



# Chinese leadership of macroeconomic policymaking in a multipolar world<sup>☆</sup>



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## ABSTRACT

This paper discusses the kind of leadership in global macroeconomic policymaking that China might provide. The paper describes a form of leadership, which I call 'concerted unilateralism', that enables countries to pursue their own objectives, in a way which they would not have been able to do if they were acting on their own, and enables them to achieve a higher level of welfare. I contrast such leadership this with a form of authoritarian leadership in which the leader imposes obligations on other countries which are to the disadvantage of those countries. I argue that China could provide leadership of the first kind, by making use of the G20 Mutual Assessment Process, or G20MAP. In the short term, China might do this by consolidating the '2-in-5' action plan, which Australia instituted within the G20MAP when it was Australia was President of the G20. In the longer term, China might do this by ensuring that there is convergence between the G20MAP and China's own One-Belt-One-Road strategy for international engagement in trade and finance.

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## 1. Introduction

I believe that China can play a global leadership role by helping to build a new form of international macroeconomic cooperation,<sup>1</sup> namely, what I call 'concerted unilateralism'. I describe the challenging global macroeconomic conditions, which are now present, and –

<sup>☆</sup> Revised version of a paper presented at a conference on the Role of China in the World in Beijing on December 5, 2015. That paper built on my contribution to the Fifteenth Jacques Polak Annual Research Conference, on Cross-Border Spillovers, held at the International Monetary Fund in Washington DC on 13–14 November 2014 (see, Vines, 2016) and on the arguments which I presented in the 13th Heinz Arndt Memorial Lecture at the Australian National University on September 17, 2014 (see Vines, 2015b).

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<sup>1</sup> For a more general discussion of international cooperation in macroeconomic policymaking see Adam, Subacchi, and Vines (2012), Bayoumi (2014), Ostry and Ghosh (2013), Subacchi and van den Noord (2012) and Vines (2015b, 2016).

at the same time – I make clear the decreasing role which international governance is currently playing. Building on these facts, I recommend that China steps out beyond its regional concerns and aims to serve as a new kind of global leader. It should aim to do this in order to help rebuild a more satisfactory global macroeconomic order. As a means to this end, I recommend that China lead in the pursuit of a global growth target, through investment in infrastructure and through microeconomic reforms.

In the paper, I describe concerted unilateralism as a form of cooperation which enables countries to pursue their own objectives, but in a way which they would not have been able to do if they were acting on their own. I contrast this with a form of authoritarian leadership in which the leader attempts to impose obligations on other countries which are to the disadvantage of those countries.

I argue that China could provide leadership in a process of concerted unilateralism, by making use of the G20 Mutual Assessment Process, or G20MAP. In the short term, China might do this by resurrecting the ‘2-in-5’ action plan, which Australia instituted within the G20MAP when it was President of the G20, but which has since lapsed. In the longer term, China might do this by ensuring a convergence between the G20MAP and China’s own One-Belt-One-Road strategy for China’s international engagement in trade and finance.

### 1.1. The growing importance of Chinese leadership

During the Great Moderation, the world economy grew rapidly, without inflation, and globalisation spread the benefits of economic growth more widely. It was thought that this global growth process would be self-sustaining. Moreover, there was a widespread belief that international cooperation was not needed in the setting of the macroeconomic policies that underpinned this process. All of this was accompanied by the very rapid rise of China.

Then, in 2008, came the Global Financial Crisis, or GFC. The world went into the biggest economic downturn since the Great Depression, in a way which very few people had expected. Fortunately, international cooperation ensured that nothing more serious was experienced than the Great Recession, certainly nothing as deep or damaging as that previous collapse. The cooperative action – a significant global stimulus, both monetary and fiscal – was led by the US. However, it was supported by the UK, in the run-up to the London G20 summit in April 2009 and at the summit itself. It involved policymakers from throughout the G20, from both advanced countries and emerging market economies, including especially China.

However, seven years later, the global recovery from the GFC remains weak (International Monetary Fund, 2015, 2016). In advanced economies, demand growth is now slowing, after increasing during 2015, and output remains well below productive potential. Furthermore, the growth of that productive potential is slow, due to reduced investment, both public and private. In emerging market economies, there has been a withdrawal of foreign capital and an associated turbulence in foreign exchange markets; a tightening of financial conditions is leading to a reduction in the growth of demand in these countries as well. The Chinese growth rate has fallen significantly.

Furthermore, despite these problems, international cooperation has fallen by the wayside. This is partly because the US is no longer willing, or able, to act as global hegemonic leader, as it did during the golden age from 1945 to 1971, and again during the Great Moderation in the 1990s and early 2000s, and even during the financial crisis in 2008 and early 2009. The US appears to have lost its power to manage the global recovery. Instead, we are moving towards a ‘multipolar’ world, in which the leadership of China will be crucial. However, it is not yet clear whether, or how, China will assume the necessary leadership role.

A historical comparison is valuable.<sup>2</sup> At the end of the nineteenth century, the ‘belle epoch’ there was a period of strong economic growth, strikingly similar to that which happened during the Great Moderation. Globalisation spread economic benefits, both worldwide throughout the British empire, and more locally within Europe; this process was accompanied by the rapid rise of Germany. Then, in 1914, World War I emerged, in a way which almost nobody had expected, and the global recovery after the war was very weak. This, too, was a period of poorly managed transition to a multipolar world. Like the US now, the UK had lost its power to oversee and manage the world economy. The outcome was an era of crisis in the 1930s, followed by World War II.

It is important to ensure that policymakers do not make such monumental mistakes again. The leadership which China provides – and how it seeks to lead – will be important in ensuring that such mistakes do not happen. However, what kind of Chinese leadership can we hope for? And within what kind of international framework will it best be exercised?

## 2. Concerted unilateralism and international leadership

International leadership clearly requires the ability to manage one’s own affairs domestically. If China is to become a global leader, it must transform its model of economic development from one based on export-led growth to one based on a more balanced pattern of expansion in which domestic consumption grows more rapidly. This rebalancing must be accompanied by the development of an appropriate stock of physical and social infrastructure, and it must be supported by a resilient financial system. These issues concerning domestic competence are widely discussed and well understood (see for example Yu, 2012). I mention them briefly in Section 5 of the paper.

<sup>2</sup> See Temin and Vines (2014).

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