



A development agenda for China's G20 Presidency

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Abstract

This briefing proposes a potential G20 development agenda for the year ahead in the context of Chinese President Xi's stated focus on improving global economic and financial governance, and promoting inclusive and interconnected development. That agenda should include: capitalising on China's specific leadership value; promoting economic transformation and better global governance; financing sustainable development; infrastructure; tackling climate change and eliminating fossil fuel subsidies.

1. Introduction

The events of 2015 will shape the development agenda for the coming decades. The quartet of the Addis Ababa Financing for Development Conference, the United Nations Post-2015 Summit, the UNFCCC Paris Conference of the Parties (COP21) and the Tenth World Trade Organisation Ministerial Conference – replete with increasingly complex conclusions, transformational aspirations and ambitious commitments – rightly set a high bar for success.

Enter China as G20 President.

If any country has the credentials to spearhead global efforts to respond to the challenges set out by these conferences, it is China.

China is currently living development in a unique way. The world's largest economy, defined by purchasing power parity (PPP), lifted more people out of poverty, in absolute terms, than any other country between 1990 and 2005, accounting for more than 75% of global poverty reduction.¹ Despite not being a formal member, China is the de facto leader of the developing countries' Group of 77 at the UN, both because of its political and economic influence and as an exemplar for its peers. China is also an increasingly active development partner through its development cooperation with Southern partners and capitalisation of the Asian Infrastructure Investment Bank.

As G20 President, China will lead the premier forum for global economic and financial cooperation. The G20 brings together the world's major advanced and emerging economies, representing around 85% of global Gross Domestic Product (GDP), 80% of world trade and two-thirds of the world population.² The G20 has been particularly successful in confronting crises. Alongside its members' sheer proportion of global political and economic power, it reacted swiftly to the 2008 financial crisis. Moreover, the G20 has committed itself to taking action on development in the Seoul Development Consensus.³

China assumes the G20 Presidency just as the Paris COP begins and the Millennium Development Goals (MDGs) are succeeded by the Sustainable Development Goals (SDGs). The Paris agreement will complete the round of 2015 conferences establishing global development ambition. The world will then look expectantly to China to use its G20 Presidency to do something about it.

This briefing presents a potential development agenda for the year ahead in light of China's leadership of the G20 and the coming challenges. ODI researchers offer

some ideas to inform the development component of Chinese President Xi's theme of 'building an innovative, invigorated, interconnected and inclusive world economy' and particularly the focus on 'improving global economic and financial governance... and promoting inclusive and interconnected development'.⁴

We consider action under five broad headings: capitalising on China's specific leadership value; economic transformation and global governance; financing sustainable development; infrastructure; climate change and fossil fuel subsidies.

2. China as leader

China made **remarkable domestic achievements** in the period covered by the MDGs. Its per capita income increased from \$200 to \$1,000 between 1990 and 2000, and again from \$1,000 to \$5,000 between 2000 and 2010 – making China a middle-income country (MIC). Indeed, between 1990 and 2005, China's progress accounted for more than 75% of global poverty reduction⁵ and is the principal reason for achieving the MDG to halve extreme poverty.

This success was due to a combination of a rapidly expanding labour market, driven by a protracted period of economic growth, and a series of government budgetary transfers such as the urban subsidy and the introduction of a rural pension.

2016 marks the start of the SDGs and, by coincidence, the beginning of China's next five-year plan. The current economic and social five-year plan (the country's twelfth) aims to eliminate *all* poverty by 2020 – ten years earlier than the SDG poverty eradication target. It seems likely that this goal will be reiterated in the version to be agreed by the Chinese Communist Party's Central Committee in the first quarter of 2016.

The country's stunning success in reducing poverty and high ambitions for future national development should be celebrated and replicated. The G20 Presidency is an opportunity to **showcase how China has lived development**, enhance development cooperation between developing countries, and demonstrate how ambitious national implementation plans can contribute to the global effort to achieve the SDGs. Early action to share expertise and evidence of what can be done would be a fitting way for China to show leadership and could kick-start the ambitious domestic implementation strategies that other countries must adopt in order to achieve the SDGs.

1 Report on China's Implementation of the Millennium Development Goals (2000–2015), Ministry of Foreign Affairs, People's Republic of China/United Nations System in China, 2015.

2 <https://g20.org/about-g20/>

3 <https://g20.org/resources/>

4 President Xi as quoted in 'China to host 2016 G20 summit amid high expectations', Xinhua news agency, 16 November 2015.

5 Report on China's Implementation of the Millennium Development Goals (2000–2015), Ministry of Foreign Affairs, People's Republic of China/United Nations System in China, 2015.

One idea is that China could convene a high-level meeting on what countries, including its Southern partners, require to achieve the SDGs, and a development ‘expo’ to share expertise.

China is playing its part in global development through its investments, trade and other forms of international cooperation. But it has yet to assume its rightful **leadership role in the international debate**. On climate change, the US–China Joint Announcement on Climate Change and Clean Energy Cooperation, and China’s announcement that it will launch its own carbon market, has opened up space for progress. China has also committed to spend \$3 billion to support climate action in developing countries. However, China was largely silent in the Financing for Development negotiations. It is time for China to lead on the basis of its own experience as a developing country and so fulfil its global responsibility. For example, the G20 should reflect on the next steps for financing the SDGs after the Addis Ababa Conference, and consider its role relative to the Global Partnership for Effective Development Cooperation (GPEDC). The G20 could meet alongside the next GPEDC Ministerial in Nairobi to start that conversation. These could be early elements of the action plan that leaders committed to at the 2015 G20 Antalya Summit to align its work with the SDGs.

The sheer size of China’s reserves, estimated at just under USD4tr, according to China’s State Administration of Foreign Exchange, gives it significant economic and financial leverage. A further deepening of its financial system and liberalisation of its capital account will increase **China’s**

clout in the international financial system, especially since liberalisation is likely to lead to increased transactional and reserve use of the Renminbi. This would challenge the dominance of the US dollar and dollar dependence in many developing countries. The Renminbi was included in the International Monetary Fund’s (IMF) basket of special drawing rights (SDRs) on 30 November 2015, just as China assumed the G20 Presidency.

Under China’s G20 leadership, the BRICS (Brazil, Russia, India, China and South Africa) grouping has an opportunity to increase its influence, particularly since it has yet to develop a unified voice for greater representation in international institutions. It can do so only by adopting a more coherent position on global economic governance. For example, IMF governance reform to include the BRICS and other emerging economies has fallen short of expectations. Chinese leadership to promote greater inclusion of emerging and developing economies could unblock the impasse, particularly given the presence of the BRICS New Development Bank and the Asian Infrastructure Investment Bank.



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3. Economic transformation and global economic governance

In most countries growth remains jobless, uneven and fragile, despite the global efforts and repeated G20 commitments to ensure that it is balanced, inclusive and sustainable. Inequality between countries was repeatedly highlighted as unacceptable at the 2015 Antalya Summit, as G20 members again called for urgent implementation of much-needed reforms.⁶ Economic transformation and global economic governance should be cornerstones of the G20's remit⁷, but much remains to be done.

Economic transformation

Economic transformation is critical to achieving the type of growth that leads to poverty reduction. It is thus instrumental in achieving the SDGs, because it leads to more equitable income distribution, can withstand price shocks and price cycles, and increases the opportunities and options for future economic growth (te Velde 2012).

The **quality of global growth** matters in view of the hesitant and jobless recovery of the global economy. Angel Gurría, the OECD Secretary General, emphasised this at the Antalya Summit when he asked, 'how can we have a global economic recovery with productivity growth declining, or even negative in certain regions?' Turkey's Deputy Prime Minister underlined that growth should not be sought at all costs and that the failure to address climate change and income inequality between countries will create significant environmental and social problems. As a late industrialising economy and the world's largest developing country, China is well placed to lead in the following:

- **A breakthrough in private sector engagement** to meet the SDGs. A focus on economic transformation involves understanding the determinants of growth and productivity at the micro, firm and macro levels. This entails knowing how to shift resources to higher-value uses and diversify a country's productive capabilities, including its exports (te Velde 2012). This will require new models and frameworks to 'tip' the resource and skill base towards achieving sustainable development.⁸
- **A G20–LIC (low income countries) information hub** on economic transformation would be significant in achieving change. The hub would enable countries to share 'best practice' in adopting 'highest growth impact' commitments, as well as facilitating growth strategies to better absorb financial shocks. This would help to

achieve the goal of a 2.1% rise in G20 growth by 2018 and boost productivity in regions where it is falling and even negative.

- **Renewed focus on multilateral trade facilitation** is needed given the trend in global trade growth. The last five times global trade growth dropped below GDP growth, a slowdown in global growth followed.⁹ Structural reforms to support global consumer demand and stabilisation funds to protect the terms of trade for LICs will be important, especially the latter since roughly half of the slowdown in trade was in the petroleum and hydrocarbon sectors, according to the IMF. China's promotion of deeper and increasingly liberalised financial sectors (including its own) will be a key step in facilitating trade and investment flows.

Better global governance

China has stated that it would like the G20 to move away from crisis management to more thoughtful long-term global economic governance. This requires a **new kind of engagement with the financial sector** in order to change the nature of risk-taking and cross-border investment that drive financial shocks. It can do so in four ways:

- **Incentivise the financial sector in new ways.** There are two pivotal reforms on this front. First, lengthening the time horizon for assessing investment returns. A shift to the longer term would avoid short-term speculation and destabilising capital flows. Second, making management bonuses dependent on both global and financial goals, including the SDGs, as a means to shift incentives.
- **Broaden national monetary policy mandates.** In promoting better global governance, it is crucial to monitor spillover from national monetary policies, which has become a 'blind spot'. As the Bank for International Settlements advocates, a more thorough analysis of cross-border spillovers should be systematically incorporated into setting national monetary policy. Alongside this, a key challenge for China will be to regulate the rapid growth of non-bank financial intermediaries, such as shadow banking and asset management firms.

The G20's reference to a global framework for the restructuring of sovereign debt is encouraging, as are plans for an IMF global financial safety net assessment and proposals for scenario analysis. But there is broad systemic

6 Antalya Accountability Assessment, G20 Framework Working Group. Available from: <http://g20.org/>

7 See Papadavid, P. 'G20: Governance and Economic Transformation Key for SDG Success'. Available at: <http://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/9946.pdf>

8 T20 Conference notes, Papadavid (2015)

9 OECD Secretary General Angel Gurría, T20 Conference notes, Papadavid (2015).

risk, with the threat of a triple crisis ahead. The triple crisis of higher US interest rates, lower commodity and oil prices and a slower Chinese economy. During its leadership, China should announce scope for a **new financial regulator to control particular types of risk-taking behaviour**.

This would help the G20 consolidate its status as a key forum for global economic governance rather than simply responding to crises.

- As global monetary policies become increasingly divergent and stimulate a reallocation of capital to the USA, it is of paramount importance to safeguard liquidity in fragile LIC economies. There is a need for a **long-term shock facility**, or a new augmented contingency reserve arrangement. This is important at a time when domestic reserves in developing countries and emerging economies have been falling, according to the Antalya Accountability Assessment.



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4. Financing for sustainable development

Development finance has been on the agenda at several recent G20 meetings. The Turkish Presidency included several areas of finance as priorities for the G20 Development Working Group, including financial inclusion and domestic resource mobilisation. Now the **Addis Ababa Action Agenda** has been agreed, the G20 should reflect on the role it could play in mobilising development finance.

China is well placed to offer leadership since it is increasingly important in financing development. Forthcoming ODI research shows that China accounts for an overwhelming share of external flows to developing country governments, other than Overseas Development Assistance (ODA) (Greenhill et al., forthcoming). Chinese support is particularly valued due to its speed, flexibility and alignment to national priorities in the recipient country, especially in infrastructure.

Investment was a key focus of both the 2014 Australian and 2015 Turkish Presidencies. G20 Finance Ministers and Central Bank Governors have recognised that monetary policy alone cannot lead to balanced growth. Tackling investment and infrastructure shortfalls is seen as crucial to promoting growth and productivity and creating jobs (Sainsbury 2015). About 25% of the G20's comprehensive growth strategies are **investment pledges**, and each G20 member state prepared an investment strategy for Antalya

(Sainsbury 2015). China will now preside over the monitoring and implementation of those strategies and should report on which pledges have been honoured.



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5. Infrastructure

The Addis Ababa Action Agenda committed to launching a new Global Infrastructure Forum (GIF), building on and better coordinating existing initiatives. The aim is to enable a wider range of voices to be heard, particularly from developing countries (UN-DESA 2015).

The G20 hosts the G20 Global Infrastructure Initiative and associated Hub launched under Australia's Presidency in 2014. The focus of China's work on infrastructure should be to ensure the **Global Infrastructure Initiative works for developing countries** and plays a central part in the GIF. China, which has significant experience in funding its own infrastructure and is a valued funder of infrastructure in other developing countries, is eminently qualified to lead on the next steps.

Actions China could take during its G20 Presidency to promote more and better investment in infrastructure include the following:

- **Address the barriers to pension funds investing in infrastructure.** China can take a lead in addressing the apparent paradox in financing infrastructure, whereby low interest rates and a glut of global savings coexist with enormous unmet infrastructure investment needs. This is likely to require a shift in the way infrastructure is presented to investors: from bridges and power stations to an asset class with a risk profile that can be traded.
- **Establish mechanisms to measure the effectiveness of project-preparation facilities.** In the past decade there has been a proliferation of project-preparation facilities set up to address what is perceived to constrain private financing of infrastructure: the lack of bankable projects, but there is little evidence on whether such facilities are working. A common strategy should be developed to ensure that such facilities are effective in supporting projects through to financial close, and to measuring implementation on a comparable basis across the different facilities in order to promote learning.
- **Ensure the infrastructure hub promotes lesson learning on 'good enough' practices for infrastructure**

development. Experience has shown that exporting approaches taken by OECD countries to LICs rarely bears fruit. China is a leading example of a country that has piloted incremental changes to its planning and development of infrastructure. This experience may offer more valuable lessons than seeking to transplant so-called ‘best practice’. The experiences of countries with a record of substantial investment in infrastructure should be documented and shared so that other LICs and MICs can learn from them.

- Investigate **innovative modes of providing infrastructure** that mitigate institutional weaknesses. Achievement of the SDGs means that the construction and maintenance of assets cannot wait until countries adopt OECD-level institutional frameworks. A growing number of innovative contractual forms exist to promote infrastructure, even where national governance frameworks are likely to remain weak. A flagship G20 report on this issue could encourage diffusion of innovation across developing countries and emerging markets.

- Develop **guidance for governments on how to make the most of reforms taking place in the multilateral development banks (MDBs)**. Recent revisions to procurement regulations could change how MDB-financed infrastructure is developed, but governments need to understand how they can use the new regulations to accelerate project implementation and achieve results.



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6. Climate change and fossil fuel subsidies

At the Antalya Summit, the G20 committed to work for a successful outcome at COP21 in Paris, in the form of an agreement that is ‘fair, balanced, ambitious, durable and dynamic’ and ‘reflects the principle of common but differentiated responsibilities and respective capabilities, in light of different national circumstances’. In 2016, the G20 should reflect on whether the Paris agreement achieved this, and what further action they should take to **ensure effective implementation of the Paris agreement**, particularly in the areas of mitigation, finance and technology, infrastructure, and that it promotes inclusive and interconnected development.

The G20 climate finance work stream would seem to be an appropriate vehicle for this broad work. More specifically, the G20 green finance work stream should make progress on how the regulation of banks might be reshaped so that green investment is the new business to be in, and better articulate the risks of more conventional investment strategies. China could also use the G20 infrastructure working group to push G20 members to ensure that national infrastructure policies are climate resilient, take low emission approaches and are consistent with the Paris agreement.

Every year since 2009 the G20 has reaffirmed a commitment to ‘rationalise and phase out inefficient **fossil fuel subsidies** that encourage wasteful consumption’.

In 2016 the G20 needs to go beyond reiterating such general commitments and actually deliver. It should set a clear timeline for the full phase-out of all fossil fuel subsidies by 2025, starting with the elimination of all subsidies for fossil fuel exploration and coal production and consumption by 2020. This is necessary in order to achieve G20 short- and long-term commitments regarding climate change. In the interim, it should also be more transparent and adopt consistent reporting on all fossil fuel subsidies.

At Antalya, the G20 also reaffirmed commitment to the G20 Principles on **Energy Collaboration**, and endorsed the 'Energy Access Action Plan: Voluntary Collaboration on Energy Access'. Progress in expanding access to electricity should be reviewed in the context of global efforts,

with consistent and transparent reporting on outcomes and impacts. The G20 should also extend energy sector collaboration to include renewable energies, particularly in the areas of technology research and development (R&D).



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7. Conclusion

Taking these elements in the context of President Xi's stated focus on improving global economic and financial governance, and promoting inclusive and interconnected

development, a development agenda for the Chinese G20 Presidency could be articulated as follows:

Improving global economic and financial governance

1. Economic transformation – improving the quality of growth

- Facilitating a breakthrough with the private sector to support SDG achievement
- Launching a G20–LIC information hub on economic transformation to help enhance the quality of growth
- A renewed focus on multilateral trade facilitation

2. Better global governance – promoting a new kind of engagement with the financial sector

- Incentivising the financial sector in new ways
- Broadening national monetary policy mandates
- Announcing scope for a new financial regulator to control particular types of risk-taking behaviour
- Launching a long-term shock facility or a new augmented contingency reserve arrangement

Promoting inclusive and interconnected development

3. Sharing China's own development success and providing global leadership

- Showcasing how China has lived development and sharing lessons
- Asserting leadership on international finance

4. Financing sustainable development

- Aligning G20 work with achievement of the SDGs and Addis Ababa Action Agenda through the action plan
- Addressing investment shortfalls and honouring pledges

5. Building infrastructure

- Ensuring the Global Infrastructure Initiative works for developing countries
- Promoting 'good enough' practices in infrastructure development
- Establishing mechanisms to measure the effectiveness of project-preparation facilities
- Investigating innovative ways to develop infrastructure that mitigate institutional weaknesses
- Developing guidance for governments on how to make the most of MDB reforms

6. Tackling climate change and eliminating fossil fuel subsidies

- Ensuring effective implementation of the Paris COP agreement, including on climate finance and climate resilient infrastructure
- Pushing for action on fossil fuel subsidies
- Improving access to energy, including renewables

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