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G20 Summit: What Now After the Hangzhou Consensus?

By Su-Hyun Lee

Synopsis

The recent G20 Summit in Hangzhou reached a broad consensus that the recovery of the world economy should be achieved through international economic integration based on market principles and free trade. The G20 leaders' communiqué, however, lacks concrete action plans.

Commentary

THE 11th ANNUAL summit of G20 economies held in Hangzhou, China, on 4-5 September 2016 focused on one central theme – innovative, inclusive and sustainable global growth. It took place amid concerns that Britain's vote in June to leave the European Union and the recent rise of protectionist tendencies added uncertainty in the global economy. The leaders of the world's major developed and developing countries reaffirmed their determination to ensure open markets and free trade as a way of achieving common policy goals - including global growth, sustainable development and poverty reduction.

It is not yet clear, however, whether the G20 is actually able to rigorously implement such agendas and set up the global economic order under the current framework. A series of trade disputes among G20 countries suggest that economic downturns and domestic political pressures have increased the tendency for governments to rely more on protectionist measures, which make international economic cooperation via the G20 more difficult.

The Hangzhou Consensus

The G20 Hangzhou Summit reconfirmed its members' sustained commitment to

enhance an inclusive, open world economy through global cooperation. The leaders' communiqué issued at the end of the two-day summit - aka the Hangzhou Consensus - embodied a number of key principles of pursuing innovative and sustainable growth: *integration* that generates synergies between monetary, fiscal and structural policies; *openness* that rejects protectionism through the WTO framework; and *inclusiveness* that emphasises the sharing of the proceeds of growth across "all countries and all people".

These key principles are in line with policy prescriptions that multilateral international organisations have commonly suggested for the G20 to overcome sluggish global growth and rising inequality: international economic integration based on market principles, free trade, and effective regulations within a multilateral framework.

At the same time, the communiqué revealed the G20's somewhat optimistic view that while global growth is still "weaker than desirable," the systemic failures of the global economy could be mostly fixed by their cooperation and joint actions.

Realistic Roadmap?

There are still questions to be answered though. Does the Hangzhou Consensus actually offer a realistic roadmap for an inclusive, rules-based world economy, making the positive case for globalisation? To what extent are G20 countries actually able to deliver on their policy commitments?

It is hard to deny that the G20 has served as the premium forum for the leaders of the world's major economies to sit down and discuss issues of international economic cooperation, since replacing the Group of Eight (G8) in 2008 as an institutional solution to the ongoing global financial crisis.

President Xi Jinping of China, in his concluding remarks on 5 September, praised the G20 Hangzhou summit for not only successfully setting the goals and directions for the world economy, but also emphasising the importance of policy coordination over global economic governance. In this vein, the US-China's joint ratification of the Paris Climate Change Agreement and the endorsement of the G20 Action Plan for Sustainable Development should be appraised as the summit's major accomplishments, which embraced development and inclusiveness within the global policy framework.

Strange Bedfellow: A Return to Protectionism?

Nevertheless, the gaps between ideals and realities in G20 policy commitments are still difficult to ignore. G20 has already put a lot of emphasis on the reduction of protectionist barriers and the expansion of free trade since its very first summit in Washington D.C. in 2008. At the second gathering in London in the following year, then-UK Prime Minister Gordon Brown along with leaders of other countries raised serious concerns over the risk of rising global protectionism and populist backlashes against market and trade.

Their determination not to return to tit-for-tat trade war in the 1930s is clearly presented in the Leaders' Statement at the 2009 London Summit in which G20

countries pledged to refrain from raising protectionist barriers and to rectify any such measures promptly through the WTO's monitoring and surveillance mechanisms.

Talks and negotiations during G20 summits, however, indicated that while openly showing their strong and consistent commitment to open markets and free-trade, G20 governments have been drawing battle lines over trade and investment issues more often than expected.

Right before the London Summit in April in 2009, the US House of Representatives passed the "Buy American" Provision that all public projects funded by a new stimulus package should use iron and steel produced only in the US. The European Union (EU), China, and India immediately criticised that the Buy American Provision would induce other countries to rely on more protectionist measures, generating discrimination against foreign steel imports. The EU warned that they would proceed to WTO litigation if the bill violated any US trade commitments.

A similar picture emerged again behind the scenes at the Hangzhou Summit, although this time G20 countries were aligned differently over multiple issues over trade and investment. One of the most representative examples was the tension over Chinese steel industries, which resulted in a spiral of protectionist policies across G20 countries over the past few years. Until very recently, the US and the EU claimed China's massive surplus production capacity in steel were significantly hurting jobs and workers in their countries; China took their threats of sanctions or anti-dumping duties as the West's efforts to hinder China's economic ambitions in the global economy.

The G20 Hangzhou Summit eventually led China to pledge to cooperate more closely with other trading partners in a "global forum" on its industrial overcapacity. But since the forum lacks any binding commitments, it is not clear whether the Chinese government will actually cut down its steel production, assuaging local governments' concerns over job losses and tax revenues.

For Further Progress

The ongoing political and economic tensions among G20 countries imply that the Hangzhou Summit's success ultimately depends on what the G20 would do going forward. While downgrading their forecasts on global economic trends this year, the International Monetary Fund and the World Trade Organisation have strongly urged G20 leaders to show "political courage" to reject protectionism and to take bold and decisive action for structural reforms.

Nevertheless, trade disputes within the G20 suggest that policymakers in major economies are under strong political pressures of protectionism than ever and that the line demarcating protectionism and fair trade is becoming blurred. A growing tendency for governments to adopt protectionist measures in response to unfair trade practices might also make economic cooperation via the G20 more complicated.

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