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It's Time To Engage China In A New "Economic G8"

Harry G. Broadman Contributor

I write/speak on global business growth, innovation & sustainability.

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The announcement last month that U.S. President Joe Biden has rejuvenated a series of bilateral sector-defined "Economic and Finance Working Groups" as mechanisms for certain Washington Cabinet agencies to engage in dialogues to resolve key trade and investment frictions between the U.S. and China was a "Groundhog Day" moment.

For almost two decades, successive Washington administrations pursued these "exchange of information" regimes with Beijing. It would not be an overstatement to conclude that all of these previous attempts failed to deliver meaningful, concrete economic policy changes on the part of China.

In part, this is because they were structured around *dialogues* per se rather than committing to the execution of specific reforms keyed to *performance indicators*. It is also due to the fact that the mode of interaction was *bilateral*—an attribute that is at odds with the way most modern international commercial transactions are mediated. A bilateral paradigm is also impotent when there are other key stakeholders missing from sitting at the table.

It is high time for Washington and its G7 allies to shift to a new default economic policy paradigm with Beijing — an "Economic G8" — to *plurilaterally* entice Xi Jinping to commit to, and implement, specific types of structural reforms commensurate with the size of China's economy in the global market.

Of course, the previous incarnation of the G8 was formed on significantly different grounds—when Russia was invited to join the G7 predicated on Moscow's still inchoate political aspirations to become a democracy in the aftermath of the demise of the Soviet Union.

In hindsight, such an invitation proved to be a deeply myopic, if not wholly uninformed enterprise. Soon after Moscow's invasion of Crimea in 2014, it was removed from the G8.

There's a much better chance that a reconstituted G8, this time *keyed narrowly to economic policy matters* between the G7 nations and China actually could be effective.

The Folly of Washington-Beijing Bilateral Economic Working Groups

Previous White Houses—dating back to George W. Bush's establishment in 2006 of the Strategic Economic Dialog (SED)—pursued a paradigm that had little, if any, teeth to incentivize implementation by China of structural reforms one can point to emanating from such gatherings.

Indeed, most of us veteran international trade and investment negotiators saw these enterprises as "gabfests" that played into Beijing's hands to obfuscate and delay wrestling with tough issues. They gave the Chinese a golden opportunity to proclaim: "don't blame us; we complied with Washington's demand to dialog."

Most profoundly, the new Biden dialogue initiative is a metaphor for why much of economic officialdom in the U.S.—and in other G7 countries—appears to have a myopic understanding about the actual nature and intricacies of the business practices, institutions and structure of markets—indeed, sub-markets—that govern cross-border trade and invest flows with China, if not much of the rest of the world.

To put it baldly, the core concept underlying these bilateral sectoral working groups is as if it were 1823, when the world economy was marked by cross-border flows of commerce that were not only largely *bilateral* but also characterized mainly by international transactions of *final products*.

But this is 2023, where a significant portion of the globe's trade and investment flows—with China serving as the "world's factory"—is *multilateral* and dominated by international transactions of *components* moving through complexly structured tiered supply chains, where components undergo additional transformation in different geographies before the final product is delivered to the end-user.

Even more surprising is the Biden team—chock full of seasoned policy makers with sophisticated global outlooks—is essentially continuing former President Trump's pedestrian model of bilateralism for dealing with China—arguably a White House that viewed the *entire* world economy through a bilateral lens more extensively than any predecessor administration in modern times.

One would have thought the glaring lack of success by Trump in achieving any semblance of behind-the-border (that is, domestic) economic reform in China would have been motivation enough for Biden to adopt a more informed, sophisticated, and economically meaningful approach.

Time For The G7 To Graduate Its Engagement With China By Creating A New "Economic G8"

The G7 was established over 1975-1976, initially comprised of France, Germany, Italy, Japan, the U.K. and the U.S., and subsequently Canada. Russia was invited to join in 1997, transforming the G7 to the G8.

In 2014—the year Russia was removed from the G8 because of its annexation of Crimea—the *average* GDP of the G7 countries (i.e., excluding Russia) was US$5.2 trillion. That year, Russia's GDP stood at US$2.0 trillion, i.e., far below the G7 average. At that time, the GDP of the U.S. was US$17.6 trillion—the G7's highest. By way of comparison, although not in the G7 or G8, China's GDP in 2014 was already US$10.5 trillion—like the U.S., significantly above the group's average.

Flash forward to 2022. That year, the *average* GDP of the G7 countries had risen to US$6.3 trillion, with U.S. GDP totaling US$25 trillion. By comparison, Russia's GDP was only US$2.2 trillion. Yet China's GDP stood at US$18 trillion.

If there was ever a case to be made for including China rather than Russia in an "Economic G8"— that is, a plurilateral forum focused *exclusively on economic* rather than on *foreign policy* or *national security* matters (although these two latter areas are certainly related to economics) — this is it.

Equally important, it would be hard to overstate the potency of the G7 countries dealing with China on economic issues plurilaterally rather than bilaterally.

After all, these are the nations that are the globe's long-standing champions of capitalizing on the power of the logic of "collective action" by nation-states to bring about reforms.

Think: (i) the imposition of multi-country coordinated sanctions on Russia for its invasion of Ukraine or (ii) the establishment of multilateral rules governing transparency in the way international trade transactions are mediated—first through the establishment of the General Agreement on Trade and Tariffs (GATT) in 1947 and subsequently its successor institution, the World Trade Organization (WTO) in 1995.

At the same time, let's not forget that in the G7's most recent communique from its 2023 summit in Hiroshima it bent over backwards to clarify its goal in dealing with China economically is not one of "decoupling" but rather "de-risking". While I've argued earlier in this space that the difference between these two goals is more one of semantics than substance, it's clear that the G7's motivation in advancing this point is to bring China *within* its tent rather than keeping it out.

Indeed, that strategy is a sensible one.

And its underlying message surely was not lost on "strongman Xi": it fits in with his goal to get the respect *he seeks* from the G7 even though it is *not* the kind of respect the advanced democracies believe he deserves. Indeed, this should not be construed by the G7 as rewarding Xi. *Rather it's a matter of the G7 being pragmatic*. As the old saw goes, from the G7's perspective it's far better to have your opponent be a "member" of the "club" than being blackballed from entry.

While most of the G7 has great angst about Beijing's saber rattling vis a vis Taipei—*and rightfully so*—there is also the view that Xi is no Putin. Having worked extensively both in, and across, China as well as Russia—during Xi's and Putin's tenure—I subscribe to that perspective.

It's also important to understand that Xi is increasingly rattled by the continued secular slowdown of the Chinese economy. If it continues, which I believe it will, this could well undermine his ability to keep the lid on civilian unrest, which in the past year has become more apparent than at any time before, although it was rooted more in his erratic policy toward Covid lockdowns.

How Should The G7 Move Forward Toward An Economic G8?

Suffice it to say, if the G7 is intent on creating an Economic G8, it needs to do its homework and fully articulate ex ante the goals and the rules of the road to which each of the G7 must adhere.

For example, such a framework would not vitiate the desire/need for G7 heads of state to have bilateral summits with China's leader. There is, of course, no substitute for establishing and renewing such face-to-face meetings.

But such a paradigm should place mutually agreed constraints on each country cutting "side deals" with China that otherwise would undermine the fundamental benefits of collective action in the economic arena for all of the G7 states.

One of the most important upsides of such an enterprise is that if Xi were to become convinced of the logic of the type of reforms that would emerge in such a G8 forum, it's surely the case that in light of the authority he exercises domestically, he would have the wherewithal to push through sought-after policy changes.