chinese G20 presidency that the proximity of the 2016 summit to the next US presidential election will either see the participation of a 'lame-duck' president, without much of a mandate to effect change in the United States, or worse — no US president at all.

Chinese officials are keen to avoid a repeat of Barack Obama's last-minute withdrawal from the 2013 APEC summit, caused by political gridlock in the US Congress.⁸⁰ A view often raised in our interviews was that in order to minimise the risk of non-attendance at the summit, and non-engagement with its presidential year in general, China will look to build upon its recent summitry experience, particularly as host of APEC 2014, and focus on a few core areas where G20 members can add value to the global economic governance system.⁸¹ Other G20 members, in particular the G7, have an interest in the success of a Chinese G20 presidency, in as much as it may encourage China's leadership to assume more responsibility for the G20's vitality and, by extension, for global economic governance in general.⁸²

INTERNATIONAL AND DOMESTIC POLICY

There is also an opportunity for the Chinese leadership to utilise its G20 presidency to promote its own domestic program of economic reform. The Chinese G20 presidency will occur within the first year of the 13th Five Year plan (2016-2021). While the G20's long-term agenda and China's G20 presidency will have little influence over the content of the 13th plan, there will be an opportunity to use the 2016 presidency to strengthen the plan's credibility and to garner international awareness — if not support — for it.

The opportunity to use the G20 to leverage support for an enhanced role for China as a global 'rule-maker', with both foreign and domestic audiences, was mentioned repeatedly throughout our interviews. Already the new Chinese leadership under President Xi Jinping has demonstrated a willingness to engage more actively in economic diplomacy.⁸³ Gao Hucheng, the Chinese Minister of Commerce, writes of the need to pursue economic diplomacy at "the higher level" to help

...the new Chinese leadership under President Xi Jinping has demonstrated a willingness to engage more actively in economic diplomacy.

provide the “favourable external conditions” that will facilitate Xi Jinping’s ‘Chinese dream’.⁸⁴

MANAGING EXPECTATIONS

A big part of whether a Chinese G20 presidency is ultimately deemed successful will depend upon how well domestic and international expectations are managed both prior to and during its presidential year. As with every G20 presidency, there is a risk of pursuing politically ambitious outcomes at the expense of focused and realistic goals, only to end up with a presidential legacy of little substance. Yet the fact that China’s leadership is less beholden to short-term political agendas arguably decreases the incentive for political ‘grandstanding’ on behalf of its leaders when more pragmatic approaches are available.

Nevertheless, pushing for a greater Chinese role in global economic governance, while simultaneously keeping domestic and international expectations about its capacity to manage the G20 in check, will be no mean feat. China will likely draw heavily upon the experience of the two preceding G20 chairs, Australia and Turkey, and will need to work closely alongside both countries as members of the G20 planning troika (which brings together past, present and future hosts for the purposes of promoting continuity in the G20 agenda) through 2015 and 2016 respectively. All in all, the Chinese leadership will have to maintain a pragmatic focus and carefully manage any expectations that a Chinese G20 presidency will be a ‘game changer’ in terms of China’s role in global economic governance. This is particularly important if China intends to avoid undermining its self-designation as the leading voice of developing countries.

At the same time, much like its hosting of the 2008 Summer Olympics, the G20 Summit will attract significant additional interest and scrutiny of Chinese affairs from global civil society. This will be a matter of concern for the CPC. China will want to avoid its presidency being remembered as a year-long critique of its social, political, and economic record.

CONCLUSION

China has a growing incentive to pursue global economic rules more favourable to the Chinese economy. This will in turn help to shape the design of both existing and emerging global economic governance structures. But as this Analysis has underlined, we should not expect any dramatic break by China with existing institutions and processes, nor any immediate effort to supplant them with new governance structures.

In the last two decades, China has taken a pragmatic approach towards dealing with the Bretton Woods system. This pragmatism is also reflected in China’s approach to pushing for a reform of BWI governance. But the BWIs are no longer the only players in global economic governance. Despite the modest contribution of the BRICS

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process, the group is emblematic of the potential shift that a China-led process aimed at diversifying global economic governance may entail. China's indispensable role in the global economy means that its support is critical to both the continued relevance of the BWIs and the future of initiatives like the BRICS, and thus the overall design of the system.

The G20 provides China with something of a neat halfway house between legacy Bretton Woods structures and new forums like the BRICS. The G20 has the potential to help China expand its role in global economic governance while retaining the fundamental building blocks of the current architecture. This could help to re-energise global economic governance.

At this stage there is little evidence to suggest that China's push for greater representation in global economic governance is part of a long-term plan to openly challenge the status quo. China's stance during the global financial crisis underlined its preference for incrementalism and pragmatism — two other elements deeply engrained in the Chinese understanding of global governance.⁸⁵ China's pursuit of a greater role in global economic governance is pragmatic, opportunistic and self-interested. These basic principles are likely to continue shaping China's engagement with the governance architecture.

China's pursuit of a greater role in global economic governance is pragmatic, opportunistic and self-interested.

NOTES

¹ IMF, *World Economic Outlook Database*, (Washington, DC:

International Monetary Fund, October 2014),

<http://www.imf.org/external/pubs/ft/weo/2014/02/weodata/index.aspx>.

² Ren Xiao, "China in the G20: Between Status Quo and Reform," in *From Rule Takers to Rule Makers*, ed. Scott Kennedy and Shuaihua Cheng (Bloomington: Research Centre for Chinese Politics & Business, Indiana University; Geneva: International Centre for Trade & Sustainable Development, 2012).

³ BRICS, *Sixth BRICS Summit – Fortaleza Declaration*, (Fortaleza, 15 July 2014), <http://brics6.itamaraty.gov.br/media2/press-releases/214-sixth-brics-summit-fortaleza-declaration>.

⁴ From a confidential interview with one of the authors, Beijing, 28 May 2014.

⁵ From a confidential interview with the authors, Canberra, 2 May 2014.

⁶ Gao Hucheng, "Let Chinese Dream Lighten a Beautiful World." Similar views were also expressed in our consultations in China (confidential interview with one of the authors, Beijing, 28 May 2014).

⁷ From confidential interviews with the authors, Canberra, 2 May 2014, and Beijing, 28 May 2014.

⁸ From confidential interviews with the authors, Canberra, 2 May 2014, and Beijing, 26 May 2014.

⁹ China's institutional influence in matters of global security governance and on UN policy is much more entrenched than in the global economic governance space, due to its veto-wielding status as a permanent member of the UN Security Council. Needless to say, China's ambitions in this field lie beyond the scope of this paper.

¹⁰ It seems likely that the debate about exchange rate policy has further reinforced a degree of scepticism with regard to the IMF that underlies Chinese assessments of this relationship just as much as the recognition of the IMF's contribution to a stable global economy. These two sentiments, while partly conflicting, shape China's particular stance on the IMF: focused on maintaining the IMF's role as the 'guardian' of the global financial system, but reforming its governance structures and operations. We explore this stance in more detail in the following section of the paper. We do not, however, discuss the exchange rate policy debate in any more detail as this would go beyond the focus of this paper.

¹¹ Shaun Breslin, "China and the Global Order: Signalling Threat or Friendship," *International Affairs* 89 (2013); Xiao, "China in the G20: Between Status Quo and Reform."

¹² The establishment of the BRICS 'New Development Bank' (NDB) at the BRICS Fortaleza Summit in July 2014 is a recent example. China

also actively promotes the establishment of an Asian Infrastructure Investment Bank (AIIB).

¹³ Peter Ferdinand and Jue Wang, "China and the IMF: From Mimicry towards Pragmatic International Institutional Pluralism," *International Affairs* 89 (2013).

¹⁴ We will not discuss the extensive debate about whether the World Bank should continue to lend to emerging markets such as China, as this goes beyond the scope of this paper.

¹⁵ Pieter Bottelier, "China and the World Bank: How a Partnership Was Built," Stanford Center for International Development Working Paper No. 277, (Stanford: Stanford University, April 2006).

¹⁶ Rebecca Nelson, *Multilateral Development Banks: Overview and Issues for Congress*, (Washington DC: Congressional Research Service, 8 November 2013).

¹⁷ China has been more comfortable with the World Bank whereas the relationship with the IMF has always been characterised by a degree of suspicion. This is intuitive since the mandate of the IMF is inherently more political and points of differences are more fundamental to China's political and economic system.

¹⁸ Wayne M. Morrison, *China's Economic Rise: History, Trends, Challenges, and Implications for the United States*, (Washington DC: Congressional Research Service, 9 July 2014).

¹⁹ From confidential interviews with one of the authors, Beijing, 26 and 28 May 2014.

²⁰ A Chinese scholar summarised this view by arguing that TPP "is following the major interests of those developed countries, even including Australia, but most of the countries in the world they still need the WTO." From a confidential interview with one of the authors, Beijing, 26 May 2014.

²¹ The standards set by TPP are considered to be at least "to some extent ... consistent with our domestic reform." From a confidential interview with one of the authors, Beijing, 28 May 2014.; Kevin Yao and Michael Roddy, "China to Study Possibility of Joining U.S.-led Trade Talks," *Reuters*, 30 May 2014, <http://www.reuters.com/article/2013/05/30/us-trade-asiapacific-china-idUSBRE94T0X420130530>.

²² Evident in China's push for a FTAAP, see: Ministry of Commerce People's Republic of China, Press Conference, "Special Press Conference for APEC Trade Ministers Meeting," 5 May 2014, <http://english.mofcom.gov.cn/article/newsrelease/press/201405/20140500574647.shtml>.

²³ In this paper, we do not cover the historical context that led to the adoption of this policy stance in the first place.

²⁴ A paper by Bank of China Governor Zhou attracted great attention in which he explored the possibility of introducing the IMF's Special

Drawing Rights as an international reserve currency. See: Zhou Xiaochuan, *Reform the International Monetary System*, (Basel: Bank for International Settlements, 23 March 2009). Available at: <http://www.bis.org/review/r090402c.pdf>. The monetary policy aspects of China's involvement in global economic governance are complex and go beyond the scope of this paper.

²⁵ Chin elaborates that "in contrast to the ad hoc procedure of the G20, Beijing's diplomatic channels for engaging the rules-based Bretton Woods institutions are better established, more regularized, and importantly for Chinese leaders, predictable." See: Gregory Chin, "The Emerging Countries and China in the G20: Reshaping Global Economic Governance," *Studia Diplomatica* 63 (2010).

²⁶ Ferdinand and Wang, "China and the IMF."

²⁷ See: BRICS, *Sixth BRICS Summit – Fortaleza Declaration*.

²⁸ From a confidential interview with the authors, Canberra, 2 May 2014. A similar argument is presented in: Yoon Je Cho, "Global Economic Governance Reform and the Role of Asia: Opportunities Offered by the G20," *Journal of East Asian Economic Integration* 16 (March 2012).

²⁹ From a confidential interview with one of the authors, Beijing, 28 May 2014.

³⁰ China's Vice Premier Wang Qishan made it clear in an opinion piece for *The Times* in 2009 that China supports an increase in IMF resources. See: Wang Qishan, "G20 Must Look Beyond the Needs of the Top 20," *The Times*, 27 March 2009, <http://www.thetimes.co.uk/tto/law/columnists/article2048640.ece>. A Chinese scholar that we interviewed argued that "you cannot rely on China, nor India, nor Brazil to play the leading role in the reform." From a confidential interview with the authors, Canberra, 2 May 2014.

³¹ From a confidential interview with one of the authors, Beijing, 28 May 2014.

³² Specifically, a Chinese policy analyst explained that "it's better for China to gain more power in these institutions, but what scholars should think about is what China can contribute to the world." From a confidential interview with one of the authors, Beijing, 26 May 2014.

³³ See discussion in: Gregory Chin and Ramesh Thakur, "Will China Change the Rules of Global Order?," *The Washington Quarterly* 33 (2010).

³⁴ Quotas in the IMF and subscriptions in the World Bank are determined by a number of factors, including economic weight and previous contributions to the institutions. Hence, quota/subscription reform does not explicitly allocate different quotas/subscription, but modifies the formulas that determine the allocation. A discussion to what extent and, if so, how these allocation formulas should be changed is not provided in this paper, as this represents an extensive and complex separate debate. In our discussion, we focus on the allocation outcomes for China and their implications. Post-reform quotas and subscriptions are

retrieved from: IMF, *IMF Quota and Governance Reform - Elements of an Agreement*, (Washington DC: International Monetary Fund, 31 October 2010),

<https://www.imf.org/external/np/pp/eng/2010/103110.pdf>.; World Bank, *World Bank Group Voice Reform: Enhancing Voice and Representation of Developing and Transition Countries in 2010 and Beyond*, (Washington DC: World Bank, 19 April 2010), [http://siteresources.worldbank.org/DEVCOMMINT/Documentation/22553921/DC2010-006\(E\)Voice.pdf](http://siteresources.worldbank.org/DEVCOMMINT/Documentation/22553921/DC2010-006(E)Voice.pdf).

³⁵ IMF, *IMF Quota and Governance Reform*.; World Bank, *International Bank for Reconstruction and Development – Subscriptions and Voting Power of Member Countries*, (Washington DC: World Bank, 24 July 2014), <http://siteresources.worldbank.org/BODINT/Resources/278027-1215524804501/IBRDCountryVotingTable.pdf>.

³⁶ IMF, *FY 2013 Diversity and Inclusion Annual Report*, (Washington DC: International Monetary Fund, 13 June 2013), <https://www.imf.org/external/np/div/2013/index.pdf>.; IMF, *Diversity Annual Report 07*, (Washington DC: International Monetary Fund, 15 September 2008), <https://www.imf.org/external/np/div/2007/index.pdf>.

³⁷ Xie Xuren, “Statement at the 2009 Annual Meetings of the IMF and the World Bank Group in Istanbul,” (speech, Istanbul, 6/7 October 2009), <http://www.imf.org/external/am/2009/speeches/pr08e.pdf>.

³⁸ Lesley Elliott Armijo and Cynthia Robert, “The Emerging Powers and Global Governance: Why the BRICS Matter,” in *Handbook of Emerging Economies*, ed. Robert Looney (New York: Routledge, 2014). On the failure to unite around a single candidate, see: Robin Harding, Joseph Leahy, and Lucy Hornby, “Emerging Economies: Taking a Stand,” *Financial Times*, 16 July 2014, <http://www.ft.com/intl/cms/s/0/875d6570-0cc6-11e4-bf1e-00144feabdc0.html?siteedition=intl#axzz37anjBDII>. Australia was, in fact, one of the few countries that voted for the Mexican candidate Agustin Carstens instead of France’s Christine Lagarde.

³⁹ Hou Zhenbo, *The BRICS Lead by Example in Global Governance Reforms*, (London: Overseas Development Institute, 23 July 2013), <http://www.odi.org.uk/opinion/7631-brics-candidates-global-governance-wto-unido>.

⁴⁰ Eva Gross, “BRICS – What’s in a Name?,” EUISS ISSUE Brief (Paris: European Union Institute for Security Studies, November 2013).

⁴¹ Communist Party of China, *The Report to the 18th National Congress of the Communist Party of China*, (Beijing, 1 October 2013), <http://www.chinaembassy.org.nz/eng/zt/xysbd/t1003993.htm>.

⁴² Yun Sun, “BRICS and China’s Aspirations for the New ‘International Order’,” *Up Front* (blog), 25 March 2013, <http://www.brookings.edu/blogs/up-front/posts/2013/03/25-xi-jinping-china-brics-sun>.

⁴³ Harding, Leahy and Hornby, “Emerging Economies.”

⁴⁴ It is interesting to note in this context the activities of the IBSA Dialogue Forum (India, Brazil and South Africa). This platform is based on a much stronger political consensus and has been in place since 2003. It will be interesting to observe to what extent IBSA and BRICS will compete with each other.

⁴⁵ Gross, *BRICS*.

⁴⁶ Authors' own calculations based on CEIC data.

⁴⁷ Ibid.

⁴⁸ Ibid.

⁴⁹ Authors' own calculations based on CEIC data.

⁵⁰ Ibid.

⁵¹ Michael Schuman, "Do the BRICS Believe in Free Markets?," *Time Magazine*, 14 April 2011, <http://business.time.com/2011/04/14/do-the-brics-believe-in-free-markets/>.

⁵² Gross, *BRICS*.

⁵³ A Chinese expert elaborated: "To be frank, I really don't think that the BRICS bank can play a very important role." From a confidential interview with the authors, Canberra, 2 May 2014.

⁵⁴ BRICS, "Sixth BRICS Summit – Fortaleza Declaration.," BRICS, *BRICS and Africa: Partnership for Development, Integration and Industrialisation - Fifth BRICS Summit Declaration and Action Plan*, (Durban, 27 March 2013), <http://www.brics5.co.za/fifth-brics-summit-declaration-and-action-plan/>.

⁵⁵ Barack Obama and Tony Abbott, *Joint Press Conference, Beijing*, 10 November 2014, <http://www.pm.gov.au/media/2014-11-10/joint-press-conference-beijing>.

⁵⁶ From a confidential interview with the authors, Canberra, 2 May 2014.

⁵⁷ This view is explained by a Chinese policy analyst as follows: "China will feel much better if we can say this is the proposal by the IMF, but we have also the proposal made by the BRICS bank. I think it's not to challenge the Bretton Woods system, but they are thinking to use all kinds of ways to strengthen their position so they can get more support from their peers." From a confidential interview with the authors, Canberra, 2 May 2014.

⁵⁸ From a confidential interview with one of the authors, Beijing, 28 May 2014.

⁵⁹ Paul Martin, "The G20: From Global Crisis Responder to Steering Committee," in *The Oxford Handbook of Modern Diplomacy*, ed. Andrew F. Cooper, Jorge Heine and Ramesh Thakur (Oxford: Oxford University Press, 2013); Mike Callaghan and Mark Thirlwell, "Challenges Facing the G20 in 2013," in *Challenges Facing the G20 in 2013*, G20 Monitor No.1 (Sydney: Lowy Institute for International Policy, 2012).

⁶⁰ From a confidential interview with one of the authors, Shanghai, 27 May 2014.

⁶¹ Hugo Dobson, "The 2008 Hokkaido-Toyako G8 Summit: Neither Summit nor Plummet," *The Asia-Pacific Journal: Japan Focus*, 30 November 2008, <http://www.japanfocus.org/-Hugo-Dobson/2970>.; Ramesh Thakur, "G8 is not Enough," *The Ottawa Citizen* via *Canada.com*, 7 July 2008, <http://www.canada.com/ottawacitizen/news/opinion/story.html?id=c518f7fd-c219-442a-a9a2-c893ca7bbad2>.

⁶² For more on the size 'criterion' of the G20, see: Martin, "The G20: From Global Crisis Responder to Steering Committee."; Jakob Vestergaard and Robert H. Wade, "The G20 Has Served Its Purpose and Should Be Replaced," *Journal of Globalization and Development* 2 (2011).

⁶³ Harding, Leahy and Hornby, "Emerging Economies."

⁶⁴ From a confidential interview with the authors, Beijing, 26 May 2014. It is also interesting to note in this context that China changed its terminology from 'rise' to 'development', which highlights its awareness of this issue.

⁶⁵ Ibid.

⁶⁶ Ibid.

⁶⁷ IMF, *World Economic Outlook: Growth Resuming, Dangers Remain*, (Washington DC: International Monetary Fund, April 2012), <http://www.imf.org/external/pubs/ft/weo/2012/01/>.

⁶⁸ However, American hegemony was not fully realised until several decades later. Data from: Jan-Pieter Smits, Pieter Woltjer and Debin Ma, "A Dataset on Comparative Historical National Accounts, ca. 1870-1950: A Time-Series Perspective," *Groningen Growth and Development Centre Research Memorandum GD-107* (Groningen: University of Groningen, March 2009), <http://ggdc.eldoc.ub.rug.nl/FILES/root/WorkPap/2009/GD-107/gd107.pdf>.

⁶⁹ Hugh White, *The China Choice*, (Oxford: Oxford University Press, 2012).

⁷⁰ IMF, *World Economic Outlook Database*, 2014.

⁷¹ Geoffrey Garrett, "G2 in G20: China, the United States and the World after the Global Financial Crisis," *Global Policy* 1 (January 2010).

⁷² G20. *G20 Leaders' Communique, Brisbane Summit, 15-16 November 2014*.

https://www.g20.org/sites/default/files/g20_resources/library/brisbane_g20_leaders_summit_communique.pdf.

⁷³ Hugh Jorgensen, *Institutional Changes to the G20 after the 2008 Global Financial Crisis: Fostering Agent-Centred 'Incremental Collectivism'*, (Brisbane: University of Queensland, 2012). Available on request from author.

⁷⁴ Ibid.

⁷⁵ G20. *G20 Leaders' Communique, Brisbane Summit, 15-16 November 2014*,

https://www.g20.org/sites/default/files/g20_resources/library/brisbane_g20_leaders_summit_communique.pdf.

⁷⁶ From a confidential interview with one of the authors, Shanghai, 27 May 2014; G20. *Leader's statement, the Pittsburgh Summit 24-25 September 2009*, https://www.g20.org/sites/default/files/g20_resources/library/Pittsburgh_Declaration.pdf.

⁷⁷ For a detailed explanation of the 'bucket system', see: Barry Carin, *The Future of the G20 Process*, (Waterloo: The Centre for International Governance Innovation, 4 November 2010), http://www.cigionline.org/sites/default/files/barry_carin_commentary.pdf.

⁷⁸ From a confidential interview with one of the authors, Shanghai, 27 May 2014.

⁷⁹ From a confidential interview with the authors, Canberra, 2 May 2014.

⁸⁰ From a confidential interview with one of the authors, Shanghai, 27 May 2014.

⁸¹ For example, China's stewardship of APEC over 2014, its management of the G20 in 2005 (when it was still a finance ministers and central bank governors' process) and also China's efforts through processes such as the BRICS and the SCO.

⁸² From a confidential interview with the authors, Canberra, 2 May 2014.

⁸³ From a confidential interview with one of the authors, Beijing, 28 May 2014.

⁸⁴ Gao Hucheng, signed article, "Let Chinese Dream Lighten a Beautiful World," (Beijing: Ministry of Commerce, People's Republic of China, 2 April 2014), <http://english.mofcom.gov.cn/article/newsrelease/significantnews/201404/20140400552783.shtml>.

⁸⁵ Hu Jintao, "Making Joint Efforts to Tide over Difficulties: Speech at the 2008 G20 Summit in Washington," (speech, Washington DC, 16 November 2008), http://www.fmprc.gov.cn/mfa_eng/wjdt_665385/zyjh_665391/t522600.shtml.

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