Hangzhou G20 Summit Just fits the opportune moment

By Martin Jacques, Provided by the People's Daily

The forthcoming G20 summit comes at an appropriate moment in the evolution of China's own relationship with the global economy and its governance.

China's formal entry into the global economy was marked by its admission to the WTO in 2001. For more than a decade after that, with economic growth averaging around 10%, trade expanding to the point where China became the world's biggest trading nation, and overseas investment growing very rapidly albeit from a very low base, China chose to take a back seat while learning the ropes of its newly acquired status.

But over the last two years, China has shifted from being a passive player to an increasingly proactive role. Rather than being a follower, it is increasingly becoming a maker and shaper of globalisation. China can no longer be accused of being a free rider, which in any case was always an unfair accusation against a developing country that was a relative newcomer to the global economy. The two most obvious examples of China's new role are the formation of the Asian Infrastructure Investment Bank, which will be overwhelmingly the most institution funding infrastructure in Asia, with a membership drawn from across Asia and Europe; and the One Belt One Road project, which promises to be the most ambitious multinational development program ever seen.

The biggest single problem that China will face as the host and chair of the G20 Summit is that while its global reach is extending and intensifying in a variety of ways – AIIB, OBOR, overseas investment, the expansion of the role of the RMB, and the internationalization of its companies – the growth in international trade and investment has been declining. Even more seriously, there are increasing signs in the West of a popular revolt against globalization. The two most dramatic illustrations of this are the rise of Donald Trump and Bernie Sanders and their argument that globalisation has harmed the wages and job prospects of the American working class. The other example is the Brexit vote in the UK, with 52% of the UK population voting to leave the European Union after 41 years of membership. The central question posed by these developments is whether the dynamic of globalisation is faltering and beginning to fragment?

These trends cannot be brushed aside because they enjoy a deep groundswell of popular support in the US and UK and elsewhere. The problem is not globalization per se but the type of globalization that has been pursued; namely, that large sections of the population in the US and Europe have not benefited, while a wealthy minority have, thereby exacerbating inequality and breeding resentment.

The four topics chosen for the Summit are highly relevant. 'Breaking a new path for growth' is the key problem facing the global economy as growth slows. The most dramatic illustration of the latter is to be found in Europe and the United States. The West has never recovered from the financial crisis and shows no signs of doing so. The EU economy is barely bigger than it was in 2007 and is now facing the almost certain prospect of a lost decade; the United States has done a little better, but its growth rate remains disappointing. The policy response to stagnation has been grossly inadequate in both the US and Europe. They have relied overwhelmingly on monetary policy, and above all quantitative easing, which has singularly failed to revive growth.

The danger facing the global economy is a further decline in growth, stagnation in the West, the weakening of integration and a trend towards fragmentation. It is now clear that the Western financial crisis marked the end of the era of globalization that began around 1980 and ushered in a new period of extremely low Western growth.

The importance of China is that, by global standards, it is still growing very rapidly and remains strongly committed to the importance of globalization and interdependence. It is in a powerful position – by virtue of both its performance and its commitment to globalization – to offer a different model for the future based on growth, co-operation and a different kind of globalization. The West needs to embrace a different policy response, one that recognizes the need to boost effective demand. That cannot be achieved by relying on monetary policy alone. The United States, for example, has a decaying infrastructure which impedes its growth performance. It needs to throw large amounts of money at renewing its infrastructure as it did in the New Deal in the 1930s.

Let me mention in conclusion the second priority identified for the Summit: 'more effective and efficient global economic and financial governance'. There is clearly an underlying and intensifying crisis in this area. You don't need to be Albert Einstein to understand why. There has been a dramatic shift in the center of gravity of the global economy from the developed to the developing world over the last 40 years: in the mid-70s the developed world accounted for two-thirds of global GDP, by 2030 it is projected that figure will be more like one-third. Yet the formal global economic governance structure has changed relatively little during recent decades.

The two most significant developments have been the de facto replacement of the G7 by the G20 and the belated changes in the voting system at the IMF and World Bank. At an 'informal' level there have been far more dramatic changes, notably the formation of the AIIB and the New Development Bank, and the rise of the renminbi as an international currency. One Belt One Road too will prefigure new bilateral and multilateral governance models. These changes are the embryo of a new global economic governance structure that is in the process of creation.

Of course, governance is about power – and the shift in power. The problem with the present formal structure is that it no longer reflects the distribution of economic power in the world. A major consequence of this is that the IMF and the World Bank no longer have the kind of resources – dependent as they are, for the most part, on Western countries and Japan – that are required to fund a much larger global economy, which is increasingly concentrated in the developing world. An obvious role for the World Bank, one might think, would have been the funding of infrastructural development in Asia. But because it is a Western institution, it has neither the resources nor the political will and priority to do this.

Given the state of the West – and the fact that elections will soon take place in the US, Germany and France – it is difficult to see any major breakthroughs taking place at the G20. It has taken nearly a decade for the G20 Summit to take place in China. Given that China (together with a robust Indian growth rate) is presently by far the most positive development in the global economy and that China lies at the heart of the future of the global economy and its governance, the Hangzhou Summit is an historic moment. If China could offer some new imaginative proposals at the Summit, then it could make the Summit a very memorable occasion indeed.