

Establish G20 Secretariat and Construct “5+1” Macroeconomic Policy Coordination Mechanism

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Nowadays, the G20's function as the core of global economic cooperation is facing a series of challenges, such as its lack of authority and executive power. Its mission is also transforming from the short-term of dealing with financial crisis to the long-term of promoting sustainable development of the world economy. The eleventh G20 Summit will be held in Hangzhou in September this year. China should seize this special opportunity to actively lead the transformation of the G20 mechanism and to play a more proactive role in global governance.

On one hand, systemic financial risk in the world is rising due to the global economy undergoing slow growth, while the economic trends and policies of different countries are seriously diverging. Improving macroeconomic policy coordination mechanisms of major economies is strongly needed to avoid another financial crisis. On the other hand, the current global macroeconomic policy coordination mechanism could not meet today's need for global financial stability and the sound development of world economy. In the aspect of fiscal and monetary policy coordination, G20 members make a biennial assessment on each country's fiscal standing, public debts and potential financial risks. However, this assessment system lacks any enforcing power.

In the aspect of structural reform, members of the G20 are required to strengthen policy coordination as well.

The main form of G20 consists of meetings organized by the country holding the rotating presidency, including the G20 summits and the G20 finance ministers' and central bank governors' meetings. Derived forms include G20 business meetings (B20) and G20 think-tank meetings (T20), etc. However, it is extremely difficult to push forward the coordination work. The G20 secretariat to be proposed as a standing body is to organize and coordinate various work when the G20 meeting itself is adjourned. It could improve the effectiveness of the communication and coordination of its members' decision-making, help supervise and push forward the implementing of resolutions made by the G20 meetings, help enhance the cooperation between the G20 and other international organizations, and help avoid topics and themes of the G20 meetings influenced too much by its hosting countries each year.

Based on the above analysis, my proposals are as follows:

Firstly, establish the G20 secretariat with IMF support. The IMF, as part of the Bretton Woods System built after World War II, has played a dominant role in coordinating macroeconomic policies in the international community. In particular, the IMF has been active in dealing with the global financial crisis. Furthermore, it has abundant experience in global economic and financial governance, and it is very familiar with the internal work of multilateral organizations. There were similar appeals in previous relevant meetings. With China's presidency this year, it could be expected that such a proposal may be supported by the G20 members.

Secondly, construct the "5+1" global macroeconomic policy coordination mechanism. The five economies, currencies of which are in IMF's SDR basket, say, the United States, European Union (Eurozone), China, Britain and Japan, are the major players in today's world economy of systematical importance. Undoubtedly, enhancing the coordination of macroeconomic policies of these five economies will help effectively control negative spillover effects of policy changes, maintain the stability of the

global finance system, and promote a strong, sustainable and balanced economy of the world. The so-called “5+1” is the U.S., the Eurozone, China, Britain and Japan, plus the IMF. Regular meetings of the “5+1” will be organized, the contents of which will focus on their macroeconomic policies: fiscal, monetary, foreign exchanges, trade and structural reforms, etc. The objective is to enhance positive spillover effects of the macroeconomic policy of these five major economies while reducing the negative spillover effect to its minimum.

Thirdly, scale up the usage of SDR (special drawing rights). At the current stage, the international monetary system is still dominated by the United States. That means so much responsibility has been shouldered by dollars. It is not only unhelpful for the stability of global financial systems, but also, due to the Triffin dilemma, it is in fact not good for the independence of the U.S. Federal Reserve’s monetary policy. In a lot of situations, the Fed faces a difficult choice between the value stability of the U.S. dollar and the balance of supply and demand of global liquidity. Promoting the status of the SDR in international payments as a “super sovereign currency” could help reduce the level of risks in the international monetary system, and it will also help increase IMF’s financial resources. In what ways we could expand SDR’s usage? One might be revising relevant regulations regarding SDR, including its valuing and issuing methods, and also establishing the settlement relation with other currencies. Second, expand SDR’s usage in international payments among IMF members and in crisis-relieving assistance. Third, broaden the usage of SDR as the pricing unit in international trade and investment. Fourth, the IMF could provide SDR loans to central banks of its members and other multilateral development banks, the World Bank for example, which could as a result promote the usage of SDR in key infrastructural investments in the world.

To help implement these suggestions, it would be good to be open to more voices and build a smooth atmosphere for follow-up actions. Seminars on the topics could be organized by think tanks to initiate academic discussions on these issues, including the organization framework, rules of decision, operational mechanism and so on.

Meanwhile, China could actively communicate with relevant parties informally, trying to reach more consensus. After that a formal proposal could be brought up at the G20 finance ministers' and central bank governors' meetings. At last, a resolution regarding the topic could be finalized during the G20 summit in September.