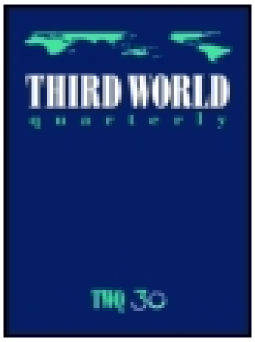

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How stalled global reform is fueling regionalism: China's engagement with the G20

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ABSTRACT

In the Chinese view, the architecture of contemporary global governance – especially that of the Bretton Woods institutions – is flawed and in need of reform. Developing nations (like China), the argument runs, need to be given a role proportionate to their global economic influence. Since the Group of Twenty (G20) became a leaders' summit in 2008, China has used the forum to push for such reform. But today, despite some supposed progress, reform has stalled. Recognising this fact, China is increasingly emphasising regional integration in its strategy for overcoming the middle-income trap. Global reform has not been abandoned, but – given its infeasibility – is no longer a short-term priority.

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In Davos, Switzerland, on 17 January 2017, China's President – Xi Jinping – offered a bold defence of globalisation, which he called 'the historical trend' of the times. 'China must have the courage to swim in the vast ocean of the global market', he declared, lest she 'get drowned in the ocean'. In a line universally seen as a warning to president-elect Donald Trump, who was to be inaugurated three days later, Xi avowed that 'Pursuing protectionism is like locking oneself in a dark room. While wind and rain may be kept outside, that dark room will also block light and air. No one will emerge as a winner in a trade war'.[1] *The Economist* well noted the irony of Xi's speech: 'Here, at a time of global uncertainty and anxiety for capitalists, was the world's most powerful communist presenting himself as a champion of globalisation and open markets'.[2]

The immediate paradox of the putative role reversal – communists as protectors of globalisation, populist capitalists as its enemies – was lent additional import by the fact that a Chinese president has never attended the Davos World Economic Forum before; indeed, in 2016, China dispatched Li Yuanchao, technically the Vice President of the PRC, but not even a member of the Politburo's Standing Committee. Xi's appearance at the forum, a gathering of business and government elites, was an unambiguous signal to the world writ large, to the US, and to China itself that China would assume a position of leadership in global economic affairs.

Insofar as President Xi's rhetoric reflects his intentions and capabilities, then China's future path has been made clear: China will seek to overcome what Chinese leaders themselves

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call the 'middle income trap' through innovation, integration and further opening of its economy.[3] China's choice of the globalisation path is incredibly important – one of the central decisions of the twenty-first century. Though this path was signalled clearly at Davos, in fact, everything Xi said during that January 2017 speech he had already outlined in further detail throughout 2016 during China's chairmanship of the Group of Twenty (G20)Summit.

China's engagement with the G20, the focus of this essay, shows that China's choice of the road of globalisation predates Xi's recent energetic rhetoric and that the G20 as an institution has helped ease China down the path of reform and opening. The G20's unique inclusiveness, recent vintage, organic development and global profile have made the forum an indispensable platform for global agenda-setting, coordination and sideline diplomacy. From the Chinese perspective, the G20 is the single high-profile global organisation seen as a legitimate forum for global economic governance. China has willingly engaged with the G20 from the forum's beginning at the end of the twentieth century. At the Hangzhou Summit of 2016, China recast its engagement as leadership. This article argues that China's new leadership in the G20 is part of Xi's plan for beating the middle-income trap, but that the limited possibilities for global reform have pushed China in the direction of regionalism.

This article begins by looking at China's historical engagement with the G20. It then situates the G20's own rise within shifting economic trends, and considers China's objectives within the G20 today. China's wider project, which it pursues from both within and without the G20 – to achieve equitable representation in the Bretton Woods institutions – is then surveyed, and China's likely future interaction with the G20 assessed. The article concludes by reflecting on the dynamic relationship between the increasing obstruction of global reform and the rise of regionalism in Asia.

The G20 and China: a brief history

The Group of Seven (G7) was created as a response to the economic uncertainty of the 1970s, caused first by the dollar's separation from the gold standard and second by the turmoil caused by the oil crisis. It was intended to be an informal mechanism by which the leading 'industrial democracies' (in Kissinger's words) coordinated their behaviour in an informal setting.[4] This was the era of America's global economic dominance. Insofar as America coordinated with anyone, it seemed to be more of an ideological favour than a genuine need. When Federal Reserve Governor Paul Volker decided to raise the interest rate in 1979, only America's interests were considered – no study of the impact on the rest of the world was conducted. 'The dollar is our currency but your problem," said one senior US official in this era, and of course President Nixon colourfully remarked: 'I don't give a shit about the lira'.[5]

If the US alone dominated the international economic scene, in combination with the G6, which first met in 1975, it amassed hitherto unparalleled resources. The five Western powers (US, UK, France, West Germany, Italy) and Japan were all of the world's leading economies. In 1976, they were joined by Canada to make the G7. Though only around 12% of world population, together the G7 represented 63% of global gross domestic product (GDP; at current USD).[6] By the new century, this number – powered by German reunification, Japan's boom in the 1980s and early 1990s, continuing American economic strength, and Russia's inclusion in 1997/1998 – had increased to 66% of world GDP.[7] This was the era of the 'unipolar moment' (particularly if the 'unipole' is seen as the G7 grouping of industrialised democracies).

Even so, the 1997 Asian financial crisis, which by 1998 had expanded to Russia and Brazil, indicated that financial contagion was still possible for G7/8 countries. In response to the crisis, the *finance ministers* of the US and Germany formed a new body – the G20 – intended as 'a new mechanism for informal dialogue in the framework of the Bretton Woods institutional system … among systemically significant economies', according to the G7's 1999 statement.[8] China, significantly, was part of this new forum, and its Minister of Finance participated in each meeting of the body, as did the Governor of the People's Bank of China.

Since the formation of the G7, China had staked out a cautious position. On the one hand, it was increasingly eager to join the various institutions of international society, successfully joining the World Bank and the International Monetary Fund (IMF) in 1980. On the other hand, the G7 was seen – correctly – as being unrepresentative and as having an ideological element, something clearly displayed to China with the body's condemnation of the Tiananmen crackdown.[9] 'Any major move toward full membership must await China's demonstrable acceptance of the domestic political values that all G-8 members share', John Kirton, perhaps the most prominent scholar of the G7/8, declared at a think-tank forum in Shenzhen in 1999.[10] This was hardly a disappointment to China, for it had no interest in joining a forum in which a developing and authoritarian nation did not fit. On the other hand, it was undeniable that the G7/8 mattered. After all, the body controlled two-thirds of world GDP, and it used this dominant position to coordinate fiscal and monetary policy within the Bretton Woods institutions: the World Bank, the IMF, and the Financial Stability Forum.

The launch of the G20, therefore, was – in the words of one prominent Chinese scholar – 'a timely fit for the Chinese government, which wishes to have closer cooperation with the G-7/8 but does not want to be part of it for the time being'.[11] Indeed, in response to the G8's wooing, President Hu Jintao began formal discussion with the G8 in 2003, a process formalised in 2005 as the G8+5 (the +5 being Brazil, China, India, Mexico and South Africa). Such coordination was natural, for at this period the G8 was the core that set the agenda and drove agreement within the larger G20. The larger G20 was a way to expand the G8's influence and bestow a fig leaf of legitimacy on the heretofore dominant industrial democracies.[12]

China's initial position within the G20 was to participate within the forum, coordinating with the G8 to promote global financial stability, and, insofar as possible, working to reform the international system in the favour of developing nations. Proposals to further institutionalise the G20 – by elevating it to the level of presidents/premiers, forming a secretariat, or using it as an agenda-setting body – were met with scepticism by some influential Chinese experts, including Yu Yongding, then a member of the Monetary Policy Committee of People's Bank of China.[13] China was willing to be a participant within the larger informal G20 process, but making it a public leadership forum, as Paul Martin, the Prime Minister of Canada, called for in 2005,[14] seemed out of line with the quiet backroom diplomacy which China then preferred. Indeed, in this period, Korea and Japan – not China – took the lead in insisting on proportional representation in Bretton Woods institutions.[15]

As the G7 followed the economic crises of the 1970s and the G20 followed the crisis of 1997, the G20 leaders' summit followed the crisis of 2008. After Lehman Brothers collapsed in September 2008, President Bush realised that the crisis was something America could not contain on its own. Bowing to French and British calls for a summit, Bush called for a G20 *leaders'* summit to be held in Washington, DC.[16] So, the modern form of the G20 was born.

At the first G20 leaders' summit, Hu Jintao kept a relatively low profile.[17] He generally cooperated with the forum's other leaders, but apparently insisted that the next meeting of the G20 not be held in Japan.[18] At the second G20 summit in April 2009 in London, China maintained the same position, leading to the choice of the US again for the third summit (in September 2009 in Pittsburgh).[19]

At the London Summit, key deals were announced, including a coordinated US$1.1 trillion spending package to act as a stimulus for a tottering economy, as well as an agreement for a US$250 billion special drawing rights increase at the IMF. The latter increase was known to no one at the IMF except its managing director Dominique Strauss-Kahn,[20] a dynamic that nicely illustrates how the G20 began to function after the 2008 financial crisis: as an informal directorate of intergovernmental organisations. Importantly, China agreed to buy US$50 billion in IMF debt, despite merely being promised a *future* proportionate increase in fund shares.[21] This cooperative move on China's part was not a fluke. People's Bank of China Governor Zhou Xiaochuan saw an opportunity in 2009 to force the US to back off from being the holder of the world's reserve currency, issuing a paper calling for a new international reserve currency. But He Yafei, China's G20 Sherpa, in a move that illustrated the competing organisational interests within China's leadership, insisted in response that this was not the position of the Chinese government, and issued a statement recognising the US dollar as 'the most important major international reserve currency of the day, and for years to come'.[22] Despite America's financial vulnerability, China's leadership was not gunning for a confrontation (which, admittedly, would have done significant damage to China's holdings of US dollars).

The intricacies of China's G20 diplomacy since 2008 have been surveyed elsewhere.[23] Yet a few important developments should be summarised. In the summer of 2009, the Brazil, Russia, India, and China (BRIC) grouping met for the first time at the head-of-government level (in Yekaterinburg, Russia), indicating a new willingness on the part of developing countries to coordinate their behaviour. The Sherpas of the G8 and the +5 spoke at the July 2009 G8 Summit, and China, India and Brazil all insisted that the G20 should be an independent body. At an August 2009 Sherpa meeting, it was agreed that the G8+5 would end, that the G20 would be the central global economic forum and that the G20 would henceforth in no way be dependent on the G8. This consensus was represented in the declaration that the G20 would be 'the premier forum' for 'international economic cooperation'.[24]

China's engagement with the G20 at this period might be thought of as middle-power leadership. Actively participating in every G20 event, China sought a cooperative role that would bring stability to the world economy even as it patiently pressed for longer term reforms in the interest of developing and dynamic economies, and attempted to avoid losing face over US pressure to appreciate the renminbi.[25] At Los Cabos in June 2012, in support of a US$450 billion 'firewall fund' initiative taken in response to the Euro crisis, China agreed to provide US$43 billion in funding, around the amount provided by Germany, and US$17 billion less than Japan; the US – for the first time ever during a major IMF recapitalisation – chose to make no contribution, seemingly abdicating (to China and Japan) its traditional position as the lender of last resort.[26] A final example from the Brisbane summit in 2013 is instructive. In all five of its country draft submissions for the Brisbane Action Plan, Russia included a preamble that protested the American and European sanctions imposed in response to the Ukraine crisis. The sanctions, Russia insisted, were contrary to the spirit of the G20. China did *not* concur with this position, forcing Russia to remove the statement from its drafts.[27] Xi Jinping had no interest in losing political capital in someone else's dispute.

The momentous global shift

By 2015, the era of G7/8 dominance was clearly over. The G7 then represented only 46% of global GDP (at market exchange rates), a fall of nearly 17% from 1976 and 20% from 2000. Canada and Italy were no longer among the world's seven leading economies, having been replaced by India and China. Measured at purchasing power parity (in current international USD), France and the UK also dropped out, replaced by Russia and Brazil. The US, which generated 30% of global GDP in 1976, fell to 24%; Japan, France and Canada lost 3% of global GDP *each*, and Germany lost 4%. The UK, which generated 4% of global GDP in 1976, was the only G7 member to remain stable, still generating 4% in 2015. Had the G7 maintained in 2015 the share of the economy it generated in 1976, the grouping would have had to be US$12.5 trillion richer. At purchasing-power parity (PPP), the G7 only included *three* of the world's top seven economies, and by the same measure the entire group accounted for only 32% of the global economy.[28] In contrast, by 2015, the G20 (at PPP) represented 80% of the world economy.[29] It also represented the entire developmental range, from GDP per capita (in 2015, at PPP) from US$6187 in India to US$56,084 in the US.[30]

The 2008 financial crisis facilitated the creation of the G20 summit. The growth of developing countries – particularly China – from 2000 to 2015 shifted the economic centre of gravity to Asia. It was therefore appropriate that China's engagement with the G20 went into high gear in 2015, China having secured the chairmanship – for the first time – for 2016. Yet for all of China's newfound influence, it assumed the chairmanship in a new era of tremendous domestic difficulty. The time of easy economic growth was over, reflected in the phrase 'new normal' of domestic growth, which came in vogue in the spring of 2014.[31] From then on, Xi Jinping began unveiling – or progressively developing, as the case may be – a systematic strategy for how China could continue to grow in this new era.

At the 2014 Asia-Pacific Economic Cooperation (APEC) Chief Executive Officer (CEO) summit, Xi referenced the 'new normal of growth' but maintained that 'there are risks, but not that formidable'. Innovation, infrastructure, interconnectedness and consumption, he argued, would be adequate to propel future growth.[32] *Xinhua* trumpeted that this speech 'for the first time ever, sketched out a full picture of [the] Chinese economy's "new normal."'[33] Practically, Xi argued that this meant negotiating the Free Trade Agreement of the Asia-Pacific (FTAAP), giving the market a 'decisive role' in China's domestic economy, launching the Asian Infrastructure-Investment Bank (AIIB), which was then being put together, and institutionalising APEC to spur on reform.[34] At the Brisbane G20 Summit, which met the day following APEC's conclusion, Xi made the same case. Stimulus was inadequate: the global economy was in need of fundamental reform.[35] Even so, Xi's prescriptions still carried a vaguely propagandistic tone, his understanding of the challenges facing China appeared limited and his overall presentation was terse.

By 2016, this had changed. At the Business-20 (B20) Summit on 3 September, part of China's larger G20 meeting, Xi outlined in precise detail the challenges faced by China's economy and the solutions he envisioned. He addressed the central question of the era, 'whether China can avoid falling into the "middle income trap"', with newfound focus. 'China's reform has entered the deep water zone where tough challenges must be met'. At this stage of reform, 'painful self-adjustments' are required, Xi said, as well as the tackling of 'problems that have built up over many years'. Beating the middle-income gap will require 'innovation-driven development', Xi argued. That is the only way China can move 'up to the medium-high end of the value chain' and avoid economic stagnation. It will require a new emphasis on 'sustainable development', continued focus on ending poverty in China, promoting 'fair and open competition' domestically, internationalising the renminbi, providing international public goods and opposing protectionism.[36]

It is not a coincidence that President Xi focused so much on China's domestic situation at a G20-associated event. His speech showed that he believes China's situation is inextricably linked with that of the world. 'Breaking a new path for growth' should be an objective both for China and for the world writ large. Short-term stimulus will not push China's economy past the middle-income trap; neither will it become a driver of global growth capable of overcoming relative economic stagnation. Achieving this more difficult objective will require fiscal, monetary and structural reforms, and greater macroeconomic cooperation. This should be the objective of the G20, Xi explained. 'One of the goals of China's G20 Presidency is to enable the G20 to transform from a crisis response mechanism focusing on short-term policies to one of long-term governance that shapes medium- to long-term policies'.[37]

Further institutionalising the G20 – making it into a mechanism of 'long-term governance', in Foreign Minister Wang Yi's words[38] – was a constant theme of Chinese rhetoric in 2016.[39] How precisely this could be done (through a non-secretariat bureau, for example) remains an open question,[40] but the point is that China has come full circle. Eleven years earlier, there had been scepticism in China about elevating the G20 to the level of leaders, and the body clearly held a role as an auxiliary to the G8, with which China would associate but was not then ready to join. As recently as 2012, scholars could speculate whether the G20 would replace the G8.[41] Formally, the G7 still exists, and it still functions as an important networking and coordination mechanism for the industrialised democracies, but it no longer has a dominant role in global economic governance. If anything, it is merely one grouping within the larger G20 forum, alongside the BRICS and MIKTA (the middle powers Mexico, Indonesia, Korea, Turkey and Australia).[42] Since Russia has been kicked out of the G7 and Donald Trump has been elected in the US, the grouping has become smaller, less representative and less cohesive. The G20, consequently, has the opportunity to assume an even more central role, and China would like to see this opportunity taken.

China's G20 objectives

What are China's objectives in and for the G20? According to Wang Ying and Li Jiguang, professors at the University of International Business and Economics, China's leading financial university (which is under the administration of the Ministry of Commerce), China can pursue a host of its fundamental interests through the G20 forum.

First among these is promoting a stable international system. This means responding to crises, but also pursuing deeper global trade integration, restricting the 'US dollar's hegemony', steadying global energy markets, and integrating China (and other developing nations) within the structure of global governance.

Second, this means reorienting the G20 into a decision-making body, with intergovernmental organisations such as the IMF, World Bank, and World Trade Organization (WTO) as the 'policy implementers'. This point is key. Within the G20, China can play a role proportionate to its economic heft, something *not* true of the traditional Bretton Woods institutions, where China remains significantly underrepresented (and almost always subordinate to its regional rival, Japan). The solution is *not* to reform these bodies from within, where China's influence remains limited, but from without, through the G20 forum.

The best way to accomplish this objective is through China's third objective: institutionalising the G20, which Wang and Li call 'in line with China's national interests and strategy needs'. If the G20 is going to be the forum through which China reforms Bretton Woods institutions, secures the stability needed for domestic growth to continue, and promotes free trade and greater integration, then the G20 needs to have teeth – it needs to be action-oriented, and that requires a 'permanent executive body'. Wang and Li suggest establishing such a body in South Korea, somewhere China could have influence but avoid appearing threatening to the G7 member states. Moving the G20 into a more institutionalised setting would also allow for a 'G20 development fund' that could be used to build infrastructure in developing countries.

Finally, China should work to 'set the agenda' in the G20, foiling the G7's attempts to control the body. The best way practically to do this, given the current transitory nature of the G20, is to lobby for summits to be held in developing countries and then liaise with the hosts to coordinate the agenda. Another key is to prevent the G20 from being hijacked by non-economic subjects such as 'anti-terrorism, immigration and social stability issues'. This, presumably, would water down the forum's already wandering discussions, preventing the sort of focused agendas that can both produce a consensus and ensure its implementation.[43]

Put most broadly, China's goal is to guide the G20 in a transition from 'crisis-management to long-term global governance', in the words of Wang Lei and Wang Rui, professors at Beijing Normal University and Shanghai International Studies University respectively.[44] By virtually all accounts, this has not yet happened. As Bruce Jones observed at an important event preceding the 2016 Hangzhou summit (at which Wang Xiaolong, China's G20 representative, was in attendance), the US has blocked attempts by China (and other nations) to further institutionalise the G20.[45] Japan has been another key opponent of a G20 secretariat, probably because it fears the G20 actually becoming an effective organisation. Japan has both criticised the G20 for being unwieldy and promoted its expansion (by pushing for the inclusion of Singapore's 'global governance group'). One possible explanation of this behaviour – which could be called a 'bloating strategy'[46] – is that Japan is playing a spoiler role within the G20, both because it has not received a leadership role within it, and to protect the influence of the G7.[47] Consequently, despite Xi's push at (and preceding) the Hangzhou summit, no formal institutionalisation has taken place.[48]

Even as it remains a weak forum and not an institution, the G20 continues to suffer from bloating, with more than 100 people attending Sherpa meetings and more than 50 at leadership 'summits' (a trend, as mentioned above, encouraged by Japan). Furthermore, by de facto abandoning the Troika System, by which previously the current chair worked with the past and future chair to coordinate outcomes and implementation, the G20 has actually become *less* institutionalised. At the same time, 'agenda creep' has occurred, leading Barry Carin, a keen observer of the G20 and a former Canadian diplomat, to comment that G20 meetings are becoming something akin to a 'circus'.[49] Unsurprisingly, as Liu Zongyi, a fellow at the Chongyang Institute for Financial Studies, Renmin University, has observed, G20 agreements have increasingly become 'in principle' rehashes of comfortable phrases 'without a substantive breakthrough'.[50]

The G7 has faded from the centre of global governance and the G20 has assumed the key position as the 'hub' of global governance.[51] Grasping this trend, China has sought to use the G20 to coordinate and implement its global economic and governance interests. Yet, despite some modest successes such as pushing the Organisation for Economic Co-operation and Developments (OECD's) tax transparency agenda forward,[52] the G20 as a body has not scored a major achievement since perhaps the Seoul Summit in 2010, where IMF reform was agreed upon – an important achievement, but one not implemented until finally approved by the US Congress in December 2015.[53] Indeed, important past agreements, such as that of 2009 to end fossil fuel subsidies, have yet to be implemented.[54] And despite China's serious emphasis on transitioning to a long-term global growth model during its presidency in 2016, no specific way to boost growth and ensure sustainability was agreed upon at the Hangzhou summit.[55] Former Vice Foreign Minister (and G20 Sherpa) He Yafei observes that in addition to its efforts in the G20, China has prioritised 'regional integration' (the Belt and Road initiative, AIIB, the New Development Bank, Regional Comprehensive Economic Partnership (RCEP), bilateral trade and investment agreements, etc.) as the solution to 'fragmentation in global governance'.[56] In other words, China is running a dual-track system[57]: reform global governance through the G20 where possible, and simultaneously promote regional integration, since global reform is sure to be slow in coming.

Stalled global reform

What is most impressive about China's quest to reform the 'implementing' institutions of the G20 (particularly the IMF and World Bank) is its patience and moderation.

In 2010, the World Bank, under the leadership of Robert Zoellick, ostensibly implemented 'voice reform' that had been years in the making to give developing and transition countries (DTCs) more influence. The 2010 shift of 3.13 voting percentage points had been preceded in 2008 by a 1.46 percentage point shift, so 4.59 percentage points were in total redistributed in the voice reform initiative.[58] This has been heralded as a major step forward. But a close investigation shows this is not the case. Voting shares in the Bank remain divorced from relative economic influence. Before the implementation of 'voice reform', China's share of total votes relative to its share of world GDP was 0.43 while Saudi Arabia had a ratio of 3.86 (in 2009 dollars using the World Bank's 60/40 market exchange rate/PPP formula).[59] In other words, before the reform, Saudi Arabia received eight times more votes per point of world GDP than China. Other highly overrepresented nations included Belgium (2.3), Iran (1.75), Argentina (1.71), the Netherlands (1.65), Sweden (1.41) and Canada (1.18).[60]

Five years after voice reform, the voting power-to-GDP ratio is even more skewed for China. Today, China's ratio has *fallen* to 0.28, America's has *increased* to 0.82 (from 0.71 in 2009), Japan's has *increased* to 1.36 (from 0.93), Saudi Arabia's has decreased to 2.44, and Belgium's has increased to 3.06.[61] In other words, the voting power-to-GDP range has actually *increased* from an eightfold difference in 2009 (comparing Saudi Arabia and China) to a 9.3-fold difference in 2015 (comparing Belgium and China). Voting shares in the World Bank are distributed less proportionally relative to GDP today than they were in 2010 when the distribution was 'reformed' to make it more equitable.

China's voting power in the World Bank is today only one-third of what it should be relative to GDP. Importantly, *this fact is almost certainly not going to change regardless of what the G20 says or as a consequence of marginal World Bank voting power redistributions*. The reason no change is likely to occur is that the World Bank Articles of Agreement guarantee 'pre-emptive rights' on capital increases, allowing any one of the 187 members of the World Bank to veto adjustments. That there was any adjustment at all was a result of the forbearance of China, which permitted 50% of the three points up for redistribution in 2010 to go to other developing countries even though it had the right to them based on its economy heft. (The US also showed meaningful forbearance, but not to such a radical extent.) Without reform of the Bank's Articles, no equitable redistribution of voting shares is possible. But since such a reform requires 100% concurrence,[62] it is inconceivable. As a result, there is simply *no* pathway forward for voice reform in the World Bank.[63]

The situation in the IMF is marginally better.[64] At the end of 2015, the US Congress, after six years of obstinacy, ratified the vote reform that resulted from the G20 consensus at the 2010 Seoul Summit. Six points were up for redistribution, and China gained 2.35 of them; Brazil, India and Russia also made some gains. The US lost nothing in this redistribution, forcing European countries to transfer shares.[65] China's Special Drawing Rights (SDR) quota in the IMF (6.41),[66] calculated according to the same World Bank 60/40 2015 GDP formula, is only 0.4 of its share of global GDP; in contrast, America's is close to 0.9, Japan's is 1.24, Saudi Arabia's is close to 1.8, and Belgium's is 2.55.[67] In other words, the quota distribution (which is mirrored closely by voting power) in the IMF is marginally better than that of the World Bank, but, among these five sample countries, there is still a GDP-to-quota divergence of at least six to one. A further round of reform (the so-called Fifteenth Review of Quotas), which was supposed to be completed by 2017, has been delayed until 2019.[68] Unlike in the World Bank, governance reform in the IMF is actually possible as it requires only 85% concurrence. Even so, this remains highly difficult and, because the US controls more than 15% of the voting shares – giving it a de facto veto – always uncertain. The European position is that European countries will not give up more shares until the US gives up its veto.[69] Similarly, EU diplomats insist that they will surrender the managing director position at the IMF when the US surrenders the president position at the World Bank,[70] a move which remains unlikely given the strong American domestic political imperative to assert and defend the nation's global 'leadership'.[71]

Despite the so-called 'G20ization' of international financial institutions,[72] serious reform ranges from impossible in the World Bank to improbable in the IMF. G20 consensus statements cannot change this fact. Though there are some positive trends, such as Chinese employees of the IMF increasing from 51 in 2007 to 146 (or 4.4% of all staff and contractual employees) in 2015, as well as some high-level positions in the IMF and World Bank going to nationals of developing countries (for China, Justin Yifu Lin being the obvious example), the pace of progress remains slight. In the IMF, for instance, in 2015 the US had 774 employees, or 23% of all staff and contractual employees.[73] Focusing on employee roles further emphasises the disparity: in 2015, only *six* managerial positions[74] in the IMF were held by Chinese nationals;[75] the same number of such positions were held by citizens of Belgium, while the Netherlands held nine, Canada 13, France 15, Italy 19, Germany 28, the UK 38 and the US 66.[76] In short, by managerial composition, the IMF is still basically run by Europeans, Canadians and Americans; in terms of neither voting shares nor employee composition is China likely to achieve a position proportional to its global economic heft in the next generation.[77] Even if the next IMF director is not European,[78] this will be merely a sop in place of actual reform. Tentative optimism that the reforms so far implemented in the IMF and World Bank will 'undercut' China's 'rationale for creating new organizations'[79] is misplaced.

Chinese objectives and the future of the G20

Even though China's strategists and diplomats seem to understand that radical reform is not in the offing, they have not responded with roars of protest. Instead, China has staked out what Ren Xiao has called a 'reform-minded status quo' position.[80] Though China has consistently pressed for reform of the Bretton Woods institutions, it has done so within a context of consensus-based incremental reform.[81] An example of this is China's decision to support Christine Lagarde in the 2011 IMF election, who promised greater inclusion for China, rather than backing a developing-country candidate.[82] True to her word, Lagarde has been a key backer of quota reform, and included a Chinese national as deputy managing director in the Fund (Zhu Min) for the first time. Obviously this can be read as a strategic move: you support the person who can help you the most. But the bigger point is that China seems comfortable playing the long game.

China's 'reform-minded status quo' position can be seen across other intergovernmental institutions. At the World Trade Organization, for example, China has defended the system, participated within it, and supported the development of the (now moribund) Doha trade round, where as of July 2008 it had submitted 100 proposals. Bilaterally, contrary to much of the rhetoric surrounding the Obama Administration's efforts to secure Trans-Pacific Partnership (TPP) ratification, China *has* based its trade agreements on the norms of 'liberalization, non-discrimination, and transparency'.[83] Similarly, as the world's largest recipient of Foreign Direct Investment (FDI), China has signed more bilateral investment treaties than any other state but Germany (130), and has indicated going forward it will use a negative list following the generally accepted international practice.[84] China is not seeking to destroy the international system, and heretofore has remained a patient actor in circumstances any nation would find trying.

Going forward, since Bretton Woods institutions will only be reformed at a turtle's pace, and since the G20 – lacking American and Japanese backing – is not going to be institutionalised, its principal contribution will be to build rapport among leaders, make possible a 'we identity' that minimises international conflicts, and prevent trade-protectionists from setting the global agenda.[85] Without the immediate legacy of a financial crisis (as in 1997 or 2008) or a war (as in 1815 and 1945), consensus within the G20 is unlikely on controversial issues.[86] As the influence of middle powers such as Indonesia, Mexico, Turkey and India expands, the G20 will look even less like a US–EU–China forum and more like a genuinely multipolar organisation.[87] Within this increasingly diverse G20, China will continue to seek a leadership position. It will continue supporting non-G7 members for the rotating presidency (but is likely to support a G7 country if the alternative is Japan receiving the position). China likely sees leadership within the G20 as a way to legitimate its rising power,[88] eclipse Japan's more established positions in the IMF and World Bank, and generate prestige both domestically and internationally.[89]

That being said, China almost certainly understands that the G20, barring some unknown crisis, is not going to become a transformational global institution, and that Chinese efforts within the G20 are not going to produce reforms that overcome what President Xi calls the 'unjust and improper arrangements in the global governance system'.[90] China will continue pushing for institutionalisation of the G20 and reform of other institutions within it, but progress – if even possible – will have to be measured with a time-stamp of decades.

Consequently, as He Yafei has already pointed out,[91] regionalism is the immediate and most pressing concern for China. Regionalism is a *response* to the failure of global reform.[92] Before the Asian financial crisis, East Asia had been developing along a path of 'regionalization without regionalism', as one scholar has put it.[93] The crisis, and the IMF's arrogant response, helped begin a process of regionalism that spanned everything from local currency bond markets to the Association of Southeast Asian Nations (ASEAN) economic community. The 'politics of resentment' vis-à-vis the western-dominated international financial institutions, and the lesson of the global financial and Euro crises – namely that depending on exports to the US and the EU is economically risky, as is solely relying on the use of the dollar for trade invoicing[94] – further deepened regionalism in East Asia.[95] Even so, despite the recent inclusion of the renminbi in the IMF's special drawing rights, the region remains almost entirely dependent on US dollars, and this is not something likely to change soon. Despite much talk within the G20 – including at China's Hangzhou summit – nothing significant has been accomplished in the realm of monetary reform.[96] Going forward, despite recent tightening of capital controls (which seem to follow the two steps forward, one step backward path of Chinese reform),[97] renminbi internationalisation – in which China liberalises and promotes the exchange of its currency, facilitating its use in international trade and investment – is likely to become an ever higher priority for China[98] and a driving interest within the G20 system.

Conclusion

This article has argued that since at least 2014 Xi Jinping has been developing a strategy intended to launch China over the metaphorical crater of the middle-income trap. This strategy is based on an acceptance of globalisation, an insistence on reform, a focus on innovation and a pursuit of regional interconnection. The G20 today has become a forum for China to advertise this strategy, seek allies, generate domestic support, and resist the international protectionism and instability that could interfere with its successful development. Consistent with these objectives, China is eager to play a leadership role within the G20 and to improve the forum's effectiveness by further institutionalising it.

Thus far, this effort has failed. This is not fatal to China's globalisation agenda, but it mirrors China's inability to effectively reform other (more formal) international financial institutions. China has met this outcome with surprising equanimity, looking instead to regionalism to secure its immediate objectives, particularly that of interconnection. Since it cannot move through them, China is moving around the status quo institutions of global investment and governance, putting its money into the AIIB, the New Development Bank, and the Belt and Road Initiative, 'layering' these organisations on top of, and beside, the current international structures.[99] Other new institutions – such as a Shanghai Cooperation Organization Development Bank – are currently being negotiated.[100] These institutions simultaneously allow China to assume a leadership role proportionate to its size and ambition, to invest in something other than US treasury bonds,[101] and to demonstrate that China can rise despite the current unfavourable and unfair distribution of power in international organisations.

A fragmented global system was not China's choice, but if that is the trend of the times, China will adapt. Within the G20, China will continue to push its globalisation and innovation agenda, but unless the other key members of the forum decide to support institutionalisation, China's true focus and creative energies are likely to be increasingly devoted to regional initiatives where it can have a decisive impact – one that promotes globalisation, but at the regional level. And so it is that – for China – stalled global reform is fueling regionalism.

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Notes

1. Xi, "Jointly Shoulder Responsibility."
2. "The New Davos Man."
3. The 'middle income trap', a term coined in 2006 by two World Bank economists, refers to the difficulty countries experience transitioning from 'middle-income' status, which the World Bank (for the 2018 fiscal year) defines as Gross National Income (GNI) per capita of US$1006 to US$12,235, to 'high-income' status, which is income per capita above $12,235. The theorised sources of this growth slowdown differ, but generally the loss of a nation's competitive advantage in cheap manufacturing, along with the simultaneous inability to compete with entrenched competitors at higher levels of value added, is seen as responsible for slowing growth. For recent reviews, see Agénor, "Caught in the Middle?"; Felipe, Kumar, and Galope, "Middle-Income Transitions"; Lin, "Industrial Policies for Avoiding"; Wade, "Industrial Policy in Response."
4. Colomer, *How Global Institutions Rule*, 74.
5. Examples from Wade, "Emerging World Order?," 350. Precise Nixon quote from "Transcript of a Recording," 12.
6. Figures calculated by the author using World Bank (market rate) data.
7. Author's calculation with World Bank data. Wade, "Emerging World Order?," 351, using IMF data at market exchange rates, puts the number at 72%.
8. Kirton, *China's G20 Leadership*, 19.
9. Yu, "G-20 and China," 8.
10. Ibid., 9.
11. Ibid., 12; cf. A. He, *The Dragon's Footprints*, 36.
12. Colomer, *How Global Institutions Rule*, chap. 7.
13. Yu, "G-20 and China," 13; also see Chen, "China's Perspective on Global Governance."
14. Martin, "Global Answer to Global Problems."
15. Kirton, *China's G20 Leadership*, 24.

16. "The Global Economic Summit."
17. Kirton, *China's G20 Leadership*, 32 ff.
18. Ibid., 34.
19. Ibid., 35.
20. Ibid., 37.
21. Ibid., 39.
22. Luckhurst, *G20 Since the Global Crisis*, 225; A. He, *The Dragon's Footprints*, 82–84.
23. Kirton, *China's G20 Leadership*; A. He, *The Dragon's Footprints*. For China's diplomacy in the 2016 Hangzhou summit, see Ren, "G20: Emerging Chinese Leadership."
24. Kirton, *China's G20 Leadership*, 42.
25. A. He, *The Dragon's Footprints*, 41–43.
26. Kirton, *China's G20 Leadership*, 69.
27. Ibid., 79.
28. Figures calculated by the author using World Bank data, 1976 and 2015.
29. "G20 in Figures," slide 3.
30. Ibid, slide 4.
31. O'Neill, "China's 'New Normal.'"
32. Xi, "Seek Sustained Development."
33. "Xi's 'New Normal' Theory."
34. Xi, "Shaping the Future."
35. Xi, "Promoting Innovative Development."
36. Xi, "A New Blueprint."
37. Xi, "A New Blueprint."
38. Wang, "Remarks by Foreign Minister Wang Yi."
39. For example, "G20 Hangzhou Summit Continues."
40. Carin and Ye, "The G20 Preparatory Process."
41. M. Li, "Rising from Within," 24.
42. Luckhurst, *G20 Since the Global Crisis*.
43. Quotations in the preceding two paragraphs from Ying Wang and Li, "China and the G20."
44. Lei Wang and Wang, "G20 Institutionalization."
45. "China's G20 Presidency," 4.
46. A term suggested by one of the article's anonymous reviewers.
47. Rathus, "Japan and the G8/G20."
48. "G20 Leaders' Communique: Hangzhou Summit."
49. Carin, "China and the G20," 20.
50. Liu, "The Role of the G20," 67.
51. Luckhurst, *G20 Since the Global Crisis*; Postel-Vinay, *G20: A New Geopolitical Order*, 14 ff.
52. Eccleston, Kellow, and Carroll, "G20 Endorsement."
53. Bradford, "G20 Hangzhou Summit."
54. Kirton, "Summit of Significant Success." China's conformity with G20 decisions, incidentally, has increased with time, and if the trend continues will soon rival America's. See "The Multilateral Kingdom."
55. Luckhurst, "G20's Growing Political and Economic Challenges"; Bradford, "2016: The Year for Leadership."
56. Y. He, "Proactive Approach to Global Governance," 195.
57. For a similar finding based on different evidence, see Paradise, "Role of 'Parallel Institutions.'"
58. Vestergaard and Wade, "Still in the Woods," 6.
59. Development Committee, "Dynamic Formula."
60. Vestergaard and Wade, "Protecting Power," table 10.3.
61. Calculations by the author according to 2015 World Bank economic data and March 2017 World Bank vote distributions; see World Bank, "International Bank for Reconstruction and Development."
62. "Document 32381 v2" Attachment E Annex.
63. Vestergaard and Wade, "Protecting Power."

64. This section updates Vestergaard and Wade, "Still in the Woods," but with a slightly different GDP formula.
65. Weisbrot and Johnston, "Voting Share Reform."
66. IMF, "IMF Members' Quotas."
67. Author's calculations, April 17, 2017.
68. IMF, "Fifteenth General Review of Quota."
69. Wade, "Emerging World Order?," 366.
70. Author's interview with Antonio de Lecea, Principal Advisor to the Director General of Finance Affairs of the EU. Singapore, April 7, 2017.
71. Wade, "Art of Power Maintenance," 23–29. For further background on the domestic drivers of US foreign policy, see Layne, "US Foreign Policy Establishment."
72. Wade, "Emerging World Order?," 368.
73. This paragraph updates Luckhurst, *G20 Since the Global Crisis*, 237, using IMF, "Annual Report 2015: Diversity & Inclusion."
74. Grades B01-B05: IMF, "Web Table 5.4: IMF Staff Salary Structure."
75. IMF, "Annual Report 2015: Diversity & Inclusion," 59, table 18.
76. Ibid., 60–64.
77. The same is apparently true of the UN Secretariat, where by a Chinese count in mid-2013, the US had four times more senior managers, and the UK and France roughly twice as many, as China. See Chan, "China and Global Governance," 167.
78. In the interview referenced above, Antonio de Lecea predicted that next managing director, to be selected in 2021, will be non-European.
79. Paradise, "Role of 'Parallel Institutions,'" 168.
80. Ren, "Reform-Minded Status Quo Power?"; also see Sohn, "Between Confrontation and Assimilation."
81. Wu, "In the Process of Multi-Polarization."
82. Ren, "Reform-Minded Status Quo Power?," 2033.
83. Harpaz, "China's Coherence", 131
84. This paragraph is based on the evidence presented in Harpaz, "China's Coherence." For a now-dated analysis that found a similar conclusion, see Kent, *Beyond Compliance*.
85. Fues and Messner, "G20: Balancing National Interests."
86. Cooper, Lesage, and Graaf, "G20 and Rising Powers."
87. Andrew F. Cooper and Daniel Femes, "Foreign Policy Strategies of Emerging Powers." Also see Hongsong Liu and Shaun Breslin, "Shaping the Agenda Jointly?"
88. Zhang, "China and the Struggle for Legitimacy."
89. Deng, "Power and Politics of Recognition."
90. Xinhua, "Xi Stresses Urgency."
91. Y. He, "Proactive Approach to Global Governance."
92. To some extent, it is also a response to America's 'pivot' to Asia, particularly the (now moribund) Trans-Pacific Partnership (TPP). See Ren, "US Rebalance to Asia."
93. Quoted in Katada, "In Pursuit of Stability", 2.
94. Kroeber, *China's Economy*, chap. 7, 12, and 13.
95. Katada, "In Pursuit of Stability."
96. Zha, "G20's Institutional Weakness"; Zhou, "Plight of the G20," 129.
97. Hsu, "RMB Internationalization: Are We There Yet?"
98. Wei and Han, "Road to a Great Monetary Power"; C. Li and Zhang, "Renminbi Internationalization in the New Normal."
99. Stephen, "Emerging Powers and Emerging Trends."
100. The State Council Information Office of the People's Republic of China, *China's Policies on Asia-Pacific Security*; Kazinform, "SCO to Strengthen."
101. A. He, *The Dragon's Footprints*, 126–132; 258–259.

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