

China proposals to advance global economic structural reform

By Zhang Qizuo on People's Daily

The underlying explanation for the sluggish world economy can be found in mid-long term structural causes.

Amid such a backdrop, China, as current holder of the G20's rotating presidency, is endeavoring to reap fruits from the Hangzhou Summit in deepening international financial structural reform, by coming up with new solutions for a more efficient global financial governance, transforming the G20 from a crisis-response mechanism to a long-term one and highlighting the G20's leading role in global economic growth and international cooperation.

The world economy is undergoing a slowdown. Eased monetary policies failed to stop the declining growth of developed economies in the second quarter. In the past Q2, the US only saw a 1.2 percent growth, while the EU and Japan witnessed a 0.3 percent and 0.2 percent growth respectively.

Meanwhile, apart from China and India who maintained a relatively stable growth, emerging economies failed to curb their declining tendency.

The above evidence shows that the international financial crisis is still affecting the global economy. As the driving forces invented during the last round of technological and industrial revolution are losing steam, the potential of traditional economic systems and development patterns is fading away.

The 2008 financial crisis also exacerbated imbalances in the global economic architecture after it exposed the structural flaws and systematic risks of the dollar-dominated traditional international financial governance system.

Great changes have taken place in the global economic landscape. However, in the traditional financial governance system, emerging markets and developing countries are under-represented. Their quotas and voting rights in the IMF do not match their growing economic aggregate.

As a result, the traditional system has caused a currency mismatch for emerging markets and developing countries. The negative spillover effect of the QE policies launched by developed countries is therefore transferred to them, resulting in their imbalance of economic structure.

Facing with the long-term structural imbalance of the world economy, the G20 has to transform from the original crisis-response mechanism to one of long-term economic governance.

Since taking over the G20 rotating presidency, focusing on the theme of "Towards an Innovative, Invigorated, Interconnected and Inclusive World Economy," China has identified 9 priority areas and 48 principles in structural reform. It proposed to expand total demand through increasing infrastructure investment and build a new fair international taxation order.

In addition to these efforts, China also reactivated the International Financial Architecture Working Group, drafted a G20 agenda that aims at forging a more stable and resilient international financial architecture.

A series of practical and plausible suggestions on expanding the SDR application; strengthening the international financial security network; accelerating IMF quota and governance reform; ameliorating supervision and management of capital flow; and improving sovereign debt restructuring mechanisms have been put forward by China as well.

As a matter of fact, China is a model in pushing forward structural reform. Its efforts to moderately expand aggregate demand and implement supply-side structural reform based on cutting production capacity, destocking, deleveraging, reducing costs, shoring up weak areas are starting to pay off.

China's GDP maintained a 6.7 percent growth in the first half of this year and its socioeconomic development presented a gratifying momentum, contributing to world economic growth.

With these efforts, China has provided its own proposals for a more efficient global financial governance. Other than increasing the representativeness and voices of emerging markets and developing countries, the proposals also aim to drive economic growth through addressing both symptoms and root causes.

By utilizing fiscal and monetary policies to deal with present challenges, the proposals also hope to increase the mid-long-term potential of world economic growth through structural reform.

(The author is economist and director at the Center for Strategic and Economic Development Studies for G20 and Emerging Countries).