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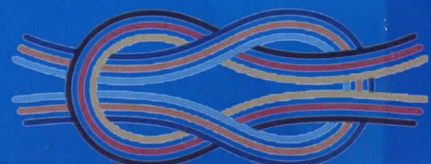
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# The G20 and Global Economic Governance

## G20与全球经济治理

复旦大学国际关系与公共事务学院

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## Abstracts of the Conference Speeches

### From Hangzhou to Hamburg: old partners and new thinking

Sebastian Bersick and Ulrike Solmecke

#### Introduction

The last twelve months brought several, highly unexpected, changes to the study and practice of global politics of which the vote in favor of the United Kingdom exiting the European Union (EU) and the election of Donald Trump as President of the United States of America (USA) stand out. Especially from a European perspective the role of the USA as a linchpin of the liberal international order is changing dramatically. The new US President, in his inaugural address, de facto promised to erode the foundations of the post-World War II global economic governance architecture by declaring: "From this moment on, it's going to be America first" and stating that "protection will lead to great prosperity and strength" (Donald Trump: 2017). The withdrawal of the USA from the Transpacific Partnership (TPP) has been the first example that Donald Trump is willing to and can deliver on this promise. At the same time, the new President's, so far, largely erratic performance leaves practitioners and observers wonder what will come next: a US withdrawal from the North American Free Trade Agreement (NAFTA), the "re-negotiation" of it, or none of both? And what can the EU and its member states expect from the USA when it comes to the trans-Atlantic partnership, especially with regard to the security and economic architectures? While the US President, contrary to an earlier statement, has recently re-decided that the North Atlantic Treaty Organization (NATO) is not "obsolete", the fate of the further economic integration of the USA and the EU via the Transatlantic Trade and Investment Partnership (TTIP) is in limbo. The same applies to an effective international climate policy. Unlike his predecessor Barack Obama who unambiguously declared his support for international climate protection policies and, in particular, for the Paris Agreement, President Trump primarily rates climate protection as an obstacle to an economically strong USA. The withdrawal of the Trump administration from climate policy objectives threatens to weaken international efforts to combat global warming. These are current examples for unprecedented developments that not only put into question the value of old certainties but also the reliability of old partners.

As the level of uncertainty around the world is increasing so is the need for collective problem solving. The new quality of the related change to the international system becomes even more evident when Asia, and its arguably most important actor China, is taken into the picture. In a moment of time when a President of the USA proclaims the merits of protectionism in his inaugural address, the President of the People's Republic of China, on

the occasion of the World Economic Forum in Davos, not only calls for an open and liberal global economic order but also proclaims China's interest to "vigorously foster an external environment of opening-up for common development." (Xi Jinping: 2017) China's readiness to engage in global economic governance has increased over time and can best be observed in the context of the G20. While China firstly enacted, what can be called "focused leadership" until the Los Cabos G20 Summit (Bersick/Gottwald 2013), Beijing's interest in a G20 presidency and the results of the 2016 Summit in Hangzhou demonstrate China's increasing role in issues of global economic governance (Hangzhou Interim Compliance Report: 2017).

The ongoing changes to the international system do have important implications for the upcoming G20 Summit in Hamburg. In its "Priorities of the 2017 G20 Summit" the German government is emphasizing three main broad topics, i.e. "building resilience", "improving sustainability" and "assuming responsibility" (Bundeskanzleramt 2017). As we argue in our paper, it is time for China and Germany to play more assertive roles by increasing their cooperation in the G20. We exemplify this need for issue-specific co-leadership by focusing on the topic of climate change which is explicitly related to the Hamburg Summit priority of "improving sustainability" and its aspect of "protecting the climate and advancing the sustainable energy supply" (Bundeskanzleramt 2017: 8). New thinking and leadership in global economic and climate governance is needed to tackle the tension between economic growth and climate change.

#### **China's role in global economic and climate governance**

China's growing political and economic importance on the international stage has generated increasing expectations regarding its contribution to cope with global challenges. The international community formulates these expectations with regards to two fields in particular. They concern the sluggish worldwide economic growth and global climate protection. Since 2009, in the aftermath of the global financial crisis, the G20 served as a forum to redefine the framework conditions for a more crisis-resistant and risk-averse financial and economic system. China was accorded a central role in this process, namely as a driving force for renewed worldwide economic growth. Although the Chinese economy was hit by the crisis due to its export bias and a decline in FDIs, China's financial system provided a good starting basis for generating strong stimuli to revive the international economy. Against the background of low public debts and comparatively strongly regulated financial markets which had survived the financial turmoil without serious damages the Chinese government could launch several stimuli packages and encourage investment spending at the local level.

In addition to China's importance for the international economy external expectations extend to another core global problem: Since China is the emitter of nearly one third of global emissions restricting climate change efficiently without China's active commitment will prove futile. The pressure on the Chinese leadership to enhance China's participation in the fight against climate change consequently increased over the last two decades - in parallel with rising Green House Gas (GHG) output. Here again, China accepted the role the

international community expected it to play (NDRC 2016). As the first and only emerging nation the country committed itself to a peak year concerning CO<sub>2</sub> emissions thereby acting as a role model for the G77. Moreover, and beyond its pledges in the Intended Nationally Determined Contributions (INDCs), China held out the prospect of assuming an even more proactive role in the fight against climate change. In a joint statement, issued in November 2014, President Xi Jinping and President Barack Obama pledged themselves to take the lead in climate protection in the run-up to the Paris conference in 2015.

The adaption of both roles - with regards to economic as well as to ecological issues - are in line with domestic necessities and the claims of national political and social forces: Despite a decreasing efficiency of poverty reduction by a supply-oriented economic policy substantial growth is still seen as the prime instrument in the combat against poverty in China. A strong role in the international economic system, especially in the G20, which helps the Chinese economy not to lose momentum, is therefore deemed as desirable for China's overall development.

However, accelerating environmental and climate-related problems that have arisen from the growth-oriented economy of the last decades increasingly affect the quality of life within China. Improving the living environment of the Chinese population has therefore also become an integral part of maintaining the legitimacy basis for the Chinese government. The same applies for keeping global warming within acceptable limits as China will be among those countries suffering most from climate change impacts. How vital this aspect has become is clearly reflected in recent surveys which show that the Chinese public by now attaches a higher value to an intact environment than to economic growth (World Values Survey 2016: V 81).

Although both roles thus seem to correspond to domestic as well as to external expectations fulfilling them at the same time creates a tension field between economic and ecological objectives that is often difficult or even impossible to reconcile (Solmecke 2017). Conventional growth paths have created a number of dependencies that impede a necessary rapid transformation to sustainable consumption and production methods to a considerable degree and often result in a focus on solely economic objectives. The global financial and economic crisis after 2007 has significantly added to this bias. And although China makes a significant contribution to climate protection by its willingness to actively support the Paris Agreement (He et al. 2016) its input remains less ambitious than would be possible (Green and Stern 2017). In particular, the planned reduction of CO<sub>2</sub> emissions is efficiency-related and does therefore not imply an absolute cap. In addition, the measures promised in the INDCs do not reflect a clear potential to realize the promised emission reductions while maintaining the expected economic growth rates.

The objective of the Paris agreement to limit global warming to below 2°C nevertheless only leaves as small time frame to reach climate targets: To keep climate change within secure limits the global CO<sub>2</sub> output has to be limited to 750 billion tons until 2050. Even based on the current level of emissions this budget will already be used up in about twenty years. In total, the global energy systems will have to be largely decarbonised by the middle of the century (WBGU 2011: 2). What is more, the voluntary pledges made by currently 144 countries within the Paris Agreement are not going far enough to reach these aims. This

means that the international community has to agree on more and further-reaching measures on climate change. The resulting necessity to fundamentally change economic and social structures requires strong and proactive players willing to put a clear focus on ecological goals. In this situation the rhetoric of the new US administration indicates a withdrawal from the international liberal trade order as well as from global climate protection creates a vacuum of responsible actors - in the economic as well as in the climate field at the same time. Thus the task to create a sensible balance between these two fields which involves assigning clear priority to the ecological carrying capacity (Rockstroem et al. 2009) needs new leading alliances. The last months have witnessed increasing expectations toward China to assume an even greater role in the economic as well as in the climate field - as a driver and facilitator of a further intensification of international economic relations and as a leader in climate negotiations. Two of the most fundamental questions in this context relate to (1) the willingness and assertiveness of the Chinese leaders to change the balance between global economic and ecological issues in favor of the latter and (2) where China can find adequate partners in tackling this challenge.

#### **Germany as a partner in climate protection**

The EU has already affirmed its view that the withdrawal of the US administration from climate protection requires increased commitment from the global community and that the EU with its ambitious climate plans, but also as the largest producer of GHG emissions besides the USA and China, plays a key function within the framework of these efforts (EU Global Strategy 2016). China and the EU look back on a long tradition of bilateral and multilateral climate cooperation launched for ecological, economic as well as for security reasons (Bo, Biedenkopf and Chen 2016). Within this cooperation Germany plays a crucial role: Germany's commitments in climate change negotiations in recent years already entailed a central function for the German government as an agent for change in promoting a transformation to a low carbon economy of the EU.

Germany's plans for an energy transition ("Energiewende") with its foundation laid in the energy concept of 2010 (BMWi 2010) was a strong signal that Germany was willing and able to take the lead in driving forward a change to sustainable energy supply (Morris and Pehnt 2017). The joint Intended Nationally Determined Contributions (INDCs) of the EU (2015) aim at a reduction of 40 percent by 2030 compared to 1990. Hereby, Germany makes an essential contribution to achieving the EU goals by committing to a reduction of 40 percent until 2020 and 55 percent until 2030 compared to 1990. Berlin further aims at reducing GHG output by 70 percent until 2040 and 80 to 95 percent until 2050 compared to 1990. The German government thus took the lead in facilitating ambitious climate protection plans of the EU. If the EU filled the leadership gap for strong climate protection caused by the new US government, Germany would therefore be in a position to play a prominent role within a new "climate axis" between China and the EU. Germany, like the EU, can already look back on a rich experience concerning climate cooperation (e.g. Sino-German Climate Partnership<sup>1</sup>).

<sup>1</sup> See: <https://www.transparency-partnership.net/sino-german-climate-partnership>

However, Germany is caught between the same conflicting priorities as China: Climate protection is, unquestionably, a key policy field. The leadership role Germany plays is not only assigned to it by other countries. The first monitoring report (Schönthaler et al. 2015) illustrates that rigid climate protection is also in Germany's own interest as the impacts of climate warming are already becoming noticeable in many sectors of the economy and are expected to worsen considerably over the next decades. This applies, for instance, to agriculture, healthcare, cities and water management. Yet, at the same time Germany is perceived as a strong economic power. External as well as internal forces expect Germany as the EU's strongest economy to act as an economic motor and an anchor of stability - for the domestic economy as well as for the EU and the global economy (Sachverständigenrat 2016). The conflict between economic and ecological goals has become clear lately when the German administration struggled for an agreement on its climate protection plan (BMBU 2016) in the run-up to the UNO climate conference in Marrakesh 2016. Economic objectives diluted rigid climate targets. Interim goals for CO2 reductions in economic sectors such as transport, industry, agriculture and construction were removed from the document and are no longer quantified. The same applied for a power consumption reduction target of 20 percent until 2030, the aim to expand the share of renewables faster and the promise to consider price increases for fossil fuels etc. (BMBU 2016). Furthermore, the formulation of exit strategies for coal, now without start date, is left to a separate commission. The reduction objective until 2020 will be difficult to reach on the basis of the drafted document. As an international leader in the combat against climate change Germany has de facto lost credibility.

#### **The G20 as a forum for building new climate partnerships**

The G20 Summit in Hamburg is an opportunity to strengthen national and international priority setting in favor of climate goals, if a new "climate axis" between the EU/Germany and China can get traction. The Chinese government laid a solid foundation for a more extensive integration of climate issues into G20 negotiations during the G20 Summit in Hangzhou last year. To pursue this process during the G20 Summit in Hamburg would now require an intensified cooperation between the EU/Germany and China, especially against the background of the new US rhetoric and policies. How the new US administration threatens to change priorities in the G20 already became evident during the G20 meeting of the finance ministers and central bank governors in Baden-Baden in March 2017. The final communiqué (2017) solely focuses on economic growth objectives and, due to the opposition on the US side, does not even mention climate change issues. This is a significant step back compared to last year's meeting of the G20 finance ministers and central bank governors. The final communiqué (2016) contained a clear commitment to the importance of climate protection. What is more, climate protection became a recurring key issue throughout the Hangzhou Summit. However, a dynamic economy - and not efficient climate and environmental protection - remains at the centre of the G20 process. Therefore, the needed rebalancing of priorities towards a stronger emphasis of climate protection requires considerable re-thinking by the states involved.

One of the most urgent test cases with regard to a rebalancing of priorities will be the

phasing-out of coal as a major CO<sub>2</sub>-intensive energy source. So far, exit strategies are implemented only very tentatively as coal is, in many countries, one of the most commonly used and most cost-effective energy resource. This applies to Germany as well as to China. With a total of 40.3 percent Germany's energy mix still includes a substantial share of coal, namely 23.1 percent lignite and 17.2 percent hard coal. Despite available alternative capacities of gas the German power supplies rely mainly on coal to offset bottlenecks in the absence of sun light or wind. The main reason for this is the much higher gas price that would generate additional expenditures of about 14 Euros per ton or, projected for one year, 1.1 billion Euros. Yet, the CO<sub>2</sub> savings potential, if gas instead of coal would be used in the electricity sector, is remarkable: Nearly a quarter of the total emissions could be avoided. Coal power plants are not only more CO<sub>2</sub>-intensive, as the running up and shutting down procedures are complex they are also normally continually operated. Surplus energy, having been on the rise against the background of increasing shares of renewables during recent years, is exported to the neighbouring countries. Long-term compensation costs for the climate damages of the present usage of coal causes will amount to approximately 40 to 120 Euros per ton that could be avoided by changing the merit order of power sources. Although these significantly outweigh the short-term expenditures for the conversion of the power generation system, Germany remains on conventional supply pathways although studies show that exit strategies do exist (Oekoinstitut and Prognos 2017). Phase-out scenarios provide opportunities for parting from lignite and hard coal until 2035 and thus open immense opportunities to reduce emissions. However, as already illustrated based on the example of the German climate protection plan for Marrakesch, concepts for a phasing-out remain vague. In addition, the foremost task, at least to terminate subsidization of coal, is not tackled systematically. Although hard coal subsidies will run out in 2018 and lignite is not directly subsidized, derogations, tax privileges and the remediation of former mining sites result in immense indirect subsidies for German lignite. In total, these indirect subsidies amount to approximately two third of the real costs (Wronski and Fiedler 2015). Abolishing indirect subsidies remains a heavily contested political topic in German domestic politics.

With a share of 68 percent (The World bank Indicators 2017) China is still heavily dependent on coal. However, under the 13th Five-Year Plan (FYP), the Strategic Energy Action Plan (2014-2020) and the Energy 13th Five Year Plan (2016-2020) massive investments in renewable energy and the scaling back of inefficient coal power plants are envisaged. While the share of non-fossil fuels will reach 15 percent, the plans include the aim of curbing the coal share to 58 percent and capping its consumption at around current levels, namely 4.1 Gt. In order to reach this goal, production capacities of around 150 million tons are due to be closed and the construction of coal power plants will be suspended (NEA 2017; Yang 2016). Against rapidly increasing per capita emissions and a just as quickly deteriorating air quality the improvement of breathing air via the parting from coal is a priority in the FYP (Zhu 2015). Altogether, under the 13th Five-Year Plan CO<sub>2</sub> emissions are projected to grow by approximately 2.1 percent (Sussams 2017). While this is a substantial slowdown from 5.4 percent between 2005 and 2014 (Sussams 2017) and GHG emissions have been declining at the latest since 2013 (Green and Stern 2017; Hu 2017) it does not imply a successful long-term decoupling of economic growth from emissions that is sufficient to reach global climate targets. Efficiency gains might be easily achievable as long as the technical potentials

for improvement during the next years or even decades for China are still enormous, the example of industrialized countries illustrates, however, that decoupling effects are limited in the long run. This applies for example also to Germany where emissions started to increase again lately. Sources of inefficiency in the Chinese coal sector such as overinvestments in capital and labour supply are only reluctantly tackled on the local level. And – similar to the German case – subsidies of coal energy, especially for households, remain a major obstacle on the way to decarbonisation in China as they result in high consumption rates (Lin and Liu 2016; Liu et al. 2016).

In addition, although the Chinese leadership's strategies have started to show substantial successes within the national boundaries (He et al. 2016), these are curtailed by China's external investment concepts (Solmecke 2016). Substantial funding of overseas coal significantly contributes to a further expansion instead of a reduction of coal-dependent power (Hervé-Migucci and Wang 2015) on a global level. The coal problem is thus only de-nationalized. About "18 billion USD could approximately be taken away from the international coal market" (Hervé-Migucci and Wang: 17) if China would cut its finance in this sector.

The globalisation of investment opportunities thus makes national measurements of emissions only partially meaningful. New guidelines of the so-called "impact investment" (UNEP 2017) aim in the direction of a fundamental shift for globally effective energy strategies but have hitherto only achieved initial effects. They try to promote value-based investment guidelines and channel investments into non-polluting projects. Multilateral banks like the Asian Infrastructure Investment Bank (AIIB) have already integrated these guidelines to some extent (AIIB 2016; Zhang 2016), promoting at least low investments in coal (AIIB 2016: 7). However, this engagement so far still remains far from enough. Individual banks, such as the German Commerzbank, have recently gone further, when it issued a new guideline in 2016 that excludes the financing of coal mines and power plants in new projects (Commerzbank 2016).

## Outlook

As the world's leading economies the G20 members have an 80 percent share in worldwide GDP and of even 90 percent in world trade (The World bank Indicators 2017). At the same time, they are responsible for 74.9 percent of worldwide GHG emissions. From 1990 to 2013 their total GHG output has increased by 56 percent (Burck et al. 2016). And against the backdrop that the G20 member states' INDCs are still far from what is necessary to meet the 2°C goal it becomes obvious that the tension between the necessity to secure a safe ecological living environment and economic growth objectives is particularly profound (Dong 2017).

Yet, despite a plethora of national and international efforts that were launched to combat climate change, in particular during the last decade, GHG emissions do not fall rapidly enough so as to fulfill climate targets. Therefore, even if a partial decoupling of economic growth and current GHG output is possible, it will not replace the need for a profound reform of the fossil fuel based economic system (UNEP 2016). This applies to Germany

where possibilities of technological progress in conventional energy systems have largely been exhausted as well as to China where inefficient technology use currently still leaves sufficient room for swift successes in this regard.

The dilemma posed by the simultaneous need for economic growth and climate protection thus continues to shape both China's and Germany's room of manoeuvre with regard to economic and climate change governance. In order to confront the resulting challenges for policy making in the G20, strong new partnerships are needed. In view of the current US administration unilateral disengagement from multilateral institutions of governance China, Germany and the EU should take a lead as old partners that promote new thinking which helps to strengthen and to priorities the protection of the global climate.

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