Research Report
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Abstract

This paper argues that the G20 is the most significant innovation for Global Governance in the 21st Century and propose a set of criteria to sustain such claim. It highlights its effectiveness to address crisis-prone situations and to deliver concrete responses to critical junctures, in particular, to redress the undersupply of Global Financial Stability at the peak of the 2007/2008 crisis.

Section II remarks its relevance in a context marked by disruptive changes in politics, society technology and economics that put the existing network of multilateral institutions and international organizations under severe stress; placing traditional Global Governance mechanisms of the past Century under pressure and creating the conditions for chronic undersupply of Global Public Goods

In section III analyze the relationship between Global Governance and Open economy through the lens of Global Public Goods, revising the present situation of the Global Economy and its challenges ahead to consider the likely changes and adaptations the G20 could feel compel to consider to maintain its track record as successful mechanisms for policy coordination and cooperation at the world stage.

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I. Introduction

I have argue in precedent papers on this subject, submitted to the two previous G20 summits organized by Chongyang Institute for Financial Studies of Renmin University of China, that the G20 is the most significant innovation in Global Governance for the 21st Century.

Although the idea can be accepted intuitively by many, in the context of this paper, such statement is based on the consideration of the following issues, among others:

- Unlike UN and other multilateral organizations the G20 is an informal group of nations that do not recognize any founding document in its traditional format (such as a formal treaty or international agreement).

- Membership to the group was decided on certain criteria by the original organizers without formal or independent definition or multinational endorsement of the basic concept chosen to award membership (systemically important nations in 1999)

- Membership is closed to new applicants and no re-evaluation or adaptation to changing "country-specific" circumstances has ever been discussed to apply in order to secure membership relevance.

- To overcome potential legitimacy concerns provided by its membership mechanism the G20 has developed a number of "Engagement Groups" (Civil 20; Think 20; Business 20; Youth 20; Woman 20 and Labor 20) as well as dedicated interacting channels with non-G20 member states in an open and very transparent fashion

- It lacks a formal bureaucracy embodied in a given secretariat or staff, as it is the case for the international organizations.

- Decision making mechanism operates by consensus; no voting is required to adopt resolutions.

- Enforcement capabilities are limited to reputational records on responsible global citizenship for the members of the Group.

- De facto upgrading form finance minister's gatherings (dedicated to exchange information on policy issues related to international finance) to full fledge meetings at the level of Heads of State and Government in 2008 at the peak of a global financial crisis.

- Its relative success at providing an essential “Global Public Good”; like Global Financial Stability.

Compared with standard international organizations, the G20 structure and Membership mechanisms ensures low transaction costs that, in turn, seems to be compensated – in order to protect legitimacy – by an open approach to non-member states and to Civil Society through a number of “Engagement Groups”; special and occasional invitations and other related channels.

G20 working methods resemble cooperative mechanisms closer to “Coalitions of the Willing” than to typical structured interaction at traditional multilateral bodies.

Those mechanisms go well beyond traditional country groupings of “Rich and Poor”, “Developed and Developing” or “North and South” – very often the basic divides at United Nations, for example – to gather support for its initiatives across the board, over and above of regional or technical partitions of the international community.

Placing itself at the crossroads of a number of multilateral interactions, exchanges and networks the Group promotes better understanding and facilitates joint actions and progress in Global Governance.

The evolution of G20 working mechanisms – specially the upgrading of their gathering to Heads of State and Government Summits – secures the capacity to effectively address crisis-prone situations and to deliver concrete responses to critical junctures.

This original design of the Group Membership and the evolution of its working methods has deliver a powerful and effective response to one of the major challenges for Globalization over the last decades, providing concrete actions to contain the Global Financial Crisis that started in 2007/2008.

For all this reasons, and even acknowledging all its shortcomings, the G20 remains the most significant innovation in Global Governance for the 21st Century.

As can be expected, naturally, based on this initial success, the G20 agenda grows longer and ever more ambitious.

It should be noted, though, that such new, upgraded agenda, has to evolve in a different context and would probably require appropriate working mechanisms.

No doubt, crisis resolution and prevention requires - in some sense - different management skills and working methods than those needed for strategic planning or development strategies.

While it should be admitted that there are common skills and design required for measures addressing both – short term crisis and long term planning – the former mostly call for immediate, stand-alone decisions, while the latter normally implies long term policies, whose implementation requires constant supervision and adaptive measures to align the desired goals with changing scenarios and circumstances.

The former are normally easier to coordinate – due to its focus and duration – while the latter usually takes more time to reach their goals and imply a larger number of coordination nodes.

Put it simply, drawing on my own experience on the subject and even acknowledging great complexity in all cases, achieving Development for All or reaching Energy and Food Security would certainly demands kind of decisions different in nature - to some extent - than those needed to contain the spread of toxic derivative financial products across the global financial system or to contain systemic financial risks.

That is why I have argued in the past that the G20 is entering a new phase, the third in my counting (after its foundations in 1999 and the Summitry phase started in 2008), to face the challenges of the Global Economy.

II. Global Governance and Global Public Goods.

Governments around the world commonly accept today that the supply of public goods is critical to achieve cohesive societies and competitive economies and that to secure such provision is one of its most important responsibilities.

Any society needs public goods to function properly. The supply of Basic Education (in terms of public knowledge), Health Campaigns, the provision of National Security and the administration of Justice are just some examples of basic public goods.

Its essential conditions are non-rivalry and non-excludability, meaning that a given person consumption of public knowledge, health and basic education, for example, does not diminish its availability for others and that people are not excluded from access to it by prices or other barriers.

Theory reveals that, under such conditions, private entrepreneurs would have less incentive to produce those goods that are freely accessible by the broader public. This implies that, if such market is left to its own, those goods would be systematically undersupplied.

That is why it must be supplied by the public sector. The private sector would enter such domain more effectively only if they are able to break at least one of those two conditions mentioned before. For example, by means of “pricing” some of those goods through revenue mechanisms, subsidies or being empowered to tax.

National, Provincial and Municipal Governments, therefore, have to focus in the provision of Public Goods to ensure equal opportunity, safety and equity to all.

I propose that the same is valid for the global society. The thought is simple and consists in the idea that the provision of Global Public Goods is essential to secure the proper functioning of an increasingly integrated global society and, in particular, of a globalized economy.

Basically, this means for the international community the need to address the supply of those goods that are needed at the global level to facilitate the proper interaction among different cultures, traditions and civilizations, supporting its efforts to build a modern global society and a set of increasingly integrated global markets.

It can be listed, at least, as follows:

- Peace and cross border Security to fight international crime
- Equity and the administration of International Justice, for example, to help prevent and resolve ethnic conflicts, protect human rights, etc.
- Internationally coordinated fight to pandemics (like AIDS),
- International Financial Stability,
- International free and fair Trade,
- Knowledge dissemination, and
- Environmental sustainability.

The adequate supply of these Global Public Goods is essential if we stand a chance to achieve, at same point in the future, a concurrence between a cohesive international society and a competitive global economy.

However – unlike what happens at national, provincial or even municipal level – there is nothing like a Global Government able to supply them.

How that is the global economy works anyway?

A plausible answer is that the world as a whole does not entirely lack the provision of public goods. Indeed, the international community enjoyed – to some extent – the benefits of a Global Government without actually having one.

The global society has received this critical government service – specially after World War II – from the leadership contributed by its more wealthy and powerful nations (not necessarily always working in harmony or cooperating to that end). They worked in the framework provided by the network of multilateral institutions and international organizations created to that end.

In other words, some form of Global Governance emerged to fill in the absence of a Global Government.

Imperfect as it was, the scheme worked reasonably well for over half of the last century, until the very conditions under which it was created changed substantially, making certain Global Public Goods chronically undersupplied.

The framework conditions changed as follows:

- Without diminishing the importance of potential military conflicts around the world, it can be argue that large scale war has declined in importance over the last fifty years, at least in the sense that the conquer of new territories and protection of borders have been replaced, as chief concerns of most Governments, by the provision of economic progress to their populations.

- Economic progress is seen today as a source of legitimacy by most Governments. It is commonly understood as linked to an open economy and to free and fair markets, as well as to disruptive technological changes that constantly shake business models and production systems.

- Global connectivity grew to reach already more than 6 billion connections. Additional 6 billion connections at least are expected in the coming years, most of it coming from developing nations.

- Over the last fifteen years, the global economy witnessed how Emerging Economies (EE), leaded by Asia in general and China in particular, rise to contribute more than 50% of the World GDP the last couple of years – in Purchase Power Parity terms (PPP) – from just 37% in 2000.

- Emerging Economies growth patterns triggered the emergence of a new Global Middle Class (GMC) – defined as people spending the equivalent to 10 to 100 U$D per day –. It is calculated that, while 54% of the Global

Middle Class lived in developed countries (Europe, US and Japan) in 2010 – totalizing 1.8 billion people – by 2020, the same percentage (54%) – that by then would amount to 3.2 billion citizens – will live in Emerging Asia.

- The balance between nature and our aggregated production technologies is tilted towards potential disruptive scenarios. According to different estimates (WWF-Living Planet Report) already in 2008 our productive system require one and a half times the natural resources available on earth at its normal rate of reproduction to satisfy the needs presented by global production systems.

All these changes put the existing network of multilateral institutions and international organizations under severe stress; it places traditional Global Governance mechanisms of the past Century under pressure and creates the conditions for chronic undersupply of Global Public Goods. The latter does not changed but new conditions make its supply more demanding and complex.

In this context, many leaders decided to work hard to refurbish the mandate and working methods of existing institutions, created more than half a century ago. Their efforts, beyond how well intended they are, seem not to be sufficient.

Other leaders and countries thought that, parallel to redesigning existing institutions, it was also necessary to build a new set of multilateral organizations and mechanisms to complement the existing ones and effectively deal with the new times.

The G20´s evolving agenda, as well as the myriad of initiatives and new institutions set up over the last years, like the BRICS´ New Development Bank, the Asian Infrastructure Investment Bank (AIIB), and other, similar undertakings, illustrates the understanding and commitment of political leaders of an emergent new global order and the need to upgrade and strengthen existing Global Governance mechanisms to redressed the undersupply of Global Public Goods.

As in the past, Global Governance mechanisms are more needed than ever to provide a substitute for an inexistent Global Government.

III. Global Governance for an Open Economy

Modern Global Governance mechanisms could focus in a strategic fashion on a rather limited number of issues treating Global Public Goods as Global Policy Outcomes.

With the G20, acting as the “Steering Committee” of the Global Economy the case can be made for them to initially target the fields of finance (including finance for infrastructure), trade and environment to help create jobs, exports and to improve people´s living conditions.

Global Public Goods in those areas must meet two criteria. One is to ensure that benefits are truly public (or non-rival in consumption and non-excludable). The other is that benefits are almost universal in terms of countries and people (considering different socio-economic population groups). It should even benefit future generations.

Global Governance mechanisms should be able to work across the whole spectrum of “Public Goods” (including Pure, Impure, Club Goods, Common Pool Resources and Merit Goods) and related externalities.

It should also make possible to bring solutions on market failures and collective actions problems at global level as national government do at its level. For that, Global Governance mechanisms will have to improve conditions for cooperation by further setting standards, norms and providing clear incentives (fiscal, etc.) to avoid the so-called “state-failures” in the provision of Global Public Goods (as is the case at national level where government failures add to market failures).

These are relevant reflections to inform the next phase in the life cycle of the G20.

Taking into account what the Group has already achieve in the field off Global Financial Stability – considering it as a Global Public Good – they might wish to explore the issue from the “production chain” perspective, working on “Intermediate Public Goods” like international agreements, regimes or standards as a step towards the provision of “Final Global Public Goods” like Environmental Protection, Trade or Dissemination of Knowledge.

III. 1. The Global Economy today

There are a number of forces shaping the global economic landscape. Global shocks, medium and long term trends as well as regional and country specific factors are presenting us with a complex scenario to deal with. Uncertainty and volatility make cooperation and policy coordination at the same time much needed and more difficult.

Among the shocks any report should list first the reduction in oil prices (in spite of the rebound over the last quarter) and, more generally, the reduction of commodities prices. While lower oil prices will benefit oil importing countries it would certainly prove challenging to many oil exporters. Overall, lower oil prices could contribute to moderately lift global growth forecasts.

Trend analysis show that several advanced economies (as well as some emerging markets) are still engaged with the legacies of the financial crisis, which are forcing them to face high levels of private and public debt and lower mid-term growth expectations.

Such situations are particularly worrisome in those countries where inflation is below target – and still declining in some cases – while its easy monetary policy schemes are showing its limits to remedy the problem.

The relatively slower growth pattern shown by Emerging Economies over the last couple of years (more recently in Brazil and Russia) triggered lower mid-term growth rates market expectations, while structural factors in Advanced Economies, like the aging population and poor total factor productivity tend to reduced calculations on potential output growth and reduced investment levels today.

Regional and country specific events – akin with the trends discussed above – led to important exchange rate changes across major currencies over the last months, helping countries with macroeconomic difficulties and less policy space.

These collections of events points to a growth rate this year of 3.3 % for the Global Economy (slightly below earlier projections) with a forecast of 2.1% for advanced economies and previsions of 4.2 % rate of growth for the group of Emerging Markets and Developing Economies.

Advanced economies performance is picking up slower than previously estimated basically for the unexpected slowdown in the US in the first quarter. Curiously enough we saw the same situation in the first quarter of last year, when we considered such performance as a sort of anomaly. It should be the case when the underlying drivers of the economy like labor market conditions and wage levels, housing market performances, financial conditions and fuel prices, all point to increased consumption and investment.

Broad analysis tends to show the Euro Zone generally on track with higher demand and potential inflation levels on the rise. The evolution of the negotiations on Greece rescue program and its final implementation could affect economic activity if are not properly handle. Improvements in Japanese economic performance in the first quarter have yet to confirm its resilience and sustainability.

Growth from Emerging Markets and Developing Economies – although lower than 2014 – still contributes over two thirds of Global growth. This Group performance is registering the effect of the Chinese economic rebalancing act, associated lower commodity prices and tighter external financial conditions—particularly in Latin America and oil exporters.

Structural bottlenecks and distress associated to geopolitical factors—in the Middle East, the North of Africa or the Commonwealth of Independent States – are relevant factors to project present and future growths trends.

India´s growth rate, assuming the country fulfill its potential removing barriers to business, reforming the agricultural sector and promoting investments in infrastructure, could make significant contributions to the Emerging Markets performance and to the world output.

III.2. Challenges ahead

More than seven years on, the global economy still drags its feet in the financial crisis arenas. Global growth is uneven and weaker than expected. A combination of demand support and structural reforms will still be needed to raise actual and potential output.

Advanced economies will have to keep accommodative monetary policy to support economic activity, attempting to lift inflation rates back to the set targets. Whenever feasible, in addition, short-term fiscal policies should be relaxed, aiming to increased infrastructure investment if possible. Highly publicly indebted economies should focus at striking the right balance between economic activity and fiscal consolidation.

Structural reforms will be needed to raise productivity and remove bottlenecks in Advanced Economies and Emerging Markets alike. The latter, having generally less room for macroeconomic policy to support domestic demand still have to do its best to use it to the maximum extent possible. Fiscal policy redesign by means of reforming the tax system and establishing clear spending priorities will be necessary to improved long term growth prospects.

While considering the picture describe in this section, the G20 should also bear in mind that the changing framework conditions described in section II of this paper, although representing a major shift on the prevailing economic situation of the last Century, are showing us only the tip of the iceberg.

The world is transformed in many ways. Is changing in many different, even sometimes, contradictory directions, as is the case with labor markets. And the video we have just seen is showing us only the tip of the iceberg. Many more drastic changes are coming.

Urbanization, demographics, the accelerating path of technological development and increasing levels of connectivity through trade, investment and telecommunications are promising to break new ground the world over opening new markets and developing new products.

It has been calculated that between 2010 and 2025 half of the world GDP will come from a group of 440 cities (95% of them small or medium size cities form developing countries we are not used to talk about). Milan, Zurich or Madrid will be important but, most likely; they will contribute to future growth less than, Porto Alegre, Guanajuato, Ahmedabad or Tianjin.

On current trends, by 2020, demographics and technological change combined will deliver a very peculiar labor market. Business will fall short by 85 million people to find proper talent and skills provided by college graduates or vocational training workers while, at the same time, some 95 million of low-skill workers will find no job for them.

There is a long list of new technological developments ready to become “the next big thing” over the next decade including, genomics, robotics, energy storage and renewable energy, 3D printing, cloud computing and automation of knowledge work. Any of those emerging technologies has a tremendous potential disruptive power on business and society and could be the source of major breakthroughs.

All these tendencies – past and future – have helped to reduce inequality in standards of living between countries. No doubt, if you look at the picture twenty years ago, the standards of living in France or Germany were twenty times higher than in China or India while, today, such gap has been reduced at least by one half. Global inequality got reduced thanks to the forces of markets integration.

Notably inequality within countries – or national inequality – has been on the rise; even though many advanced economies lived mostly through a period of stability until the beginning of the financial crisis.

Progress on reducing global inequality, then, can be consider good news only to the extent its gains were not offset by the rise in national inequalities.

Against these backgrounds the G20 mechanism intends to begin a major new phase of its life cycle.

It would be the third in my counting (although more sophisticated and detailed analysis could increase the number of phases admitting relative minor changes) with the first two resulting from a global financial crisis: 1. at its births with the critical financial impact on world markets of the Bath devaluation, the Thai currency, in 1999 – that later spread to Russia and Brazil – and; 2. at the peak of the worst financial crisis experienced by the Global Economy in almost eight decades (2007/2008) through the Summits of Heads of State and Government.

The third phase would be born – rather than from the outbreak of a new financial crisis – from the ambition to improve the level and the quality of Global Growth.

The exercise started at the Brisbane Summit approving country specific strategies to add, at least, two percentage points to Global growth rates clearly reflects this intention. Furthermore the priorities established by the sitting Turkish presidency, particular those related to inclusiveness and implementation, further demonstrates that G20leaders understood, beyond the poor impact achieved so far, the size of the challenge they have to confront.

Attention given to domestic and global aspects of inclusive growth seemed very timely and potentially powerful to upgrade G20´s Framework for Sustained, Strong and Balance Growth.

Looking at the Small and Medium Enterprises – as my previous papers suggested so often –, youth employment and gender equality will make the case for progress at the national level while stronger mechanisms to effectively interact with less develop countries are of the essence to legitimate the Groups objectives.

For a mechanism born at the heat of serious financial disruptions the new phase of its life cycle represents a sea change.

Let me insist in the concept: crisis resolution and prevention requires different management skills and working methods than those needed for strategic planning or development strategies. Even admitting common skills and design are required for measures addressing both; the former mostly call for immediate, stand-alone decisions, while the latter normally implies long term policies, whose implementation requires constant supervision and adaptive measures to align the desired goals with changing scenarios and circumstances.

Let´s hope the G20 succeed and adapts its working methods without losing efficiency and commitment. With all its shortcomings the Group deserves to be considered the most significant innovation for Global Governance in the 21st Century.

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