

CHINA AT THE G20 SUMMIT: A CASE STUDY

By

LI, JIANWEI

THESIS

Submitted to
KDI School of Public Policy and Management
in partial fulfillment of the requirements
for the degree of

MASTER OF PUBLIC POLICY

2013

CHINA AT THE G20 SUMMIT: A CASE STUDY

By

LI, JIANWEI

THESIS

Submitted to
KDI School of Public Policy and Management
in partial fulfillment of the requirements
for the degree of

MASTER OF PUBLIC POLICY

2013

Professor Ahn, Byung-Joon

CHINA AT THE G20 SUMMIT: A CASE STUDY

By

LI, JIANWEI

THESIS

Submitted to

KDI School of Public Policy and Management

in partial fulfillment of the requirements

for the degree of MASTER OF

PUBLIC POLICY Committee in

charge:

Professor Byung-Joon AHN, Supervisor

Professor Dong-Young KIM

Professor Hun Joo PARK

Approval as of May, 2013

ABSTRACT

CHINA AT THE G20 SUMMIT: A CASE STUDY

By

LI, JIANWEI

Globalization offers the countries in the world more opportunities to make better use of the integrated market, while at the same time, adds the difficulties of global governance to dealing with “the tragedy of commons.” Global Financial Crisis is one example of calling for collective action for solution. China is pushed to the front stage, because of its fast and enduring economic growth in recent 20 years and its current position to influence the world economic and political order. The international community is interested in China’s real thinking and position, “is China seeking its national interest or supporting the global governance?” By comparing China’s perspective of global governance (Harmonious world theory) to the western theory (public goods and Dani Rodrik’s Tri-lemma), we find that it’s not in the same context and system. By studying the 3 cases of China in the G20 summit: 1China’s entry into the G20; 2.China’s endeavor for RMB Exchange Rate Dispute; 3China’s efforts to reshape the Global Reserve System, the author reaches the conclusion that China is seeking its national interest within the framework of the “Harmonious World Theory”, while trying to minimize the cost of violating the existing rules of game.

TABLE OF CONTENTS

1 Introduction.....	1
2 Global Governance and the G-20 Role Positioning.....	3
(a) Western Theory of Governance.....	3
(b) Global Leadership And The G-20 Role.....	6
3 China`s Perspective: “Harmonious World Theory”.....	9
(a) China and International Organizations: Historical Review.....	9
(b) China`s Harmonious World Theory.....	11
(c) Debriefing China`s Perspectives of National Interests.....	14
4 Case Study: National Interest Vs Global Governance.....	16
4.1 China`s Entry Into The G-20.....	16
4.2 China`s RMB Exchange Rate Dispute.....	20
4.3 China`s Efforts To Reshape The Global Reserve System.....	23
5 Discussion and Conclusion.....	27
6 Bibliography.....	29

LIST OF FIGURES

Figure 1:	Dani Rodrik's Tri-lemma.....	4
Figure 2:	China's International Organization Membership.....	11

1. INTRODUCTION

The 2008 Global Financial Crisis is a significant event to the world, which reminds the countries to review what an integrated world means today, and also sets the old issues urgently on the table and calls for solutions and adjusted policies promptly. This kind of statement seems to ignore the pains and suffers of the crisis to the world, but actually it does not. The international community is motivated to review the existing system and to strive for coordination and cooperation to extensive degree as much as the solutions are possible. The G20 is upgraded to the leader's level and pushed to the front of the stage. As a newly formed international organization in terms of its new participants, facing the mixture and complexity of new and old issues in financial system and also global governance, the G20 summits have received higher expectations and more doubts than ever before.

While in this regime, China attends all past summits and gets a chance to express its opinion and to work with its colleagues from advanced and developing countries. The world has witnessed China's role at the meeting, and all kinds of comments and judgments regarding China's role in the past and future are filled with the media and academic field. They are focusing on China's "wallet" and "voice": wallet indicates its generous and willingness to contribute to the economic recovery; voice stands for what stance and forward role it may hold. They also intend to see the future prospect of the G20 by properly recognizing China's role.

The purpose of this paper is to examine and investigate in-depth China's perspective of global governance, how China behaves in past G20 summits, in order to identify China's role positioning, which is helpful, in turn, to identify and predict the future of global governance in world economy.

We have been long and extensively facing an economic dilemma of "tragedy of commons" or "collective action dilemma." Each party holds different views and expectations to other members and also to the G20 regime as a whole, they may also question that whether China in the G20 seeks "national interest" or "global governance". This two seems exclusive to each other, because national interest indicates selfish of sovereign state, while global governance requires collective action and emphasizes common benefits than individual interests. By conducting research and study, the author argues that China is seeking its national interest, while at the same time; conditionally shoulder some certain responsibilities, at the lowest cost of violating the existing rules of game.

To support the idea, the author will introduce China's perspective of global governance by comparing China's "Harmonious world theory", which indicates that China's view to the global governance is starting from identification of state sovereignty, emphasizing global governance without hegemony, and resorting solution to institution and consensus building. Then the author will try to explain why China joins the G20: China prefers the G20 to the G7/8, and China intends to be inclusive than to be excluded. The paper is followed by observations of China's view to several issues in G20 agenda, the

debate of China's exchange rate regime and rebalances the current account, reform of the global reserve system. Based on review and analysis of China's position and behavior, the author concludes by further thinking of global governance of the political economy.

2. GLOBAL GOVERNANCE AND THE G20'S ROLE POSITIONING

In 1998 Asian Financial Crisis, when the G20 financial ministers gather for the first time to discuss the solution to the financial crisis; that's the start of the regime of what we have today—those 20 members. As a newly established regime (compared to the UN, WTO, IMF), the world has new expectations and curiosity of what it is and what function and role it is going to play. Meanwhile, it's not new in the sense that it's the upgraded version of G7/8 and its function is dealing with the world common issues as other international organizations do. The 2008 Global Financial Crisis makes this form more upgraded, when the 20 countries' leaders are convened in Washington D.C. to find solutions and responses to the financial crisis.

(a) Western Theory Of Global Governance

Actually, there is no specific global governance theory marked as "western" style; to distinguish with the Chinese perspective of global governance, we call the traditional school of global governance as western theory. Western theory of global governance develops from the economic theory and game theory about "public good" and "collective action dilemma". In economics, a public good is a good that is both non-excludable and non-rival in that individuals cannot be effectively excluded from use and where use by one

individual does not reduce availability to others (Wikipedia 2012). For example, the lighthouse is a public good: ships can use it for direction, and one ship's using is not excluding others, neither is reducing the total amount available for others. The problem of public good is free-ride, everyone in the organization wants to use the lighthouse for free, but no one pays for the construction and maintenance fee, which also called "tragedy of commons". We can also explain this as "collective action dilemma", the lighthouse need joint contributions and actions while all parties are expecting others to pay more, and they themselves can Free-ride more.

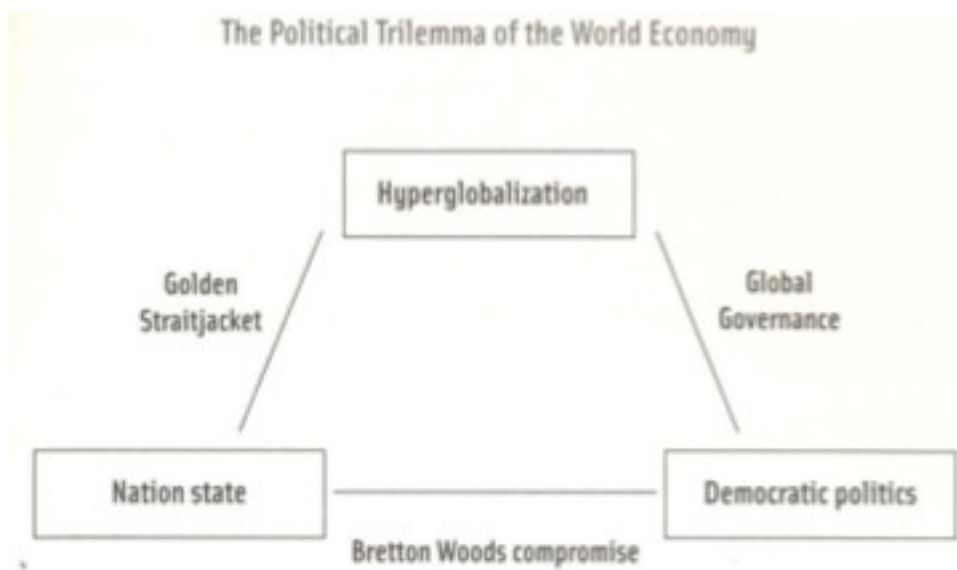


Figure 1 Dani Rodrik's trilemma

With regard to the political economy, Dani Rodrik's (2011) tri-lemma model provides us the framework to understand the issue comprehensively. In political perspective of world economy, as Figure 1 shows, we cannot simultaneously have hyper-globalization, democratic politics, and national state; we can only pick any two but have to give up one. Based on the tri-lemma, we can think of three scenarios that world economies have experienced, and find the implications.

Scenario No.1: Hyper-globalization and nation state but restricted policymaking. To realize the full potential of the global market, certain rule of game should be imposed to reduce the transaction cost and strengthen the market confidence, such as open borders, protection of equal access to the world market for every single country, deregulation and openness to all rounds. It indicates that the general paradigm is popular and suggested around the world, single country don't have multiple choices from its own preference. This scenario also referred to as "golden straight jacket".

Scenario No.2: Hyper-globalization and democratic politics but no nation states. If we upgrade and extend the democracy to the international level, the concept of national states will dilute. For example, The United States itself is the model of such global federalism, when we look each state rather than the country as its unit of component, it seems no problem for the federal government to coordinate each parts. For comparison, the European Union is the example of the other side, which means sovereign states still strong in its members' mind, so the degree of global federalism is weakened compared to the US. One thing to point out is that they both have globalization and democratic politics.

Scenario No.3: Shallow globalization and Bretton Woods compromises. This scenario is more approaching to the reality of today's world—totally diversity of nation states and democratic politics, as compromise of deep globalization we observed. We have divergent way of development, not so much we can complain, but the transaction cost of deep globalization is the opportunity cost of the world we are giving up.

(b) Global Leadership And The G20's Role

The major task of global governance is to provide public goods that can benefit for the world and get rid of free-ride problems of responsibility and resources. “There is such a thing as the global public good...for that very reason; we need to think about the issues of global governance needed to manage them.” UN Secretary-General Ban Ki-moon said, “Two areas in which he felt better global governance is especially urgent is getting the global economy to work for the entire world's people...” (UzReport.com2010)

The resulting mosaic of international agreements, official institutions, informal groupings and informal discussions among influential people is the best our world of some 200 countries can now do. Is it good enough? No. Will it get better soon? Probably not. Is it better than nothing? Yes, it certainly is. (FT.com2007)

Above-mentioned are some views on the G20's role and expectations, both positive and negative. The G20, rather than one single country into day's international system, is expected to exercise the global leadership. Leadership should have those qualities: to set the agenda, to mobilize the stakeholders, to exercise force for

implementation and to take the responsibility. It is different from a skillful mediator in multi-party negotiation. Mediator is, to some extent, just and neutral among the stakeholders and its force and power are based on the trust among the members; while leadership has, among its members, its self-interest and the force generating from the consensus. Leadership is more than mediator in terms of power for implementation rather than skill to mobilize. This power comes from rule-based institution legitimacy or balance-of-power-based consensus building. The current international institutions, e.g. the UN, the IMF, are generally regarded as “adequate legitimacy but effectiveness deficiency.” The G20 is an adhoc regime to complement the slow decision-making of the formal institutions, and generate effective global leadership to deal with the emergencies. Mr. Bradford and Lim provide us a whole picture to understand the G20 as global leadership in the following dimensions. (BradfordandLim2011)

- Strategic leadership:

Leaders of G20 member countries are expected to exercise the leadership through the certain high strategic level, to provide a sense of direction toward the solution of current issue during the particular hard situation. Whatever coordination action needed to save the world economy should be considered and recommended, and the nature of the G20 regime has its flexibility and potential to offer such framework and guidance.

- Political Leadership:

In the national level, the financial market failure deteriorates the public trust to the market and also the government regulations, in terms of oversight, supervision, monitoring

and regulation of the financial institution and market. The G20 has the obligation to provide the general direction to the cross-national level; at the same time, it is also requiring restoring the public trust and reconfirming the political leadership.

- **Integrative Leadership:**

In 21st century, the economic issues are never separated from political issues; they mixed over and are not always clearly emerged on the surface of the water. Under this situation, global governance is a concept of integrative outlook, so we have to consider the solution in comprehensive ways of thinking rather than anchoring the financial model when dealing with the 2008 Financial Crisis. In other word, the prescription should be strong and comprehensive enough to deal with the serious disease not accumulated and evolved in a single day.

- **Institutional Reform Leadership:**

Under the crisis we are confused by the defects of existing international organizations, such as “democratic deficits”. The G20, as an adhoc regime, besides effective solution to the global issue, should also guide the reforms of those institutions for better function in resistance of new crisis in the future. □

- **Pragmatic Leadership:**

Particular complexity and interconnected situation call for removing some unnecessary obstacles toward the possible final solution, which are different from the previous century when we are entangled much more with ideology differences. Now we are also in the transition to build a consensus or a culture intrinsically that all measures and regulations are

evidence-based and problem-solving-oriented, not much ingredient with balance or compromise of ideology conflict.

- Inclusive Leadership:

It is understandable that the representative and legitimacy issues are always in existence in the G20 leaders' mind. G20 is to address the issue of the world, which composed of other 172 nations that are not show-up in the summits. However, their interests should be well considered as one basic principle, in order to make the decision-making process more effective.

3. China's Perspective: "Harmonious World Theory"

China's perspective of global governance can be reflected by its proposal to the world order—"Harmonious World Theory". In this part, the author introduces the main idea of China's "Harmonious World Theory", and gets the hints of China's view and analyzes its differences with the mainstream theory of global governance, in order to dig the answer to the original research question, "Is China seeking the national interest or global governance?"

(a) China And International Organizations: Historical Review

China's participation into the international organizations is not a long history since the foundation of People's Republic of China, and can be divided into three stages. The first one is 1949-1971, the second stage is 1971-1978, the third stage is from 1979-present, these three stages is accompanied by China's foreign policy adjustment, economic system change

and the judgment of its national interests change.

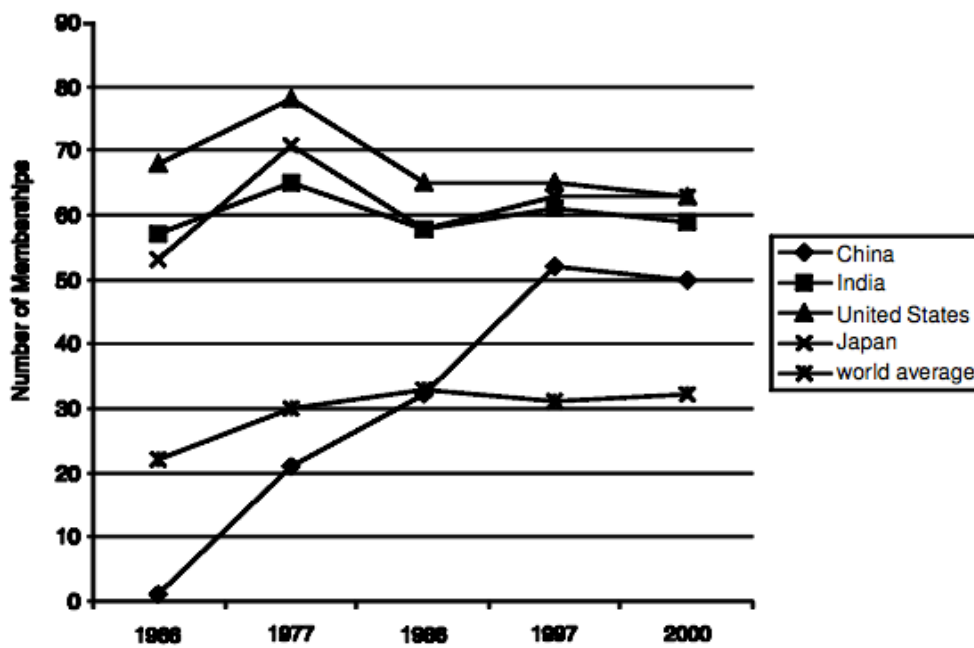
The First Stage: In 1949, China established its new government—People’s Republic of China, and spent much more efforts to consolidate its political regime and governance. During that period, China was focusing on its internal affairs, and the main target of its foreign policy was to get support from the communist camp and to get acknowledgment and recognition by the outside world. The limited numbers of international organization that China concerned with was the United Nation; So China tried almost every effort to fight for its due and legitimate seat at the UN that was taken by Taiwan authority. Until 1971, China succeeded and the United Nation accepted and recognized that P.R. China was the only representative government. Except the UN, there was seldom contact between China and other international organizations

The Second Stage: In 1971, China maintained the regular relationship with the UN, which was a good start for China’s involvement to international organizations. However, China had not much incentive to enhance the relationship with other international organizations. During that period, China’s internal political policies were focused much on the ideology, e.g. socialist regime or capitalist regime, and protecting from the outside revolutionary fever; meanwhile, its economic system was closed, and based on central planning rather than market. Incentives to build more relations with international organizations, e.g. the financial and economic cooperation institutions, were limited.

The Third Stage: In 1978, China’s leaders moved the focus of domestic policy from

the political ideology protection (“socialist” or “capitalist”) to the economic development, and followed by a series of reforms, which was named the Economic System Reform and Opening-up Policy (“gaigekaifang”). Then China tried to attach more importance to market regimes and to be more open than before. After that, China appeared in the international stage more than ever before, and this change also provided the opportunities for the world to know more and better about China. (Refers to Figure 2)

Figure 2: China's International Organization Membership



SOURCE: This figure is compiled from data in the *Yearbook of International Organizations*, 38th ed. (Brussels: Union of International Associations, 2000/2001).

(b) China’s “Harmonious World Theory”

China’s leaders remarks are the windows to collect the information of Chinese government’s policy and prospective. At the summits of 60th anniversary of the establishment of the United Nations, Chinese president, Hu Jintao, delivered a speech

entitled “Making Great Efforts to Build a Harmonious World with Long-lasting Peace and Common Prosperity”, which marked an important outlook of China’s perspective and understanding of the global governance. In his speech, he pointed out that the new century was featured of integration and globalization in depth and coexistence of opportunities and challenges, and he called for all the countries work to get her to build “a harmonious world with long-lasting peace and common prosperity.” To realize the goal, he emphasized the commitment to adhere to the purposes and principles of the UN Charter, and basic principle of mutual trust, mutual benefit, equality and collaboration; he advocated to promote development of the developing countries by establishing more justified international trade system and enhancing economic and energy dialogue; here iterated that right for each country to independently choose its social system and development road, and necessity to maintain the diversification of civilizations in the spirit of equality and openness.(Chinese foreign ministry 2005) This theory was reiterated and cited in many occasions to work as a norm and orientation on China’s foreign policy.

There are four implications of the “Harmonious World Theory” as China’s perspective of the global governance. First, governance under democracy and participation: reducing conflicts. Harmonious world requires extensive participation to eliminate conflicts between advanced countries and developing countries. Currently, the international institutions are regarded as “democracy deficit”, because they are dominant by limited numbers of countries, e.g. the advanced countries designated the head of those institutions and they can dominant the agenda and lead the order, while developing countries have little

voice and influence. To reduce the dispute—the meaning of harmonious—those international organizations should be fully participated and effectively influenced by developing countries, which indicates that they are servicing more extensive common interests rather than the interests of certain powerful nations.

Second, common prosperity and development: reducing the disparity between north and south. The global governance should improve its institution and international systems to promote developed countries to stimulate the aggregate demand, to increase the market volume, and to transfer technology, at the same time, to help developing countries enhance south-south cooperation, make use of the market and explore its development potential. It will be helpful to narrow the disparity between the north and south, and make sure every country can get benefit, more or less, from globalization and integration.

Third, respecting diversity and promoting tolerance: reconciliation amidst differences. Chinese philosophers interpret harmony as reconciliation amidst differences (“heerbutong”). China doesn’t want to work as a preacher to impose ideology to others, but to find common interest under the coexistence of different background and identifications. Harmonious world needs different civilizations to communicate and cooperate, which requires adequate tolerance between each other. Global governance should balance well the increasing interdependence and reluctance to dilute self-identification.

Fourth, peaceful resolution: pragmatic and creative way of thinking Conflict and confrontation do not mean harmony; neither does using arm force or threat to use. Each

participant contributes actively by pragmatic and creative way of thinking to dispute resolution, every country holds goodwill not to hurt the interest of other country, that's the harmony advocates (Wang and Rosenau 2009).

(c) **Debriefing China's Perspective of "National Interests" And "Global Governance"**

Combining China's "Harmonious World Theory" and western's global governance outlook as a whole, we can extract and identify China's national interest and its perspective of global governance.

China's National Interest:

1. Maintaining the sovereign state and diversity of the world.

Before the collapse of Soviet Union, China belonged to the socialist bloc with the Soviet Union's leadership, which opposed the western ideology characterized by capitalism and imperialism. When Soviet Union collapsed in 1990s, China was at a cross road and facing the choices of development model it was going to follow. At that time, Chinese leaders reconfirmed socialist development model with Chinese characteristics and the guiding principles of the foreign policy, which have four main points. First, not to uphold the banner of Soviet Union: China would not seek the role of leadership as USSR had ever played while China still kept the socialist system. Second, not playing the leadership of "the third world" or developing countries: China would not seek to play leadership role even though it defined itself as one of the biggest developing countries. Thirdly, not seeking confrontation with western world; but to get a tranquil international environment, China

would seek the common interests while holding diversity with western system. Fourthly, to avoid making enemies with the former USSR countries: China would reserve its comments to former Soviet Union countries in ideology, rather than arousing hostility to them. These four principles are still working today as the dominant guide line for China's diplomacy.

2. Getting More Benefits from World Market with Equal and Just Distribution.

China's experience of economic development teaches itself that opening-up and making good use of the world market can increase the wealth of the nation. China's rising evidently demonstrates this principle, but China still claims equal opportunities and more justified world economic order, because the current international system is designed by and served for the developed countries' interests. China wants more equally distribution, to improve the situation that each member country in the system can get benefits. China has a traditional philosophy: Inequality is worse than deficiency ("Buhuanguaerhuanbujun"), which means inequality will distort the incentive to generating more common good.

3. The political stability, economic security and sustainable development. China is Communist-party-lead country, which, from the eyesight of the outside world, is similar as the 1960s' Japan and 1970s' South Korea in terms of economic development, political environment and people's way of thinking. It is defined as "Developmental State" rather than "Development Democracies"; This "Developmental State" can generate enough growth and employment to keep the people relatively satisfied, and its legitimacy could depend on the fruits of economic performance by calling for unity and stability rather than democracy and human rights. (AHN2004) In order to ensure the political stability, China

has to protect its access to the resources and market, because its economy relies much more on the export and import, which infers as “economic security “to ensure its development. China’s view on global governance revises the intuition of the simple model-taking one from the two options; based on the complexity of the tri-lemma, it is hard to tell where the real global governance is located. There is no golden rule of game that is perfectly defined as the public good that each country should sacrifice all its self-interest.

In order to avoid the bad impression that is divergent from China’s claim of “a responsible big power,” the best approach is to minimize its possibility to violate the existing rules of game. Meanwhile, the proper way to adjust the rules of game will be respecting diversity with downgraded globalization rather than rules of game to maximize the benefits of coordination. (Rodrik2011) In order to keep diversity, China have to give up maximize the benefits of global governance, but to minimize the cost of violating the existing rules of game.

4. CASE STUDY : National Interest vs. Global Governance

4.1 China’s entry into the G20

To evaluate and predict China’s role, it is better to acknowledge the background and review the facts; the relation of China and other international institutions, especially, China with G7/8, is important. In this part, the author is collecting the history evidence of China’s relation with those international institutions and China’s historical performance and attitude to the G7/8. Based on those facts, we find that though it is hard to predict the benefits and costs, the potential benefits and better situation and attract China’s entry into

the G20.

Evolution and co-existence of G7/8 and G20

G7/8, as a “rich man’s club” and “concerted club” and specially dealing with the international economical and financial issues, had a history after the World War II. It was successful to exercise the leadership to guide the financial system and also to involve some hot issues tentatively, based on its shared value system and ideology. “The summit’s perfect attendance record, achieved despite demands on leader’s time back home, show how important the summit has been to leaders in managing domestic politics as well as international affairs.”(Kirton2011)

However, coming to the new century, this club encountered some problems to well function. It was caused by circumstances’ change, named “an intensely globalizing world characterized by complexity, uncertainty, and shock-activated non-state vulnerabilities that it brought.” (Kirton2011) G7/8 started to consider expanding its group and including the other stakeholders from emerging market countries. In the new century the newcomers were welcomed to the old club, followed by the new structure of G7/8+G5. 2008 Global Financial Crisis enhances the G7/8+G5 to the G20 as the bindings and fixture of G20 we are discussing in this paper; however, the elite group, or the internal group of G7/8 is not replaced or evaporated, they are still running the old fashion in parallel with G20 and has its own concerned topic and function.

China and G7/8

China's participation as one form of G5 or the G20 never changed its self-identification, also the identification of the core group--G7/8. In author's personal view, it's similar to the concept of "diversity" and "pluralism" in dealing with religious and ethnic group issues. Pluralism implies diversity; but from diversity to real engagement into the system requires along procession one hand, G7/8 needs participation of outside groups; on the other side, they cannot fully get rid of prejudice and intolerance. Anyway, the truth is that China participated in all the summits in the 21st century. From the realist perspective, the author observes China is active in participation, even if it doubts the real engagement and acceptance, based on the following considerations, especially measure-up of its national interest.

First, China is clear in mind that joining "the rich man's club" does not mean it is in the group of advanced countries and as rich as other members. China understands that the complexity of the world economic situation adds more difficulty for those rich men to manage the world properly; at the same time, China's rising economic share in the world economy upgraded its status as a stakeholder for collective actions, especially in the financial crisis period, China's economic potential may offer more possibilities to the solution.

Second, comparing the benefits and costs to join the club, China is anxious to lose the support from developing countries. The worst situation China has to avoid is that both

rich men and its partners from the third world, group of developing countries, isolate it. Meanwhile, China cherishes and supports more legitimacy of the UN and other formal international institutions, because they can guarantee, in some sense, the shares and status it has already granted in those organizations. However, chances are there that the G20 is better than the G7/8 for China to express itself and enhance its confidence; participation to set the rule is painful, because China has to compromise some of its national interest for the common good, but taking other side of view, rule setter has less possibility to violate the rules of the game because the final rule is reflecting part of its concern and interest, that is, to reduce the potential conflict and probability to violate the rule makes sense for China's national interest.

Third, China activeness can also be understood that they have basic need to enhance communication with the inner group—G7/8, even though they don't have confidence that how much progress they will make. Chinese leaders always believe they have to diminish estrangement and deal with the complaint through proper peaceful approaches, especially dialogue; meanwhile, they know misunderstanding comes from unfamiliar, so they have intention to let the outside world know much about China. They are confident that the G20 is such kind of platform, especially when it upgraded as “the premier forum for international economic cooperation” and “a steering committee.”

4.2 China's RMB Exchange Rate Dispute

China started its opening up and caught the world's attention from 1990s, when its export-led economy kept nearly two digits percentage growth rate per year. After China's entry into the WTO in 2001, it cancelled many subsidies and protectionist measures for its industry, in order to meet the requirements of WTO rules. At the same time, China still held the fixed foreign exchange rate regime, which meant that China's Central bank imposed its influence to manage its currency value and monetary policy stability. To the developed countries, this growth pattern led to the accumulation of trade surplus, which created the global imbalance and was harmful to its trade partners.

China revalued the RMB (Chinese currency) by 2.1% in 2005. At the same time, Chinese authorities abandoned the dollar peg system that the nation had previously adopted, and took "reform to improve the exchange rate formation mechanism of the Yuan" ("Yuan reform"). The reason for this change was, articulated by a spokes person of the People's Bank of China (China's central bank), "Promotion of reform of the Yuan's foreign exchange rate formation mechanism is based on the need to alleviate foreign trade imbalance, expand domestic demand, improve companies' international competitiveness, and raise the country's level of openness to the world." Under the new "managed float" policy, China agreed to let the RMB trade in a defined daily trading band while allowing it to gradually appreciate. This move pacified China's trading partners while still allowing it to maintain complete control over its currency (Cao, et al. 2011).

During the Global Financial Crisis, the US had some hard needed from China for

the recovery, so the attitude to China's exchange rate issues often to some extent. However, with the dynamic of domestic policy pressure, especially manufacturing industry and the unemployment, the US government recalled its position to press appreciation of RMB and reform of the flexible FX regime.

China's exchange rate issue has been a hot topic in the past summits. Some commentators believed that China's currency policy is far from the most important problem facing the global economy, but it receives a disproportionate amount of political attention in the United States, and will continue to be at the center of the bilateral economic dialogue. (Oxford Analytica 2009, Asia Pulse 2010). At the Seoul summit, the US expressed its hope to force countries like China to keep their large trade surpluses below 4 percent of gross domestic product, possibly through appreciation of their currencies. China did not respond directly to the exchange rate issue but focused on the US Quantitative Easing policy. China and other Asian economies saw first-hand that rather than spurring more U.S. growth (on which Asian exporters still depend), U.S. monetary ease had flooded the developing world economies with dollars they're not able to absorb (Anonymous2010).

Why didn't China take the appreciation pressure?

Subsidy plus tax preference policy vs. exchange rate policy can be two measures to promote development of manufacturing sector domestically and can offset each other, even though the former is not efficient way according to economic theory. South Korea's Heavy Chemical and Industrialization (HCI) policy promoted its industrialization through

the subsidy and preference tax-policy, which was opposed and banned by the WTO later, while the devaluation of its currency was proper measure to promote its export and compensate the distortion of HCI policy. In 1980s, China conducted the similar industrial policy-trade restrictions, investment incentives, subsidies, and domestic processing requirements-that did not spill over into a trade imbalance. In 1990s, China brought tariffs down sharply and phased out many of the subsidies and domestic-processing requirements to bring policies in line with WTO requirements. (Rodrik2011) In order to offset the negative effect of the above-mentioned policy change, China insisted to maintain the currency value and fight for the appreciation pressure.

The more deeply China involves into this growth model, the less it dares to adjust its exchange rate policy easily, though it is hard to tell the real effect of China's currency appreciation. The generally agreed model that depreciation will better off the current account, then the real economy, is not fully convincing, because the model is simpler than the reality. However, China's leader is precautious to manage the policy, because any negligence will have high risk and may cause too much in such a big country and with such big population. Japan's economic suffering after "The Plaza Accord" teaches China a lot. China will try its best to turn away from Japan's old ways. Though Japan's economic situation may different from China's, China is still reluctant to compromise to the historical evidence and leaves its economy in risk and danger.

Now we can understand China's concern to revalue its currency potential threat to

China's national interest. Dani Rodrik (2011) suggests that China's growth might be reduced by 2 percentage points or more if the RMB (Chinese currency) is allowed to appreciate sufficiently to eliminate its undervaluation. Chinese premier Wen Jiabao expressed his view on many occasions, "if we follow some country's pressure, letting RMB appreciated 20%~40%, then many of China's enterprises will go bankrupt, many of farmer workers will lose their jobs and be forced to return to the country-side, China's economic growth will be pulled down and the society will have huge unstable problems."

4.3 China's Efforts to Reshape the Global Reserve System

Problems of Global Reserve System

Globally, there serve system is causing deflation bias, and is unfair and unstable. Firstly, this system doesn't promote development and growth in reality. For example, the developed counties, say the US, lends some money to help the developing counties, while at the same time, in order to maintain the stability of foreign countries' currency value, foreign countries have to purchase certain amount of US bond, the interest rate of US bond cannot offset the interest they have to pay from the aid, finally, there is no positive income to the developing countries. In addition, this amount of money putting into financial market doesn't create jobs. Secondly, it is unfair because the capitals are not flowing from rich countries to poor countries, which indicates that poor country have to provide financial aid to the rich country. On this issue, many economists confused because according to their theory, the capital should flow from the capital abundant country to capital scarce country,

and they are trying to explain this as the poor country has different production level, or low productivity, and poor technology and institution, which indicates that they are not ready for accommodate the in-flowed capital. Actually, the poor country have to give up more profits that they may invest in other projects but to hold the US bonds for security, in other sense, it explains the irrational flow of capital from downside to upside. Third, the current system is unstable, even for the US. Every country hold foreign reserves for its currency stability, but globally looking, it has no contribution to the global aggregate demand. The money put into the reserves could not stimulate the development to real economy, which otherwise is helpful for growth and unemployment. The more country involve in this system, less intendancy of them to promote consumption and investment.

Why are developing countries, such as China, willing to hold their foreign reserves denominated in dollar? First, the more dependent the country relied on the foreign trade; it is more intend to get rid of the exchange rate fluctuation to guarantee its export profits. Then holding certain amount of foreign reserves is served as a buffer; theoretically it may be well functioned, the central bank can make adjustment in foreign country's interest rate increasing or in domestic recession. Second, foreign countries don't have many choices but to purchase the US government bond as its foreign reserves because of the lower risk, which means the former are willing to give up some risk premium of holding assets denominated in other currencies.

China's response: RMB internationalization and proposing SDRs

Under this assumption, countries try to reduce their dependency on US dollar as global reserve currency, either by promoting their own currency in international market or by diversifying the assets they hold. China, with its economic expansion and increasing economic power, is trying to diversify its asset denominated in US dollar to reduce the dependency and risk; meanwhile, it is planning to enhance the status of its currency to be more international. China has already initiated some steps to internationalize the RMB by enhancing its function as medium of transactions. China launched that pilot RMB Trade Settlement Scheme in 2009 and thus made an important step toward the goal of internationalizing its currency. In terms of currency cooperation between the central banks, China has signed currency swap agreements with its trading partners, including South Korea, Hong Kong SAR, Malaysia, Belarus, Indonesia, Argentina, Iceland, and Singapore, and by the end of 2011 the total volume reached 1.3 trillion yuan (about \$210 billion). (Ren2010) Moreover, China is working on promoting Shanghai's status as an international finance center. However, there is far way ahead for Chinese RMB becoming international currency.

China is also active to promote Special Drawing Right (SDR) in the G20 regime.

The International Monetary Fund (IMF) created the SDR in 1969 to support the Bretton Woods system of fixed exchange rates. The IMF's objective was to introduce into the payments mechanism a new type of international money, in addition to the dollar and

gold, which could be transferred among participating nations in settlement of payments deficits. It was felt that neither dollars nor gold, by themselves, could provide ample liquidity for the world. With the IMF managing the stock of SDRs, world reserves presumably would grow in line with global commerce (IMF, 2009).

The SDRs are apparently beneficial for China and other developing countries. Diversification of the global reserve currency will release China's dependence on US economy and gain more economic security. The stability of global reserve system will reduce China's need to run huge foreign reserves to stabilize the currency value, which means this saved capital can be invested to chase more benefits in financial market and stimulate more output in real economy.

5. DISCUSSION AND CONCLUSION

In this paper, we start from a popular economic dilemma that whether China chooses “national interest” or “global governance” in the G20. We put this question in context of China’s “Harmonious World theory” and western classic theory of global governance, we find that it’s not a simple choice a stake on other; we find the reality is located in some were among the tri-lemma, and the trend to move somewhere else we cannot easily predict. However, we observe China’s perspectives of national interests and global governance, and claimed that China will take national interests while taking care of certain global governance obligations at the lowest cost of violating the rule. Through the case studies, we learn that China’s past behavior in the G20 reflects its incentives to chase and fight for its national interests, under the existing rules of the game.

Before the conclusion, one point to add and clarify is that everything is not absolute and has the other side of coin. China’s seeking national interest is not equal to the concept that China wants to free ride and to gain at the cost of others, if were call the economic story of “tragedy of commons.” Rather, China’s strategy is also win-win in some sense. For example, China’s well address of domestic problems is the contribution to the world; China’s efforts to stabilize its economic growth thus increasing world aggregate demand a real so beneficial to the world.

We conclude that China in the past G20 summits fights for its national interest to maintain its advocating of diversity of world, sovereignty right, just distribution of world welfare, political stability and economic security. This implies that trend or direction of

global governance in world economy. We may not demand the maximum of benefits of deep globalization, but minimize the harm that unilateral action may bring by respecting the diversity of the world. Every theory and model has the limit, we may predict the equilibrium point according to the models, but the truth is that the current situation may have already combined and reflected all theoretical models—the reality itself is the equilibrium of all models.

BIBLIOGRAPHY

BIBLIOGRAPHY

AHN, BYUNG-JOON. *The Rise of China and the future of East Asian integration*. Asia Pacific Review 11, no. 2 (2004): 18-35.

Anonymous. *EU to warn against currency war at G20 Seoul summit*. Xinhua News Agency, 2010.

Asia Pulse. *G-20 Leaders to take up currency issue first in Seoul Summit*. Asia Pulse, 2010.

Bradford, Colin I., and Wonhyuk Lim. *Global leadership in transition: Making the G20 More Effective and Responsive*. Seoul and Washington, D.C.: Korea Development Institute and Brookings, 2011.

Cao, Emily Yixuan, Yong Cao, Rashmi Prasad, and Zhengping and Shen. *U.S. China Exchange Rate Negotiation: Stakeholders' Participation and Strategy Deployment*. Business and Politics, 2011.

Chinese Foreign Ministry. Hu Jintao Delivers an Important Speech at the UN Summit. September 16, 2005. <http://www.fmprc.gov.cn/eng/zxxx/t212614.htm> (accessed December 1, 2012).

Drysdale, Peter. *Defining an Asian Agenda in the G-20*. Brookings Institute. April 11, 2011. <http://www.brookings.edu/research/reports/2011/04/11-macroeconomic> policy-g20/Australia (accessed October 23, 2012).

Feenstra, Robert C., and Alan M. Taylor. *International macroeconomics*. New York: Worth Publishers, 2011.

International macroeconomics. New York: Worth Publishers, 2011. FT. com. *The dilemma of global governance*. The Financial Times, 123, 2007.

Kirton, John. *The G8: Legacy, Limitations, and lessons*. In *Global leadership in transition-Making the G20 More Effective and Responsive* by Colin I. Bradford and Wonhyuk Lim

(editors), 16-35. Seoul and Washington: Korea Development Institute and Brookings Institution Press, 2011.

Oxford Analytica. *US/CHINA: Exchange rate picture is shifting*. Oxford Analytica Daily Brief Service (Oxford Analytica Ltd). 2009.

Pisani-Ferry, Jean. *China and the World Economy: A European Perspective*. Brussels: Bruegel, 2010, 1-14.

Ren, Xiao. *A Reform-Minded Status Quo Power? China, the G20, and Changes in The International Monetary System*. RCCPB Working Paper #25, April 2010.

Rodrik, Dani. *The Globalization Paradox: Democracy and the Future of the World Economy*. New York: W. W. Norton & company, 2011.

Strange, Susan. *The Retreat of the state: the diffusion of power in the world economy*. New York: Cambridge University Press, 1996.

Uz Report.com. *Today's global challenges require nations coming together as partners*. Wire feeds, Australia: Asia Pulse Pty Ltd, 2010.

Walts, Kenneth N. *Structural Realism after the Cold War*. In *America Unrivaled, the Future of the Balance of Power*, by G. John Kenberry, 29-68. Ithaca: Cornell University Press, 2002.

Wang, Hongying, and James N. Rosenau. *China and Global Governance: Asian perspective*. 2009: 5-39. Wikipedia. Public Good. Nov 24, 2012.
http://en.wikipedia.org/wiki/Public_good (accessed Nov28, 2012).

Yu, Yongding. *G-20 and China: A Chinese Perspective*. China & World Economy, 2005: 3-14.