Research Report
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Abstract

The G20 embodies a very interesting concept going well beyond the typical UN dynamic: the idea that nations can work together on important world issues beyond traditional multilateral country groupings (developed/developing, rich and poor, north and south) assembling sorts of “coalitions of the willing”, and assuming responsibilities to cooperate and leading collectively the process of change.

This research report argues that the G20 remains the most significant innovation in Global Governance for the 21st century. Such condition has been reinforced by a number of changes at the economic and political level on the global stage over the last decade and a half.

It identifies the different phases on the G20 life cycle to highlight its early success and project the conditions for further strengthen its relevance and contributions to the betterment of the world economy and society.

In that context the research report proposes to organize the Group´s growth agenda around the provision of certain Global Public Goods like trade, environment and, obviously, international financial stability building on the experience of the G20 to redress the undersupply of the latter at the peak of the global financial crisis.

It also argue about the convenience for the Group to coordinate its contributions to the discussion of the Post-2015 Development Agenda taken place at the United Nations.

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I. Introduction

The Group of 20, particularly since 2008, represented a much needed breath of new air to the way countries interact and participate on international affairs and, on a broader picture, to the set of institutions born at Bretton Woods and San Francisco in the 1940s.

Far from perfect, the whole G20 process can be regarded as a reasonable innovation to overcome the limitations of a multilateral architecture designed to address a balance of power of the 20th century´s world. Such power relations and economic patterns do not exist anymore and the Group of 20 tries to fill the gap in a dynamic fashion.

The G20 embodies a very interesting concept going well beyond the typical UN dynamic: the idea that nations can work together on important world issues beyond traditional multilateral country groupings (developed/developing, rich and poor, north and south) assembling sorts of "coalitions of the willing", and assuming responsibilities to cooperate and leading collectively the process of change.

Such idea was quite popular among many powerful players of the multilateral system towards the end to the 20th century.

I had the opportunity to explore it myself while reforming and reviving the United Nations Industrial Development Organization (UNIDO) from 1998 onwards. My reforms were drafted and approved by a group of countries from across the traditional groupings and its implementation very much supported by them.

Probably, the same seed was planted at the launching of the G20 in 1999.

It basically meant the recognition that the traditional divides among countries mentioned above did not help to address problems at times of change.

Such divides had been useful (over the years of the so-called "Cold War") to gather support and strengthen positions in a process of confrontation but showed poor results when creative interaction was necessary in order to address concrete issues, a typical challenge on times of change.

Over the last decade and a half, which has thrown us already well inside the 21st century, a number of political and economic events manage to definitely turn those times of change into a change of time.

Several economic events, prominent among them the 2007/08 international financial crisis and including; the bursting of economic bubbles, increased globalization; more complex trade and financial flows and global macroeconomic evolution set the international stage for a true change of time.

Major political events also contributed to redraw the global landscape from the global terrorist's attacks in 2001 and the subsequent campaigns in Afghanistan and Iraq; to the hikes in food prices and the Arab Spring; the reemergence of antique conflicts and the rise of political tensions at regional level.

This exceptional combination of events, both economic and political, let me propose, moves the priorities of the G20 from addressing severe times of change (like those triggered by the financial crisis) towards administrating a true change of time, embodied in a new global landscape.

To illustrate such idea some few examples are offered below:

a) The global economy witnessed the rise of the Emerging Economies (EE) leaded by Asia in general and China in particular over the last years. In Purchase Power Parity terms (PPP) Emerging Economies, who represented just 37% of the World GDP in 2000 manage to contribute more than 50% of it last year.

b) Such impressive performance of the Emerging Economies has been, at the same time, cause and effect of the emergence of a new Global Middle Class (GMC). Defined as people spending the equivalent of 10 to 100 U$D per day 54% of the Global Middle Class lived in developed countries (Europe, US and Japan) in 2010 and totalized 1.8 billion people. By 2020, the Global Middle Class would include 3.2 billion citizens and 54% of them will live in Emerging Asia.

c) 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. This is an equation that shows to which extent we are seeing a change of balance between mankind and nature.

d) Connectivity has risen to reach 6 billion connections. These means more connections to internet than availability of sanitation (it is estimated that 4.5 billion people has access to modern sanitation systems). Some additional 6 billion connections are expected in the coming years, most of it coming from developing nations.

Certainly, this very simple set of facts tends to paint a different reality for both, the geopolitical and economic landscape of the international community, as compare to the past decade and, specially, for the years to come.

In this context, the capacity of one country – or a concentrated group of them – to influence global economic performance by itself (however great it may be) fades away towards a broader group of leaders, better suited to provide certainty and stability to the modern world economy.

Indeed, at the end of the World Wars of the last century, the challenge was to administrate the emergent pattern of political and economic power resulting from the resolution of the conflict.

Power structures were fix and stable, the international developments were highly predictable and, in general, the multilateral system (organized around the UN and the Bretton Woods institutions) provided a number of certainties by design.

Over the last fifteen years, power proved to become more fluid (moving to the East) and volatile, the evolution of international affairs was much less predictable than before and certainty was low.

It is only reasonable to assume that the multilateral architecture built on assumptions of the second half of the 1900s would find serious difficulties to deliver good results administrating a complete new power structure.

That is why there should be no doubt, for all its shortcomings, the G20 remain the most significant innovation in Global Governance for the 21st Century.

Key for the future will be to understand how the G20 Member States will deal with the new complex realities both as a Group and individually.

For the time being it seems they are following a three-pronged strategy by; a) adjusting the working mechanisms of existing institutions (by means of renovating the mandate given at Bretton Woods, redesigning quota systems and voting rights, augmenting its financial capacity, etc.); b) promoting the creation of some institutions to fill in the gaps of the existing constellation of multilateral organizations (like the Financial Stability Board, etc.) or, c) establishing competing structures (like the new Development Bank and the Contingent Reserve Agreement (CRA) established at the last BRIC´s Summit in Brazil, just two months ago)

One way or another, a “New Multilateral Architecture” seems to be on the making. It has been so for quite some time already.

Whether it will come out as gradual and progressive adaptation of the existing one or will be the result of a more drastic departure from current structures will be determined by the evolution of the economy and politics of the international society.

An even more important issue, however, would be to understand that beyond “Multilateral Architectures”, whether they are old or new, a globalizing society seems to need a sort of theory on Global Public Goods to ensure that globalization works for all and deliver concrete improvements in people´s life.

In a way, the economic situation we faced today could be characterized as the result of the undersupply of certain Global Public Goods.

II. Public Goods for Comprehensive Growth at Global level.

The Group of 20 successfully jumped center stage of the Global Economy at the peak of the financial crisis to restore dialogue, coordination and cooperation among key economic players on critical financial issues in order to avert the very serious risks that were threatening the international community at the time.

Leaving behind almost a decade (1999/2008) of gatherings at Central Banker´s and Ministerial level (dedicated to exchange information and best practices) the Group started to meet at the level of Heads of State and Government in 2008.

It transform itself into the Steering Committee of the Global Economy to address the most serious financial crisis in almost a century, taken concrete steps and measures to restore international financial stability.

Significant progress was made at strengthening financial regulations, for example, through the establishment of the Financial Stability Board (FSB, successor arrangement of the Financial Stability Forum) as well as revising and updating Basel III rules and rules on derivatives, Over the Counter (OTC) products and the working of the so-called “Shadow Banking” system.

Special attention was given to the financial institutions considered “too-big-to-fail”, also called Systemic Important Financial Institutions (SIFI) and mechanisms were established, like the Mutual Assessment Process (MAP), to reinforce the Group´s capacity to coordinate actions and forecast potential risks.

With all its shortcomings it can be safely said that the G20 was able to achieve its initial objective of restoring cooperation for the provision of international financial stability, as such, a global public good for the international community. This is considered its early success.

The initial sense of urgency, that triggered five meetings between November 2008 and November 2010, gradually left way to a routine of annual meetings. The relative improvement of global financial conditions open the way for a more ambitious agenda and the inclusion of a number of initiatives.

Although the implementation of decisions taken at the peak of the crisis is still unfinished task (and some other issues like Regional Financial Arrangements, including bilateral swaps, are expanding) the latter G20 meetings and the evolution of its agenda seems to show the tendency for the Group to undertake a second transition: this time from decision making on crisis related issues to strategic planning on substantive long term challenges.

That is the context for the G20 debates on Global Comprehensive Growth.

The Group seems to be committed to an expanded agenda. The so-called “Engagement Groups” like Business 20, Civil 20 (Society), Youth 20, Labor 20 and Think 20 (Academia) are building-in machinery designed to keep political leaders deliberations linked to the interest of the civil society.

All this groups have developed their agendas and routines to follow G20 deliberations and to make their contributions. There are even mechanisms and channels to keep the G20 connected with nations outside the membership of the Group.

While it is only natural for the Group of 20 to build on its early success and move to address the multilateral management challenges derived from a new world power structure attention should be given to the real possibilities for the Group to deliver on a growing and demanding agenda.

The G20 operates as an informal arrangement rather than an institution. It lacks a permanent secretariat and the focus of its agenda relay on the effectiveness of a responsible, so-called, “troika” and the commitment of the rotating presidency. It has mix records when it comes to the implementations of its decision, records that improve to the extent that such implementation is charged to a dedicated multilateral organization with a trained bureaucracy.

Considering those facts and records, perhaps, the best way to secure a meaningful transition from crisis prevention to long term strategic planning for the G20 would be to keep the Group focus on what it seems to have done at least reasonably well, that is the provision of a Global Public Good like International Financial Stability.

Although the connections between global growth and the provision of public goods had been researched only to a limited extend, it can be safely said that the present conditions of the Global Economy results from a chronic undersupply of Global Public Goods.

To redress such undersupply, the Group of 20 could – as it did in November 2008 with regard to the most urgent questions of the financial crisis – focus in a more strategic fashion in a limited number of issues treating Global Public Goods as Global Policy Outcomes in the fields on trade, environment and finance for infrastructure to help create jobs, exports and to improve people´s living conditions.

Global Public Goods must meet two criteria. The first one is to ensure that its benefits are truly public, that is to say, they are non-rival in consumption and non-excludable. The second is that benefits are almost universal in terms not only of countries but also, people (from different socio-economic population groups) and generations.

Within such framework – and avoiding an extensive analysis and classification of Public Goods – we will find “pure” and “impure” Public Goods, “Club Goods” (when excludability could be exercise to some extent); ”common pool resources” (where rivalry in consumption could be identify) and “Merit Goods” (whose consumption is valued by the community), always seasoned by externalities.

In a national context the solution to market failures and collective action problems is often to bring the state in to improve conditions for cooperation by, among other things, establishing clearer property rights, setting norms and standards or providing fiscal incentives. The supply of public good, however, also suffers from state failures placing its provision under double jeopardy, adding government failures to market failures.

At the global level, unfortunately, we can only rest in a group of institutions created more than half a century ago that look sometimes more like a patchwork instead of an articulated network.

We are well inside a new era of public policy defined by a growing number of concerns that straddle national borders. It is a situation calling for new forms of international cooperation that provides the conditions and opportunities for the development of concepts and instruments needed to overcome problems of collective action.

For the G20, considering its experience with regard to Global Financial Stability, there might be a possibility to look at the issue from the perspective of the production chain, distinguishing them between “Final Global Public Goods” and

“Intermediate Global Public Goods”, the latter being, for example, international agreements or regimes contributing towards the provision of the former.

III. Proposals

The financial crisis started in 2007-2008 proved very clearly the point already on the table at the birth of the G20: that an increasingly integrated world economy would require the provision of certain Global Public Goods.

There is considerable literature on the provision of Global Public Goods and, in particular, about the way they can be provided, the characteristics of the international architecture to ensure efficiency and their contributions to development and prosperity.

Public goods are essentially defined by a provision problem: they cannot easily be provided by private markets. In terms of beneficiaries, most Global Public Goods do vary from other public goods: their beneficiary groups are likely to be extremely large (billions)

Beneficiaries of global Public Goods are more diverse including developing and industrial countries, poor and rich, people of different cultures living in different ecosystems.

It is proposed here to increase the attention given by the G20 to redress the undersupply of the following Global Public Goods to create jobs, enhance human capital, foster innovation and improve income levels:

a. International Financial Stability

   Although this is a field where the Groups has done most of its work there is a still a number of issues whose implementation is unfinished and others requiring attention. Without pretending to provide an exhaustive list of pendant topics this research report offers below some suggestions.

   The expansion of Regional Financial Agreements (including bilateral swaps) and Contingent Reserve Agreements deserves attention and consideration by the Group as well as the working of the Mutual Assessment Process. The reassessment of the latter to strengthen its relevance and usefulness seems to be an evidence for observers, academics and the financial community.

The Framework for Strong, Sustainable and Balance Growth made initial progress towards policy coordination, information sharing and the consideration of structured policy discussions on medium-term issues. Further progress is needed, however, if the framework is to deliver on the G20´s own expectations.

Finance for infrastructure is a very important topic to promote growth. The Group may wish to take up its early work and Action Plan on Local Currency Bond Markets (LCBM) and Long Term Investment Funds (LTIF) as well as on Private Public Partnership to give a renew impulse to the subject agreeing on actions of practical nature at local level.

b. Trade

The proliferation of Regional Trade Agreements (RTAs) over the last decade has left little room, if any, for the progress of multilateral trade negotiations. The single agreement at Bali on the important issue of trade facilitation, whose implementation was regarded as the first move on multilateral trade on many years, has been recently bring into jeopardy by decision of one member state.

Building on its previous work on the matter the G20 should promote very specific mechanisms, or even a board (Trade Sustainability Board?) to administrate them, to monitor and reviewing regional trade agreements at global level, bringing information on the agreements to fore and ensuring its consistency with multilateral trade governance.

Another very important issue, particularly for Small and Medium Enterprises would be to promote Global Value Chains and Global Production Networks, nowadays a driving force for trade and investment. Trade in services is essential for Global Value Chains and therefore it is necessary to reduce barriers that hinder services from releasing its full potential contributions to trade, employment generation and growth.

c. Environment

The last rounds of multilateral negotiation on environment had reached meagre results as express by the low level of commitments agreed at the annual meetings of the Conference of Parties (COP). Part of its failures were explained in terms of the limits impose by the financial crisis on the advanced economies.

G20 itself has kind of mixed track record on its own commitments associated to climate policy. The Group committed to phase out inefficient fossil fuel subsidies and to phase down HFCs (chemical related to climate change used in industrial refrigeration)

With the global economy in a different phase and without ignoring the substantive differences in negotiating positions form the major players there is an opportunity for the G20 to take a step forward supporting climate negotiations at the global level with the purpose of unlocking the potential of the new technologies and developments to contribute to growth and prosperity.

Specific mechanisms on Climate Finance (on the table already for some time) could be study and unveiled to support technological development and implementation of climate commitments (include carbon taxes, financial transaction taxes, levies on aviation and bunker fuel, the redirection of fossil fuel subsidies, a reallocation of the IMF’s Special Drawing Rights (SDR) and emissions trading schemes)

d. Long term peace and Development through contribution to post-2015 Development Agenda

Leaders may wish to coordinate contributions to the multilateral debate on the Development Agenda post-2015 with specific targets to be achieved by the international community in terms of poverty eradication.

The New Global Partnership based on a spirit of solidarity, cooperation and mutual accountability fits well on the working mechanisms of the G20 and provides a good platform to make meaningful contributions.

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