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Resilient nations.*

Rebalancing Global Economic Governance

— Opportunities for China and the G20 beyond 2015

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Foreword

As a follow up to the first High-Level Policy Forum on Global Governance organized on 17 December 2012 and the ensuing Report, UNDP China co-organized the second Forum in Beijing on 22 October 2014 in partnership with the China Center for International Economic Exchanges (CCIEE), and with the Shanghai Institutes for International Studies (SIIS) as the academic partner.

The Second High-level Policy Forum on Global Governance convened a select group of high-level officials, leading experts and other development practitioners to continue the discussions on global governance, with an emphasis on its economic aspect. Further focus was placed on the requirements for sustainable development financing against the backdrop of the Post-2015 Development Agenda. This report has been drafted in light of the fruitful discussions that took place at the Forum and synthesizes the key proposals raised by the participants. Both the Forum and the Report were designed to provide broad recommendations for how the global economic governance system could contribute to the Sustainable Development Goals (SDGs), and include more specific inputs regarding China's 2016 G20 presidency.

Since the Millennium Development Goals (MDGs) were adopted in 2000, the world has dramatically changed. While we have seen considerable success in terms of poverty reduction—over 600 million people in the world have been lifted out of poverty—there remains much work to be done to eradicate this fundamental problem. Meanwhile, widening inequality in areas such as income, education and health, and preventing environmental degradation have emerged as some of the world's greatest challenges.

As a result, a global call for sustainable development has come into prominence. Addressing this challenge, requires the international community to step up and provide feasible solutions to global challenges. 2015 represents a watershed moment, as it is the year by which the MDGs should be achieved. It is also the year that a new set of global goals are to be introduced, paving the way towards a path of sustainable development that tries to address development in its three dimensions: social, economic and environmental. In parallel with this process, the world is anticipating major agreements to emerge from two other landmark events, namely, the third International Financing for Development Conference in July and the 21st yearly session of the Conference of the Parties (COP 21) to the United Nations Framework Convention on Climate Change (UNFCCC) in Paris in December. Providing solutions to all these problems will be challenging, and a balanced global governance is needed more than ever to identify possible global responses for a sustainable development pathway.

Specifically, the report considers China's opportunities as the largest developing country in the world and its potential to provide impetus to a global response. With the presidency of G20 as

well as the establishment of the New Development Bank (NDB) and the Asian Infrastructure Investment Bank (AIIB), China is expected to play a greater role in international cooperation and economic governance. The report looks in depth both at the role of China and the G20 in the context of the Post 2015 and offers specific recommendations for consideration.

By highlighting the importance of global governance and sustainable development, it is our hope that the content of this report will add value to ongoing debate and inform the work of policy makers and practitioners in China as well as around the world.

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Executive summary

In October 2014, a number of Chinese and International Experts gathered together in Beijing to discuss global economic governance and financing for development issues within the Post-2015 Agenda framework. This report has been drafted in light of those discussions and is based on some of the main proposals raised by participants.

The report is divided into two main sections; each section contains two chapters. Concluding recommendations are provided at the end of every chapter.

The first section sets the scene by analysing what challenges global economic governance needs to address. Since the Millennium Development Goals (MDGs) were adopted in 2000, there has been considerable success in terms of poverty reduction. However widening income, education and health inequalities, and environmental degradation have become some of the world's greatest challenges. The report notes the strong call for sustainable global development that has emerged, requiring the international community to step up to provide answers and solutions to global challenges. 2015 is the year that the MDGs were planned to be achieved and the year that a new set of global goals will be introduced. The 17 Sustainable Development Goals (SDGs) now under discussion try to pave the way towards a sustainable development path that tries to address development in its three dimensions: social, economic and environmental.

This opening chapter thus calls for the international community as a whole to rethink the global economic governance architecture and to reconfigure macroeconomic policies currently in place towards stability and development. Further, based on China's experience, the chapter suggests that each country may want to quickly integrate and prioritize some of the SDGs into their national plans. In parallel, in order to build inclusive and sustainable economies, data to evaluate performance against SDGs will need to become broader, deeper and more precise.

The second chapter focuses on how to confront the challenges of global economic governance vis-à-vis the development and global public goods encompassed in the Post-2015 Agenda. For instance, there are discussions on how to generate the finance and deliver the supportive structural policies (such as trade, etc) both at domestic and international level to deliver the post-2015 agenda. Global economic governance is progressing, but in a fragmented way. Its institutions are struggling to restructure at the speed required to keep up with global economic power shifts - characterized by emerging economies like China that are increasingly playing a more pivotal role. As a result, bilateral and regional initiatives are proliferating in order to fill gaps and make progress in areas that seem to be stalling multilaterally. There is also a rising awareness that many issues might be more efficiently tackled at the local and regional levels rather than just national. Our analysis suggests that if these trends do not reverse, more

coordination will be required by certain key players in the global economy if development and global public goods are to be delivered. In addition, the need to strengthen and develop inclusive, transparent and accountable institutions will be more important than ever, as will be the inclusion of the voices of the developing and emerging countries in global decision-making processes. Doing so will help to reset global economic rules to effectively deliver the Post-2015 Agenda. If the Post-2015 Agenda is to succeed, an enlarged policy space should be created to allow governments to identify and pursue national strategies that best suit their own circumstances but also provide win-win and beneficial solutions for other countries.

The second section of the report then moves to focus on identifying more specific opportunities for encouraging the outcomes and processes set out in the previous section. First, the third chapter considers China's significance as the largest developing country in the world. Since 1978, when policy reforms and opening-up were announced, the world has watched China grow exponentially. China's rise has not only improved the wellbeing of domestic citizens, but it has also positively contributed to the global economy through its role in global governance. Given China's position as a G20 nation, its backing of voting reforms that are currently taking place within the BWIs, its assistance with the establishment of new institutions such as the Asian Infrastructure Investment Bank, China is expected to further influence the international economic architecture in years to come.

However, the chapter also points out that while China has risen, its rise has also been incomplete. China is on track to continue to lift millions more people out of poverty, but also has major economic reforms to continue, and massive environmental degradation to reverse. The complexity of China's domestic position makes its role in global economic governance difficult and risky. Nevertheless, we argue that China's development experience, both past and present, is profoundly valuable for the international community and could provide a solid foundation on which to build a more proactive position in the future. To enhance this progress, China could focus on integrating the domestic agenda into the global agenda, whilst strengthening mutually beneficial (or "win-win") cooperation on a global scale. Further, China could embrace new institutions and enhance coordination among new and existing institutions to ensure they complement one-another, create synergies and build new solutions to global problems. Finally, China could maximise alliances with other countries, both developed and developing, especially in areas such as poverty alleviation, growth and development. A great opportunity to align these strategies might arise with China's G20 presidency in 2016 and with the implementation of the post-2015 development agenda.

In the fourth chapter, the report finishes by examining the potential of the G20 to also support the public goods and governance challenges outlined above, and particularly how China, through its forthcoming presidency of the G20, can encourage such support.

As a group that includes both developed and developing countries, the G20 has demonstrated

its ability to develop coordinated economic policy for all countries. By granting equal opportunity to all members and respecting their national interests, the G20 also distinguishes itself from the traditional institutions. In recent years, development issues have been continuously discussed on the G20 platform, especially through the Development Working Group (DWG) established in 2009. Based on nine original “pillars” identified at the Seoul Consensus in 2010, and a tenth on green growth added by Mexico, each subsequent G20 Chair has chosen its priorities with the aim of achieving concrete and high-impact outcomes.

Though the broad scope of G20 agenda has sometimes been criticised, its focus on development has continued thanks to the achievements of the DWG and each presidency. At the Brisbane Summit in 2014, the DWG advocated to make the development agenda an extension of the G20’s growth agenda. The Turkish Presidency has included sustainable development as a top priority for the Summit. China’s presidency in 2016 could continue to reinforce and strengthen the progress that Turkey makes this year, and provide impetus and momentum for the implementation of the United Nations post-2015 global development agenda.

Overall, our top message through the report is that prioritising development – in all its initiatives but particularly the 2016 G20 presidency – could offer a useful way for China to strengthen its political and economic role at the international level. China could do so by focusing on one or more specific priorities both at the Leader’s Summit and the DWG. For instance, boosting the economy while investing in infrastructure and sustainable business; enhancing green growth; fostering innovation; and several more.

There will be many more recommendations from others and perhaps even more detailed than ours, but for now our hope is that our recommendations will be timely, useful and actionable for all our stakeholders, and that China’s leaders, as well as others around the globe, will use the findings actively to help eradicate poverty and promote sustainable development in the coming decades.

Acronyms

AEoI (Automatic Exchange of Information)

AIIB (Asian Infrastructure Investment Bank)

AMIS (Agricultural Market Information System)

APEC (Asia-Pacific Economic Cooperation)

ASEAN (Association of Southeast Asian Nations)

ATT (Arms Trade Treaty)

BEPS (Base Erosion and Profit Shifting)

BRICS (Brazil, Russia, India, China and South Africa)

BWIs (Bretton Woods Institutions)

C2ES (Center for Climate and Energy Solutions)

CAP (Common African Position)

CBDR (Common but Differentiated Responsibilities)

CMI (Chiang Mai Initiative)

COP (Conference of the Parties)

CRA (Contingent Reserve Arrangement)

DRM (Domestic Resource Mobilization)

DTCs (Developing and Transition Countries)

DWG (Development Working Group)

ECIS (Europe and the Commonwealth of Independent States)

ECOSOC (Economic and Social Council)

EU (European Union)

FAO (Food and Agriculture Organization)

FDI (Foreign Direct Investment)

FfD (Financing for Development)

FOCAC (Forum on China-Africa Cooperation)

FSB (Financial Stability Board)

GDP (Gross Domestic Product)

GFSN (Global Financial Safety Nets)

HICs (High-Income Countries)

HLP (High-level Panel)

IBRD (International Bank for Reconstruction and Development)

ICESDF (Intergovernmental Committee of Experts on Sustainable Development Financing)

ICSU (International Council for Science)

IDA (International Development Association)

IFC (International Finance Corporation)

IFFs (Illicit Financial Flows)

IFIs (International Financial Institutions)

IISD (International Institute for Sustainable Development)

IMF (International Monetary Fund)

INDCs (Intended Nationally Determined Contributions)

IVA (Industrial Value Added)

LAC (Latin America and the Caribbean)

LDCs (Least Developed Countries)

LICs (Low-Income Countries)

LIDCs (Low-Income Developing Countries)

LIDCs (Low-Income Developing Countries)

LLDCs (Land-Locked Developing Countries)

MCAI (Multilateral Cooperation Agreement on Innovation)

MDBs (Multilateral Development Banks)

MDGs (Millennium Development Goals)

MICs (Middle-Income Countries)

Mol (Means of Implementation)

MOFA (Ministry Of Foreign Affairs)

MOU (Memorandum of Understanding)

MYAP (Multi-Year Action Plan)

NDB (New Development Bank)

NDRC (National Development and Reform Commission)

NEPAD (New Partnership for Africa's Development)

NGOs (Non-Governmental Organizations)

ODA (Official Development Assistance)

OECD (Organization for Economic Cooperation and Development)

OECD-DAC (Development Assistance Committee)

OPEC (Organization of the Petroleum Exporting Countries)

OWG (Open Working Group)

PPPs (Public-Private Partnerships)

PFMs (Prospective Founding Members)

QE (Quantitative Easing)

RCEP (Regional Comprehensive Economic Partnership)

SCO (Shanghai Cooperation Organization)

SDGs (Sustainable Development Goals)

SIDS (Small Islands Developing States)

SME (Small and Medium Enterprises)

SRF (Silk Road Fund)

TFP (Total Factor Productivity)

TISA (Trade in Services Agreement)

TiVA (Trade in Value Added)

TOSSD (Total Official Support for Sustainable Development)

TPP (Trans-Pacific Partnership)

TTIP (Transatlantic Trade and Investment Partnership)

TWN (Third World Network)

UNCTAD (United Nations Conference on Trade and Development)

UNDESA (United Nations Department of Economic and Social Affairs)

UNDP (United Nations Development Programme)

UNEP (United Nations Environment Programme)

UNFCCC (UN Framework Climate Change Convention)

UNGA (United Nations General Assembly)

WTO (World Trade Organization)

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Introduction

This report has been drafted in light of the discussion that took place at the second High-level Policy Forum on Global Governance held last 22 October 2014 and is based on some of the main proposals raised by participants. The intention of the Forum was to discuss global economic governance and financing for development (FfD) issues within the framework of the Post-2015 Agenda. Both the Forum and the report were designed to provide early inputs for consideration regarding the steps required to support the implementation of the Sustainable Development Goals (SDGs).

The report is divided into two main sections; each section containing two chapters. Concluding recommendations are provided at the end of every chapter.

The first section sets the scene by analysing what global economic governance needs to address now and over the coming decades. The first chapter of the report therefore sets out the possible challenges that face the implementation of a Post-2015 Agenda, and explores the connection between economic growth and instability in a world that is increasingly complex. It notes the strong call for sustainable global development that has emerged, requiring the international community to step up to provide answers and solutions to global challenges.

The second chapter focuses on how to confront the challenges of global economic governance in order to deliver the Post-2015 Agenda. It examines the factors that are stalling reforms to the main international economic institutions, the root causes of fragmentation within the global economic governance system and – above all – the impact of this fragmentation on economic growth and financing for sustainable development. This analysis paves the way for the second section of the report, where the focus moves on to identifying possible global responses to ensure that sustainable development is achieved.

Specifically, given the fact that the Forum took place – and the report was written – in China, the third chapter considers China's significance as the largest developing country in the world. The report investigates the role that China can play in delivering public goods and responding to the global economic governance shifts identified in the previous chapters. Finally, in the fourth and concluding chapter, the report examines the potential of the G20 to support the same public goods and address governance challenges, and particularly how China, through its forthcoming presidency of the G20, can encourage such support.

Our hope is that our recommendations are timely, useful and actionable, and that China's leaders, as well as others around the globe, will continue to aspire to eradicate poverty and promote sustainable development everywhere in the coming decades.

Part I: Global Economic Governance and Potential Challenges in the Implementation of a Post-2015 Agenda

Chapter 1 – What demands does global economic governance need to address?

The countries of Asia and the Pacific are driving the global economic recovery, achieving remarkable gains in reducing poverty and reaching many other Millennium Development Goals. At the same time, there are clear signs of rising income inequality as well as large gaps in access to transport, information and communications technology, modern energy resources, women's political and economic participation and other drivers of development. Now more must be done to bridge these divides and ensure that growing prosperity is shared by all.

– Ban Ki-moon
UN Secretary-General

Since the Millennium Development Goals (MDGs) were adopted in 2000, the world has dramatically changed. Whilst there has been considerable success in terms of poverty reduction – over 600 million people have been lifted out of poverty – life for many is nevertheless unpredictable. Widening income, education and health inequalities, and environmental degradation have become some of the world's greatest challenges. As a result, a global call for sustainable

development has emerged. This requires the international community to step up to provide answers and solutions to global challenges.

Indeed, 2015 represents a key breaking point; as it is the year that the MDGs were planned to be achieved and the year that a new set of global goals will be introduced. The 17 Sustainable Development Goals (SDGs) now under discussion try to pave the way towards a sustainable development path that tries to address development in its three dimensions, social, economic and environmental.

This chapter explores these global shifts and emerging needs, and concludes with a number of specific points regarding how the success of the MDGs should be built on in order to deliver the Post-2015 Agenda.

1.1 Rising insecurities

1.1.1 Global financial crisis and rising inequalities

As a result of the global financial crisis of 2008-09 global economic output dropped by 2 per cent in 2009. This caused what has been described by many observers as the 'Great

Recession'. Whilst a number of steps were taken to reverse this (also see Chapter 2), by 2010 the banking crisis had evolved into a European sovereign debt crisis that caused a drop in global output once again. A double-dip recession movement followed but was confined in Europe, and therefore did not have the same impacts as the previous global recession. Slowly, the recession began to recede and further deterioration avoided.

Today's global economy is still operating in the shadow of the crisis. Although economies are generally recovering, the momentum of recovery remains weak, asymmetric and volatile. Europe and Japan are continuing to suffer from long-term stagnation, although the United States (U.S.) – where the crisis originated – is expected to grow by over 3 per cent between 2015-2016 thanks to a more flexible labour market and higher productivity growth. Emerging and developing economies have experienced slowdowns in their pace of growth, but this is less a result of external market contractions than a consequence of internal transitions. Most emerging and middle/low income economies are grappling with difficult questions such as how to reform and upgrade their economies, how to enhance resilience from external risks and dependency on 'developed' countries and how to avoid the so-called 'middle-income trap'. Long-term constraints that will affect future growth in these countries include major structural issues like sovereign debt and the degree of emphasis to place on innovation.

Among the most difficult issues all countries

are facing is income inequality. At the World Economic Forum this year, rising income inequality was cited as a worrying global trend by the Global Agenda Council. In developed and developing countries alike, the poorest half of the population often holds less than 10 per cent of its country's wealth. Over the last 25 years, the average income of the top 0.1 per cent globally has grown 20 times compared to that of the average citizen (Global Agenda Councils, 2015). According to OXFAM, while the wealth of the world's top 1 per cent already totals around 48 per cent of total global wealth, this is expected to increase further over the coming decades (Figure I). In addition, the wealth held by the 80 richest people in the world rose (doubling in nominal terms) between 2009 and 2014, while the wealth held by the bottom 50 per cent declined over the same period (Figure II).

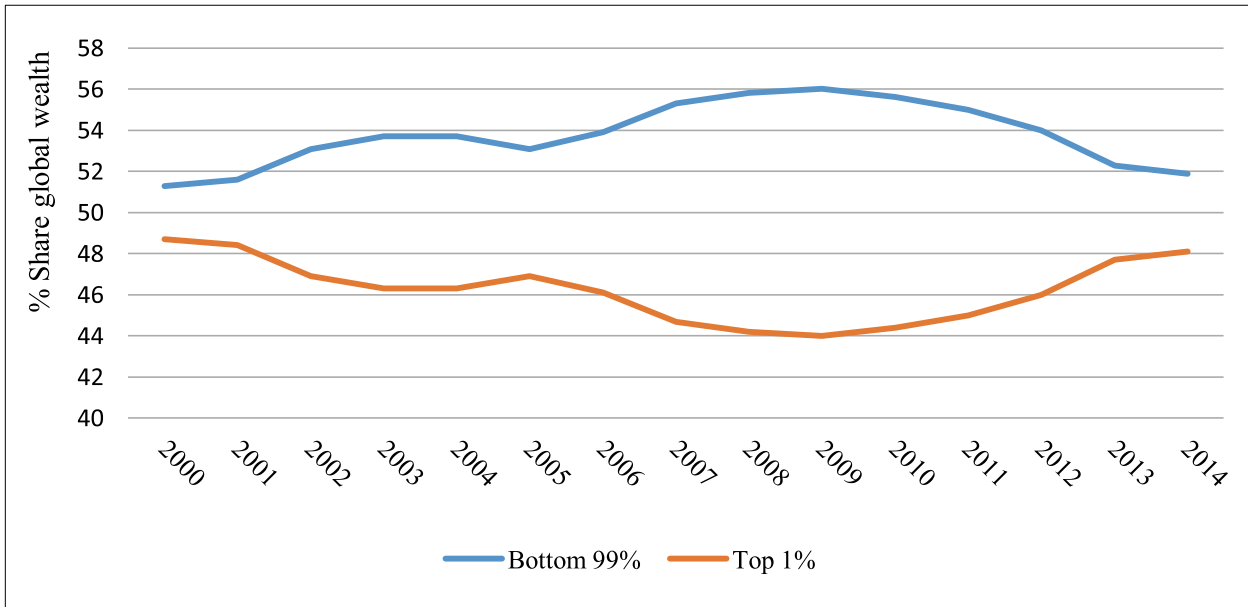
At the regional level, Africa has experienced the largest average reduction in household income inequality, followed by Latin America and the Caribbean (LAC). Based on the Gini index¹ of household income inequality, inequality in Africa and LAC declined by 7 per cent and 5 per cent respectively (on average) between the 1990s and the late 2000s (UNDP, 2013). In contrast, Europe and the Commonwealth of Independent States (ECIS) and Asia experienced the largest average increases in inequality; 35 per cent and 13 per cent respectively over the same period.

Over the last few decades, there has also been an increase in the number of people trapped in poverty. Research estimates that



1. The Gini index measures the extent to which the distribution of income or consumption expenditure among individuals or households within an economy deviates from a perfectly equal distribution" (World Bank). Note that other inequality indices are now available, such as the Palma, which also tend to reinforce these trends.

Figure I. Share of global wealth of the top 1% and bottom 99% respectively



Source: OXFAM (2015). *Wealth: Having It All and Wanting More*.

Figure II. Respective wealth distribution of the 80 richest people and the bottom 50% (2000-2014)



Source: OXFAM (2015). *Wealth: Having It All and Wanting More*.

between 2008 and 2009 approximately 320-443 million people globally experienced poverty lasting an entire lifetime and/or spanning generations (Addison et al., 2008). This persistent poverty exposes poor people to substantial and multidimensional risks. Poverty has implications far beyond income; poverty can imply under- or mal-nutrition, insufficient food, lack of access to sanitary systems, health care facilities, education and other resources. As a consequence of material deprivation and political marginality – which is often a further consequence of poverty – chronically poor people typically lack the capability to provide their children a ‘good start’ in life, which can translate into a vicious intergenerational poverty cycle.

Finally, the global geography of poverty has changed substantially in recent years. In particular, there has been a noticeable shift in the global distribution of poverty from low-income countries (LICs) to middle-income countries (MICs). In the 1990s, poverty was predominantly regarded as a low-income country issue, since 93 per cent of the world’s poor lived in LICs. In contrast, between 2007 and 2008, approximately 75 per cent of the world’s poor lived in MICs and the remaining 25 per cent lived in LICs (Sumner, 2010). Indeed, currently four countries – namely India, Pakistan, Indonesia and Nigeria – account for over 90 per cent of the poor in MICs, raising questions, among others, on the definition of country classifications, but also on exactly how poverty reduction can take place in fairly unique contexts, and the role of domestic taxation and redistribution policies. These reflections are also significant when examining statistics for high-income countries

(HICs) across the globe where poverty is also growing. For instance, the poverty rate rose in major economies such as the United Kingdom (UK), the U.S., Italy, Spain and Australia after the 2008-2009 financial crisis (World Bank, 2015).

All of these changes represent new and complex challenges confronting policy makers interested in poverty reduction, and may well imply shifts in policy prioritisation and altering roles of governments and other actors such as international organizations and non-government organizations in addressing poverty reduction.

1.1.2 Economic imbalances - Impact on developing countries, least developed countries and fragile states

Developing countries and least developed countries (LDCs) are those that suffer the most from global financial crises and other worldwide challenges. For instance, although domestic risks are certainly significant in some Sub-Saharan African countries, external factors typically pose the greatest threats to the region as a whole (IMF, 2014). While the impact of external factors on developing countries is wide-ranging, this section will predominantly focus on economic effects.

The financial crisis of 2008-2009 changed the global capital market significantly, tightening the funds available for development. In particular, funding set-aside for development from the Organization for Economic Cooperation and Development (OECD) countries – Official Development Assistance (ODA) – stagnated for a while due to fiscal constraints. Though a slight increase in ODA

has occurred over the last two years, very few OECD countries are honouring their historical commitments to foreign aid, including most recently under the Monterrey Consensus². In addition, the proportion of ODA going to LDCs has also fallen over time (OECD, 2015; ICESDF, 2014; Revision Zero Draft Addis Ababa Accord, 2015).

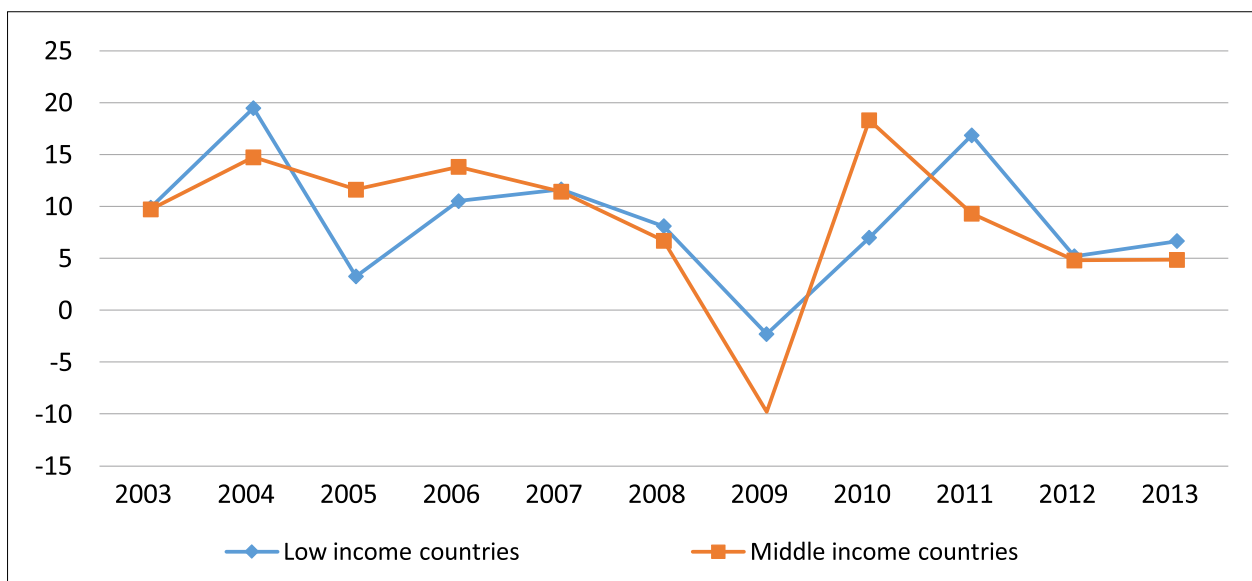
Regarding private funds, the banking system used to cover 70-90 per cent of financing for mid- to long-term projects in developing countries. However, stronger banking regulations since the crisis now imply a development financing gap of US\$1.5 trillion (Baffi, 2013). While animated discussions have arisen concerning ways to develop more innovative financing methods, these have not yet translated into tangible results. The 2012 UN Department of Economic and Social Affairs (DESA) report underlines that only US\$8.4 billion in funding has been raised by new and

innovative financial instruments since 2002 (UNDESA, 2012).

Monetary policies in many major economies are also creating an environment of tremendous uncertainty for developing countries' trading prospects. While four rounds of Quantitative Easing (QE) in the U.S. kept the American economy from slowing even further, QE augmented appreciation pressures in emerging markets, harming their trade competitiveness. Moreover, the decline of oil prices and the slowdown of global economic growth compounded to hamper the exports of developing countries. Growth rates for exports in LICs and MICs all declined sharply during the financial crisis and continued to do so after 2011, when the U.S. QE policies came into effect (See figure III).

The latest version of the International Monetary Fund's (IMF) World Economic

Figure III. Growth rate of exports in low income countries and middle income countries (%)



Source: World Bank (2015). *WDI databases*.



2. These commitments refer in particular to the 0.7 per cent of gross national product (GNP) as ODA to developing countries and 0.15 to 0.20 percent of GNP of developed countries to least developed countries. Refer to the OWG document. The 0.7 target was first pledged in a UN General Assembly Resolution in 1970 and reaffirmed in many international agreements including the Monterrey Consensus signed in 2002 at the first International Conference for Financing for Development held precisely in Monterrey, Mexico.



Outlook predicts a long-term slowdown in the growth of high and middle-income economies. While economic growth in high income economies is likely to increase marginally to 1.6 per cent over the next 5 years, this figure is still below the pre-crisis rates of 2.25 per cent. Economic growth in emerging market economies is expected to decline from 6.5 per cent to 5.2 per cent over the same period (IMF, April 2015).

This economic outlook will increase potential risks in already vulnerable LDCs and in fragile and conflict affected contexts³. Those states are particularly vulnerable to financial shocks due to their dependence on remittances, reliance on concessional financing, primary commodity exports and overseas aid, which has been constrained significantly since the financial crisis (World Bank, 2009). The global crisis could also move a number of previously non-fragile countries into the 'fragile countries' category.

In fragile and conflict affected contexts, the inability of governments to provide basic services and goods, coupled with growing unemployment, rising costs of living and increased poverty can aggravate pre-existing levels of violence, conflict, criminality and public unrest. In the absence of appropriate countervailing action, the economic environment in many of these states could

further deteriorate, triggering political collapse and continued cycles of conflict.

The development costs of such outcomes is large, in both financial and human terms – the global recession is estimated to have threatened \$11.6 billion (equivalent to about 1.1 per cent of GDP) of core spending that would have assisted the world's poorest countries in 2009 (World Bank, 2010). Fragile states, including those in Sub-Saharan Africa and many emerging from conflict, accounted for 58 per cent of this total. This is a worrying statistic, because fragile states are the countries least able to reduce poverty. Countries affected by violence account for 60 per cent of the world's undernourished people, 77 per cent of all children not in primary school, 71 per cent of total child mortality (under five years old), 43 per cent of all people living with HIV/AIDs, and 65 per cent of people without access to safe water (IMF, 2011; OECD, 2015).

The international community has been reflecting on new ways to overcome these challenges, and in particular the concerns related to financing development gaps. Some of these are expected to be addressed in Addis Ababa this July 2015 at the third Conference on Financing for Development⁴.



3. The discussion about the dynamics and drivers of fragility are broad and controversial at the same time. The OECD-DAC (2011) definition usually refers to fragile contexts as those where public authorities have "weak capacity to provide for and administer a population and its territory", underlining therefore not only the lack of state capacity and authority but also the relation between states and societies. Other development agencies including the World Bank define fragility using several indicators related to state effectiveness and among others governance performance, the rule of law, government effectiveness, corruption, adherence to human rights standards (World Bank, 2011). A certain degree of consensus, as underlined by UNDP (2012), has been reached on several common factors that characterized fragility: 1) fragility is not a static state but a continuum; 2) fragile contexts are affected by different types of crisis, man-made or natural, and are incapable to respond, prevent or be resilient without external support; 3) in those contexts, public authorities have not anymore the absolute control on legitimate violence, neither the capability to deliver services or collect public revenues. In 2015 and in light of the post-2015 agenda, the OECD has suggested that country risks could be analysed around five clusters of fragility indicators: 1) violence; access to justice for all; 3) effective, accountable and inclusive institutions; 4) economic inclusion and stability; 5) capacities to prevent and adapt to social, economic and environmental shocks and disasters.

4. The Financing for Development UN intergovernmental process began with the first international conference in Monterrey, Mexico, in 2002 as previously mentioned. The second financing for development conference was held in Doha, Qatar, in 2008. Biannual meetings of the UN General Assembly in New York also consider the financing for development agenda.

1.1.3 Constraints from geopolitical, financial and environmental risks

The world has become more interconnected, which brings a number of benefits for development – for instance expanded trade and capital flows. But it also creates increasing risks for development, as the effects of a crisis originated in one country can move easily to the rest of the globe especially in the most fragile contexts. As described earlier, an unbalanced and volatile world economy can affect the economic stability of countries, as well as destabilise their political and institutional structures creating a widespread sense of insecurity in society.

For example, emerging and developing countries experienced severe capital outflows after the crisis when the U.S. Federal Reserve began its QE monetary policy. Risks in the financial sector are rising, especially as MICs and LICs issue more sovereign debts denominated in US\$ rather than their own domestic currencies. Heavy debt burdens and currency mismatches increase their exposure to the international financial market, thereby raising their default risk.

There are also increasing physical global interconnections. For instance, energy is of crucial importance to all countries. Global oil prices unexpectedly halved in September 2014 for several reasons, including the world's fundamental supply and demand structure, the amplification effect brought about by the connection between the oil and financial market, along with a number of other geo political factors. Most experts predict that low oil prices will continue into the long-term.

The fall of oil prices is seen by some as beneficial for the global economic recovery; it should help to lower the cost of economic activities, relieve fiscal burdens in oil importing economies and reduce inflation pressures. According to estimates by the IMF, low oil prices could add 0.3-0.5 per cent growth to the world's Gross Domestic Product (GDP) in 2015 (IMF note to the G20, 2015). However, the same source emphasises that this contribution will not offset the impact of negative factors – referring in particular to inadequate demand and investment, and structural obstacles in labour and product markets, especially in Europe and Japan. Furthermore, if oil prices decline further, this will exacerbate the negative fiscal situations in oil exporting economies, such as Russia, the Middle East, North Africa and Latin America. This could cause their currencies to devalue and may cause political unrest. Many therefore believe that a stable oil market would be most advantageous to the world economy. In line with these assumptions, the IMF revised its predictions for world economic growth in 2015 and 2016 to 3.5 per cent and 3.7 per cent respectively (IMF, January 2015).

On the other hand, low energy prices offer few incentives for the world to address climate change. Yet, economists such as Lord Nick Stern have stressed that energy and environmental issues – especially climate change – are central to many of the strategic challenges facing the world today and they represent the most complex economic, political and diplomatic challenge of our time (Stern 2006). Extreme weather disasters are happening more frequently, causing economic regression and impeding poverty reduction

efforts (Greenstone, 2014; UNFCCC, 2015). Moreover, many emerging economies currently face urgent environmental problems caused by severe air and water pollution. According to a recent OECD report, each year the world sees 3 million deaths as a result of air pollution, while many more people are affected by related health problems; a trend that is set to rise. The report suggests that the amount of money 'lost' to pollution-related illnesses (in terms of lives lost and medical treatment costs) in OECD countries, China and India combined equates to around US\$3.5 trillion per year (OECD, 2014).

Finally, the recent Ebola outbreak reveals how deeply epidemics and pandemics can challenge the international community. In addition, although humanitarian crises and food security issues are not new, they continue to constrain development processes in some of the world's most fragile and conflict-affected contexts, for instance in Syria.

1.2 A global call for sustainable development

1.2.1 An ambitious agenda and 17 SDGs

As is clear from earlier sections, while significant progress has been made in terms of poverty reduction, access to education, reduced child and maternal mortality, and access to basic sanitation, the global financial crisis of 2008-2009, along with food, health, energy, environmental issues and geopolitical tensions over the last decade have highlighted the challenges of global interconnectedness and the systemic weaknesses in the global economy.

Current economic progress is unlikely to be sustainable in the long-term. As underlined at the 2012 Rio+20 Conference, the world needs to change in order to secure a liveable planet for future generations. Current problems are not only related to the economic and environmental imbalances, but are also related to the social consequences that these instigate, especially relating to inequality. Recent estimates predict that the world population will grow by an additional 2 billion people by 2050. Without sharing resources and changing our production and consumption patterns, persisting inequities and resource deficits could intensify conflict, insecurity and human rights violations (Vos, 2012).

Since the approval of the MDGs in 2000, the UN Development Group (UNDG) has been working to implement an agenda defined by these eight specific goals. Though many have doubted the validity of this approach – for instance some perceive the MDGs to be a North-South construct that is of limited use for addressing several important issues for poverty reduction, such as government, environmental issues and economic growth – it is undeniable that setting clear objectives has helped bring attention to and assisted with mobilising funding for poverty reduction. Moreover, the MDGs harnessed unprecedented support for an agenda focused on achieving human development at a time when the predominant thinking within the international community (and at the most influential global governance discussion tables) was more concerned with economic growth and open markets.

However, 2015 represents a historic moment for international development cooperation,

both as the final year of the MDGs and as the year when a new global development agenda will be adopted. Initially, many questioned the need for a new agenda, including China and a number of other developing countries. However, it has slowly become clear that a new agenda is needed to respond to the challenges of today's world. In particular, it is hoped that via this Agenda, the international community will pave the way for a new concept of development that will adopt a more holistic approach to sustainable development. This framework can be subdivided into three core dimensions: economic, social and environmental.

As early as 2010, negotiators and the general public have been engaging in discussions on this framework. The contents of the Post-2015 agenda define what future objectives are likely to be, and they can be expected to profoundly influence the global development landscape over the next 15 years and beyond. Negotiations surrounding the Post-2015 Agenda have been driven by two main conversations – one initiated by the UN Secretary-General and the other by the Rio+20 Conference on Sustainable Development. These are expected to unite to form a unified global development agenda for Post-2015, with sustainable development at its core. In particular, the UN Secretary-General has appointed a Special Advisor on Post-2015 Development Planning and has launched several initiatives, including:

- A High-level Panel (HLP) of Eminent Persons;
- Consultations with more than 100 countries (on national, global and thematic issues)

facilitated by the UNDG;

- A global survey called A Million Voices; and
- A UN System Task Team on the Post-2015 UN Development Agenda.

In 2012, the Rio +20 Conference mandated a follow-up process that includes 13 meetings between UN Member States. Following deliberations by the Open Working Group (OWG) on Sustainable Development Goals, 17 SDGs were identified.

At the end of 2014, the UN Secretary General (SG) prepared a Synthesis Report combining all of the reports, meeting and discussions related to the Post-2015 process, including the 17 SDGs suggested by the OWG. It highlights the critical importance of equity and inclusion. In the report, the Secretary-General credits the HLP in particular for stating that 'no one should be left behind', proposing that a unified and universal development agenda should integrate six essential elements: dignity, people, prosperity, planet, justice and partnership (Figure IV) (SG Synthesis Report, 2014).

1.2.2 A rough map on consensus and divergence

While the wide variety of perspectives on the post-2015 agenda have increased the richness of its content, the large number of actors involved in the negotiation process have made it hard to reach consensus. As intergovernmental negotiations move forward, the views expressed by member states, regional groups and other platforms have begun to converge. Though divergences

Figure IV. Six core elements proposed by the Secretary General’s Report



Source: UN Secretary General (2014). *Synthesis Report*.

BOX I. 17 SDGs

1. End poverty in all its forms everywhere;
2. End hunger, achieve food security and improved nutrition, and promote sustainable agriculture;
3. Ensure healthy lives and promote well-being for all at all ages;
4. Ensure inclusive and equitable quality education and promote life-long learning opportunities for all;
5. Achieve gender equality and empower all women and girls;
6. Ensure availability and sustainable management of water and sanitation for all;
7. Ensure access to affordable, reliable, sustainable, and modern energy for all;
8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all;
9. Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation;
10. Reduce inequality within and among countries;
11. Make cities and human settlements inclusive, safe, resilient and sustainable;
12. Ensure sustainable consumption and production patterns;
13. Take urgent action to combat climate change and its impacts;
14. Conserve and sustainably use the oceans, seas and marine resources for sustainable development;
15. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss;
16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels;
17. Strengthen the means of implementation and revitalize the global partnership for sustainable development.

still persist, a relatively common vision is emerging. A first Zero draft of the outcome document for the UN Summit to adopt the post-2015 development agenda was issued on June 1, 2015.

Eradicating extreme poverty is central to the Post-2015 discussions. It is seen as the sine qua non condition: to achieve sustainable development no one should be left behind. However, a lively discussion continues on whether the poverty line should be fixed at US\$1.25/US\$2 per day, and on how to better measure poverty in all its dimensions. While building on the achievements of the MDGs, the Post-2015 agenda should move on to address new global challenges such as environmental degradation and other core issues that are root causes of poverty. An integrated and multidimensional approach is required to address the economic, social and environmental challenges to development. Nevertheless, concerns remain, namely among those who believe that the agenda is too broad. Some are worried that with such a large agenda, priority will not be given to address the most urgent and basic needs in many LDCs. Moreover, it is still not clear how the three dimensions will be successfully integrated, especially at the institutional level. The proposed agenda is universal in nature and is therefore intended to be applicable to all countries on a voluntary basis. This represents a 'revolutionary' shift away from the MDGs, where 7 of the 8 goals were interpreted to apply only to developing countries, and were designed to be implemented using a top-down approach. Despite much agreement, the universal character of the agenda has caused some contention, especially concerning

individual country responsibility and how the burden of financing and acting on the SDGs should be shared at the global level.

Referring to the specific contents of the proposed SDGs, consensus has emerged especially on the goals that relate most closely to the MDGs framework – particularly due to a strong push from the G77+China grouping of 134 countries. These refer in particular to eradicating poverty, ending hunger and malnutrition, promoting healthy lives, providing quality education and lifelong learning, providing clean water and sanitation and promoting gender equality.

A similar vision has been expressed on areas related to reducing inequality, including social protection, sustainable energy for all, strengthening the work on resilience and vulnerability. A certain degree of consensus has also been reached on the importance of rule of law and building peaceful and inclusive societies – one of the pillars of the Common African Position (CAP), though there have been concerns about how this goal might relate to sovereignty.

These areas of agreement provide a solid foundation upon which trust can be built and dialogue can continue towards achieving consensus and compromises on issues related to a comprehensive approach to sustainable development. Indeed, more work needs to be done on issues related to climate change, conserve oceans and forests, sustainable cities and human settlements, sustainable consumptions and production patterns. Though in principle, many agreed on working toward inclusive economic growth, consensus is extremely fragile when it comes

to the vast number of targets that this process includes (UNDESA Sustainable development knowledge platform, 2015; IISD, 2015; Save the children, 2014).

Targets within all 17 goals are, in fact, all subject to discussion and debate. According to analysis conducted by the International Council for Science, of the total 169 targets identified by the OWG – considered to be aspirational global targets that governments can pursue depending on their national circumstances – 49 (29 per cent) are believed to be well-developed, 91 (54 per cent) are cited as lacking necessary specificity, and 29 (17 per cent) still require significant work if the end goal is an ideal, fully technically-practicable framework (ICSU, 2015). In other words, how to implement, measure and monitor the proposed agenda and the SDGs remains the most challenging issue. This is also why, it will be crucial to reach an agreement on the ‘Means of Implementation’ (MoI), and on how to ensure good governance and accountability, since these are the factors that are likely to have a major impact on the success of the agenda.

1.3 Recommendations - Paving the way to sustainable development

How to tackle global insecurities and eliminate, or at least mitigate, the causes of insecurity remain crucial issues. However, the contents and objectives of the proposed Post-2015 Agenda are naturally challenging, demanding, and multifaceted, since they reflect the complexity of today’s world. This agenda has been developed via a democratic process

that raises the concerns of all, especially those in disadvantaged conditions. It provides a key starting point for considering the role of global economic governance, both for groups of countries and for individual countries. In doing so, however, we would encourage reflection on the following implementation issues regarding the SDGs, which will be relevant to the entire international community.

a) Clear prioritisation by each SDG country

The agenda, and especially the proposed SDGs, have been criticised for trying to be ‘everything to everyone’, and for their lack of focus. When addressing these concerns, it is important to bear in mind that the Post-2015 Agenda and the proposed 17 SDGs reflect the changes that communities from all around the world are asking for. Although the goals should be universal – applicable to all countries on a voluntary basis – not all of them should necessarily be given the same priority at the same time, given the different national circumstances and stages of development of each country. Therefore, countries should be able to choose a few goals in line with their own national development agenda, political system and capabilities.

b) Rethinking macroeconomic policies to favour stability and development

In order to stabilise the international market and to avoid the negative effects of recurrent international financial crises – especially on the world’s most vulnerable countries – the international community should explore the possibility of encouraging the economic system to prioritise global stability over narrow financial interests.

The measures adopted by developed countries to overcome the financial crisis did not bring about a rapid and sustained recovery, but instead created the conditions that led to the global fiscal crisis – such as significant increases in asset prices, large capital outflows and weak economic growth. The vulnerability of developing and emerging economies has been amplified by persistent weaknesses in the international financial architecture. Past events also highlight that the stabilisation of low growth rates across different countries does not imply that the world economy is entering a new stage. An in-depth analysis of GDP growth and its drivers actually implies that developing and transition economies are currently experiencing the fourth cycle of volatile growth since the mid-1970s.

Solutions to these challenges are unlikely to be found if macroeconomic policies continue to operate in the same way. The international community should work to shape a balanced-growth scenario where planned economic policies, not markets, are central to decision-making processes. Now more than ever it is crucial that we create global economic institutions that are able to regulate markets and correct unsustainable imbalances (UNCTAD, 2014; Piketty, 2014).

c) Enhancing data availability

In order to build inclusive and sustainable economies, metrics to evaluate economic performance must be broader, deeper and more precise. Following Rio+20, it was agreed that ways to measure sustainability must move ‘beyond GDP’, and that these should be implemented as soon as possible

by all countries. Enhanced data availability is also crucial for pursuing an evidence-based approach to achieve sustainable development.

While significant progress was made by the MDGs in mapping and enlarging the world’s knowledge of global issues, including demographic challenges and acute poverty, much more needs to be done. The ambition of the Post-2015 Agenda and the SDGs is to encourage the international community to make greater efforts to support and fund accurate data (UN Data Revolution, 2014). A data revolution will help to overcome two main global challenges. These are:

- A lack of transparency: to enhance information and gather data to fill knowledge gaps and improve decision making;
- Inequality: to gather higher quality data about disadvantaged populations, so as to ensure equal implementation of the SDGs across countries.

Chapter 2 – How can global economic governance more actively support global development cooperation?

Overcoming poverty is not a task of charity, it is an act of justice. Like Slavery and Apartheid, poverty is not natural. It is man-made and it can be overcome and eradicated by the actions of human beings. Sometimes it falls on a generation to be great. You can be that great generation. Let your greatness blossom.

– Nelson Mandela
Former President of South-Africa

The rise of global challenges is accompanied by a fragile and fragmented global order. While this order is in the process of restructuring, it still has a way to go before it achieves effective and inclusive results. Since the global financial crisis of 2008-09, global governance debates have become much more oriented towards tackling financial and economic issues and finding sustainable financing solutions. In addition, emerging economies like China are increasingly playing a new and more incisive role. This ‘rise of the South’ marks a tectonic shift in the global order of power. However, the combination of instability and volatile economies and a lack of inclusiveness in the global economic governance architecture has led to a proliferation of bilateral, plurilateral, regional and cross-regional agreements.

At the same time, through the work on the Post-2015 Agenda draws near there has been a renewed call for strengthening multilateralism, alongside open discussions on ways to reform the UN to better deliver this

agenda. While clear, universal goals will define what future challenges are, policymakers and stakeholders are working to devise specific plans regarding how these might be addressed. In the financial arena there are discussions regarding how to effectively mobilise public and private resources at the domestic and international levels. Outside the financial arena, discussions are under way on how to foster capacity building, technology transfer and make other systemic policies have a more positive impact on development.

The need to strengthen and develop inclusive, transparent and accountable institutions is more important than ever, as is the inclusion of the voices of the developing and emerging countries in the global decision-making process. This will help to reset global economic rules to effectively deliver the Post-2015 Agenda. There is also a rising awareness that many issues might be better, and more efficiently tackled at the local, national and regional levels in order to support the progress of all countries. If the Post-2015 Agenda is to succeed, an enlarged policy space should be created to allow governments to identify and pursue national strategies that best suit their own circumstances but also provide win-win and beneficial solutions for other countries. This will be a more complex process than that advocated in the past.

2.1 The slow pace of global economic institutional reform

2.1.1 Stalemate versus reform - What future for traditional institutions?

The spirit of multilateral cooperation that characterised the response to the 2008-09 financial crisis appears to have been long forgotten due to the failure of an agreed international reform process. More recently, geopolitical competition has grown among major powers, creating frictions within the global system (Bradford, 2014).

Thus, the promise of a greater and more effective way to manage a global crisis has not developed in a clear or logical way. Neither has a global response driven “the establishment of well-resourced, globally-reaching, rapidly acting international institutions”, argues Ngaire Woods (2014).

Due to this inertia, the international community may have lost a valuable opportunity to make a qualitative difference to the global system of international institutions. While the financial crisis and resulting economic instability highlighted the need to include key emerging economies in global economic management, this awareness has not translated into clear institutional change – the traditional global economic governance architecture remains largely the same – and reforms to the Bretton Woods Institutions (BWIs) and the World Trade Organization (WTO) have not yet taken place (Woods, 2014). The only platform that has emerged to reflect the abovementioned needs is the G20; which emerging economies have used to push for reforms to international financial institutions (IFIs). Important efforts

have been undertaken to address the vote shares held by representatives in the IMF and the World Bank (World Bank), such as the agreement reached at the Seoul G20 Summit in November 2010 (Bradford, 2014). However the reform to the IMF has been stalled by the opposition of U.S. Congress. It is important to note that the approval of these reforms would double IMF resources. As Bradford underlines, “political polarization in the U.S. Congress, which in part originates from the public impact of the global financial crises on ordinary Americans, paradoxically stymies the IMF reforms and resources necessary to prevent the next crisis” (Bradford, 2014).

Reforms to the World Bank are less contentious – but no less important – than reforms to the IMF. Following two reform packages in 2008 and 2010, it was expected that the World Bank would be recapitalised by US\$86.2 billion via general capital increases and special capital increases. The core agency of the World Bank, the International Bank for Reconstruction and Development (IBRD), has also undergone reforms. The total voting power held by developing and transition countries (DTC) within the IBRD has been raised by 4.6 per cent from 43 per cent to 47 per cent. Correspondingly, the vote share of DTC is also expected to rise to just under 40 per cent (from 33 per cent) within the International Finance Corporation (IFC), the World Bank’s private financing arm. A series of measures to safeguard the interests of the LDCs, such including Sub-Saharan African countries and doubling basic vote shares, has also occurred (World Bank, 2010; IBRD, 2010). This reform package was approved by U.S. Congress in 2012, after intense domestic debates on the

subject. However, the implementation process has been very slow. By the end of 2012, only 54 per cent of general capital increases had been realised (by 53 out of a total of 187 IBRD member countries) and only 58 per cent of special capital increases had been achieved (42 out of 139 IBRD member countries). The IFC's capital increases were similarly unmet. According to an agreement reached by the World Bank Board of Governors in 2010, the World Bank will review its shareholding structure every five years. The board also agreed to complete a review of the Bank before its Annual Meeting in August 2015. Despite some relative progress, some strong resistance still persists from advanced economies, who are dissatisfied with both the review process and formula adjustments.

2.1.2 Sectoral reforms - Some examples

- The crisis of the World Trade Organization (WTO)

In general, while there are some recent indicators of shifts, global governance reforms have stalled even when the focus has been on specific issues, such as trade.

For instance in October 2014, Roberto Azevêdo, Director-General of the WTO, called for reforms to the organisation after the failure of two months of consultations. He cited this failure as “the most serious situation the WTO has ever faced” (WTO official website, 2014). Azevêdo was especially aware of the need for the WTO to bring back global trade negotiations. In 2014, the impasse on the implementation of the so-called ‘Bali Package’, blocked by India on one side and the U.S.

and the European Union (EU) on the other, threatened the survival of the organisation. Part of this was due to the fact that the U.S. and the EU work together on the Transatlantic Trade and Investment Partnership (TTIP) and on the Trans-Pacific Partnership (TPP). They are also leaders of the Trade in Services Agreement (TiSA), which gathers together a select group of countries to work on closed-door negotiations for further trade liberalisation. The issue with these initiatives is that they create specific interests for a small number of countries, and thus these countries appear to be making decisions on behalf of all WTO members. Discussions do not necessarily seek consensus; even China, India, and Brazil are omitted from consultation processes. This has caused a domino effect in the Asian region, where several countries have broken away and formed ‘new’ partnerships and trade agreements between themselves. For instance, negotiations for the Regional Comprehensive Economic Partnership (RCEP) – a trade body made up of the Association of Southeast Asian Nations (ASEAN) countries plus China, South Korea, Japan, Australia, India and New Zealand – are due to be finalised in 2015.

The proliferation of these new initiatives is largely due to the higher potential for consensus among smaller groups; whereas the WTO theoretically needs the approval of all member states to effect change, regional groups only need the mandate of a small number of member countries to alter the status quo. While country sub-groups have been always able to work on specific or regional agreements outside of the WTO – taking the EU as a prime example – trade

governance has so far remained multilateral. In other words, the WTO has been expected to ensure that the agreements reached via other platforms do not undermine the global trading system's multilateral core. This means that the approval of all member countries is sought on specific issues, and that policies agreed by WTO member countries are adopted internationally. It is therefore possible to observe how the nature of such discussions impacts the foundation of the organisation itself. If trade agreements move away from a consensus-based decision-making structure—one of the WTO's founding principles – this might help deliver agreements in a more “efficient” way, albeit potentially posing “real risks to the organization's legitimacy” (Jones, 2014).

- Climate change

Other sectors are also suffering from the slow pace of negotiations. Among the most controversial and urgent debates at present surrounds climate change; and in 2015 decisions made in this area will be crucial for future progress. In Paris on December 2015, the UN Framework Climate Change Convention (UNFCCC) will conclude a global agreement on climate change that was launched in 2011 in Durban, South Africa, and set the stage for the post-Kyoto negotiations. The Kyoto Protocol – adopted in 1997 and brought into force in 2005 – remains the most important climate change agreement to date in spite of its limitations. These include non-binding targets for developing countries, a lack of ratification by the U.S., withdrawal by Canada, and the refusal of several of the original participating countries to commit to

targets for the second commitment period between 2012 and 2020 (UNFCCC, 2015).

The aim of the UNFCCC this year is to announce an agreement “with legal force” that is “applicable to all”. However, the almost universal nature of the UNFCCC, which comprises 195 parties, will also provide voluntary options for a framework to legally bind negotiations at a later date. A first draft negotiating text was produced at the February UNFCCC 2015 Conference in Geneva, and countries have been asked to start submitting their pledges for hard targets (or Intended Nationally Determined Contributions (INDCs)). The unwieldy document reflects the wide disparities between what different parties consider to be the ‘core’ climate change issues. These are complex in nature. First and foremost, the document outlines the debate around what parties understand to be the ‘common but differentiated responsibilities’ (CBDR). It also summarises the contrasting targets for developing and developed countries, and the financial ‘burdens’ that each country should bear (see section 2.3.3). Other issues include discussions around devoting more attention and resources to adaptation, and debates around more technical aspects of climate change. These relate to the legal nature of climate change agreements, how to monitor countries’ climate efforts and how to ensure transparency (C2ES, 2015).

What is interesting, however, is that more recently, in addition to the UNFCCC multilateral process, countries are now beginning to enter into bilateral agreements on climate change. The most important of these thus far was the November 2014

agreement announced by China and the U.S., which set out hard targets for the world's two largest polluters. Although the deal has been criticised for not setting ambitious enough targets – neither country has committed to keep global warming within 2°C (the long-standing goal of global climate policy officially adopted at Conference of Parties (COP) 16 – it has nevertheless been hailed as a historic event, and provides an example for the rest of the world to follow. That said, it is an open question whether this plurilateral trend will be ultimately helpful or create confusion in the same way that it has done in the WTO.

- The Arms Trade Treaty

An interesting case has emerged from the recent international Arms Trade Treaty (ATT), which has implemented historic global rules making it illegal to sell or transport weapons, munitions and related items to countries that are knowingly committing or facilitating genocide, crimes against humanity, war crimes and serious human rights violations. The arms trade is a business with an estimated turnover of around US\$100 billion annually – or US\$120 billion including related services. When not properly regulated, it has the potential to cause millions of deaths around the globe.

Besides its invaluable content and objectives, what sets the ATT apart from other agreements was the process behind its implementation. The ATT is the result of a global campaign called the 'Control Arms Campaign', initiated in 2003 by OXFAM, Amnesty International, the International Action Network on Small Arms (IANSA) and other organisations around the

world. According to OXFAM's senior strategic adviser Duncan Green (2014), the campaign developed in three main stages. The first stage, between 2003 and 2006, sought to gain support from one country per region that would champion the ATT. It was hoped that this would build a popular international campaign that would get the ATT onto as many government and nongovernmental agendas as possible. Its second phase, between 2006 and 2009, worked to achieve UN advocacy and gain recognition at regional and global meetings. The third stage, between 2009 and 2013, established a formal timeline for treaty negotiations at the UN, supported by intensive campaigning at local and regional levels and a major presence on agendas at UN meetings in New York. The ATT, first adopted by the UN General Assembly (UNGA) on 2 April 2013 was officially drafted into international law on 24 December 2014.

To become legally binding, the treaty first needed to be ratified by at least 50 states; this happened on 25 September 2014. As of May 2015, 69 states had ratified the ATT, including five of the top 10 arms exporting countries including the UK, France, Germany, Spain and Italy. 61 countries signed, but have not ratified the agreement yet, including the U.S. and Israel. Resistance still persists from other countries such as China, Canada and Russia. However, what is important to highlight is that in less than two years, 130 states have signed the treaty, including 69 who ratified their agreement and will submit annual reports on, and meet to discuss their arms trade regularly. Furthermore, the ATT sets an international standard that makes those that irresponsibly sell arms accountable.

Experts have thus argued that this exceptional outcome arose from a well-developed campaign with a long-term strategy. It used a knowledge-based approach throughout the campaign; in drafting the content of the treaty, in involving the correct people in the campaign, and in its systems and processes. This decade-long campaign underlines how a bottom-up process can build international consensus towards the achievement of a formal treaty (UNODA, 2015; Amnesty International, 2014; OXFAM, 2014).

2.2 A world in transition - New governance trends

2.2.1 The rising South and global power diffusion

Though profound institutional reforms have not yet been accomplished, new trends are emerging, which are largely characterised by a dramatic power shift that has seen many developing countries – especially emerging economies – taking more active and comprehensive roles in global economic governance. These changes are making use of existing international economic institutions, strengthening regional economic cooperation by further deepening regional monetary and financial cooperation, and investing more resources in the establishment of trans-regional or mini-lateral economic cooperation mechanisms.

The reason that emerging and developing countries are able to take a more active role in global governance is because their influence in the global economy is increasing. Between 1991 and 2010, developing countries

increased their share of global GDP by 16.7 per cent, from 31.2 per cent to 47.9 per cent. In particular, China increased its GDP share by 7.7 per cent (from 1.7 per cent to 9.4 per cent), India increased from 1.2 per cent to 2.7 per cent and Brazil's GDP share rose from 1.8 per cent to 3.3 per cent. Many small- and medium-sized developing countries also achieved rapid growth. For example, Indonesia's global GDP share increased from 0.13 per cent to 0.16 per cent between 1991 and 2010, and Vietnam's global GDP share increased from 0.04 per cent to 0.17 per cent (World Bank, 2011). According to IMF's data for 2012, the purchasing power parity (PPP) GDP of emerging and developing countries have converged with the PPP GDP of developed economies for the first time in modern history (see Table I) (IMF, WEOD, 2014; Ye, Xue and Zha, 2014).

Regarding trade, developing and emerging countries have risen quickly in the global rankings. In 1992, the top ten trading economies were all developed economies. The G7 countries alone accounted for 51.8 per cent of global goods and service exports, while China accounted for just 2.2 per cent and Brazil just 0.9 per cent of global exports. Even India and Russia were outside the top 20 global exporters during this period. Over the last decade, however, emerging economies have become significant exporters (see Table II). This year, China accounted for 11.1 per cent of global exports, and became the leading trading economy in the world – moving up from 11th place in 1992. Russia and India have also become large exporters – currently positioned 8th and 19th respectively in the global export rankings. In contrast, the G7 countries' share

Table I: Share of Global GDP, Exports of Goods and Services, and Population by Different Country Groups

	Number of Economies	GDP (%)		Exports of Goods and Services (%)		Population (%)	
		Advanced Economies	World	Advanced Economies	World	Advanced Economies	World
Advanced Economies	36	100.0	43.6	100.0	61.1	100.0	14.7
United States		37.7	16.4	16.1	9.9	30.5	4.5
Euro Area	18	28.2	12.3	40.4	24.8	32	4.7
Germany		7.9	3.4	12.0	7.4	7.8	1.2
France		5.7	2.5	5.7	3.5	6.1	0.9
Italy		4.6	2.0	4.5	2.7	5.8	0.8
Spain		3.3	1.5	3.3	2.0	4.5	0.7
Japan		10.5	4.6	5.9	3.6	12.3	1.8
United Kingdom		5.2	2.3	5.6	3.4	6.2	0.9
Canada		3.4	1.5	3.9	2.4	3.4	0.5
Other Advanced Economies	14	15.0	6.5	28.1	17.2	15.6	2.3
		Emerging Market and Developing Economies	World	Emerging Market and Developing Economies	World	Emerging Market and Developing Economies	World
Emerging Market and Developing Economies Regional Groups	153	100.0	56.4	100.0	38.8	100.0	85.3
Russia	12	8.6	4.9	10.1	3.9	4.8	4.1
Emerging and Developing	29	50.9	28.7	43.5	16.9	57.3	48.8
China		28.1	15.8	26.4	10.2	22.7	19.4
India		11.8	6.6	5.3	2.0	20.8	17.7
Excluding China and India	27	11.0	6.2	11.9	4.6	13.8	11.8
Emerging and Developing Europe	13	6.0	3.4	8.9	3.5	3.0	2.5
Latin America and the Caribbean	32	15.5	8.7	13.9	5.4	10.0	8.5
Brazil		5.2	3.0	3.1	1.2	3.4	2.9
Mexico		3.6	2.0	4.5	1.7	2.0	1.7

Connected table

Middle East, North Africa, Afghanistan, and Pakistan	22	13.7	7.7	18.3	7.1	10.4	8.9
Middle East and North Africa	20	12.2	6.9	17.9	6.9	6.8	5.8
Sub-Saharan Africa	45	5.3	3.0	5.3	2.0	14.6	12.5
Excluding Nigeria and South Africa	43	2.5	1.4	3.0	1.1	10.9	9.3

Source: IMF (2014). *World Economic Outlook*.

Table II: Ranking of Economies: Merchandise Exports and Imports, 2012

1992				2012			
Rank	Exporter	Value (trillion)	Share (%)	Rank	Exporter	Value (trillion)	Share (%)
1	United States	448.2	11.9%	1	China	2,048.7	11.1%
2	Germany	430.0	11.4%	2	United States	1,545.7	8.4%
3	Japan	339.9	9.0%	3	Germany	1,405.1	7.6%
4	France	235.9	6.2%	4	Japan	798.6	4.3%
5	United Kingdom	190.0	5.0%	5	Netherlands	655.4	3.6%
6	Italy	178.2	4.7%	6	France	568.7	3.1%
7	Netherlands	140.3	3.7%	7	Korea, Republic of	547.9	3.0%
8	Canada	134.4	3.6%	8	Russian Federation	529.3	2.9%
9	Belgium-Luxembourg	123.1	3.3%	9	Italy	501.3	2.7%
10	Hong Kong, China	119.6	3.2%	10	Hong Kong, China	492.9	2.7%
11	China	84.9	2.2%	11	United Kingdom	472.8	2.6%
22	Russian Federation	42.0	1.1%	12	Canada	455.6	2.5%
25	Brazil	35.8	0.9%	19	India	296.8	1.6%
26	India	19.6	0.5%	22	Brazil	242.6	1.3%

Source: WTO (2015). *Databases*.

of global exports has decreased to 31.2 per cent (WTO databases).

Concerning international investment, the global picture has also become more

promising for emerging and developing countries in recent years. The distribution of global capital is changing and the capital stock held by emerging and developing countries is growing. By 2012, China, Brazil, India and

Russia together accounted for 18 per cent of global capital stock; almost double the stock held by Germany and equal to the share held by the U.S. (World Bank, 2013). As a result, the structure of foreign direct investment (FDI) has also changed significantly. Before 2000, developed economies were the main FDI providers, providing 91 per cent of FDI while developing countries provided just 9 per cent. In 2012, however, emerging and developing countries provided 35 per cent of global FDI (Ye, Xue and Zha, 2014, data drawn from UNCTAD database).

Furthermore, regarding global development aid, the influence of emerging countries has become extremely apparent. In the past, the main international aid providers were OECD-DAC (Development Assistance Committee) and OPEC (Organization of the Petroleum Exporting Countries) member countries. Nowadays, emerging economies are playing a much more important role than ever before. Although the OECD-DAC countries are still the major players, based on broad estimates (as accurate figures are not available from many emerging economies), the share of aid supplied by OECD countries has decreased to 76 per cent, around 10 percentage points lower than 10 years ago. Moreover, many researchers believe that the volume of aid provided by emerging countries is largely underestimated (OECD, 2012).

These achievements, in terms of 'power growth', have given emerging and developing countries more confidence to enhance their

chosen development strategies. They have also learned how to govern international economic cooperation from past experience and are currently pushing for changes to the global governance architecture.

2.2.2 From the G8 to the G20 - Building a formal setting for the inclusion of emerging economies

The first platform that officially recognised the power shift from developed to emerging economies was the G20, established in the aftermath of the 2008-09 financial crisis.⁵ It is important to recognise that the evolution from the original G7 to the G20 has been a long-term process rather than a sudden transition. Notably, around 20 years after the establishment of the G7, a series of financial crises in Latin America and Asia in the late 1990s highlighted the need for the key emerging economies to be involved in global economic management efforts. The first ministerial level G20 was formally created in September 1999. This was initiated by Paul Martin, the former Finance Minister and Prime Minister of Canada (commonly referred to as 'the father of the G20'), whose aim was to "establish a new mechanism for informal dialogue in the framework of the Bretton Woods institutional system, to broaden the dialogue on key economic and financial policy issues among systemically significant economies and promote cooperation to achieve stable and sustainable world economic growth that benefits all" (G7 Statement, 1999). Before the 2008 financial crisis, G20 meetings



5. The G20 includes all G8 Members (G7+Russia), Australia, EU and 10 emerging economies: Argentina, Brazil, China, India, Indonesia, Mexico, Saudi Arabia, South Africa, South Korea and Turkey.

mainly discussed crisis prevention, trade and globalisation, and anti-terrorism mechanisms.

In reality, this ministerial level G20 was more focused on G7 decisions. It did not provide a wholly effective forum for discussion on issues that were of primary interest to developing countries (Martinez-Diaz, 2007). Due to these limitations, Martin proposed that the G20 should further meet at a summit level. His idea – though echoed by the UN Secretary Ban Ki-moon, the World Bank President Robert Zoellick and many others from emerging countries – did not receive serious consideration from developed countries such as the U.S., the EU nations and Japan that continued dialogues with G7 and G8 members. From 2003 these countries started promoting the so-called ‘Outreach 5’: China, Mexico, India, Brazil and South Africa, which signalled the establishment of the ‘G8+5’; more recently called the ‘Heiligendamm Process’. To a certain extent this G8+5 initiative might be seen as a positive step forward for global governance. However, despite their inclusion, China, Mexico, India, Brazil and South Africa lacked a certain ownership over the process, since they were predominantly invited to smaller breakfast and lunch meetings with the established G8 members (Cooper and Antkiewicz, 2008).

It was the global financial crisis during the second half of 2008 that finally elevated the G20 to the summit level, in order to elicit a more effective global response. The Pittsburgh Summit in 2009 named the G20 as the “premier forum for international economic cooperation”; making a formal shift from the G8 to the G20. This can be considered a

milestone moment, since it signified a major qualitative change to the global governance system. The former WTO Director General Pascal Lamy stated that “global governance [was] forming a new triangle shape”. That is to say, the G20 would now provide political leadership and strategic guidance, while specific international institutions such as the IMF, the World Bank and the WTO would provide rules and guide implementation, and the UN would provide a legitimate and accountable platform for cooperation (Lamy, 2009).

Indeed, the G20 played an essential role in coordinating a global stimulus package following the financial crisis, and worked assiduously to strengthen financial regulation. However, the G20 is still far from perfect. It has been increasingly criticised as the global economy has moved into a period of slow recovery. Furthermore, there have been doubts as to whether the G20 can successfully transform itself from a ‘crisis committee’ to a long-term steering committee for the world economy (Dervis and Drysdale, 2014). Other criticisms have focused on the legitimacy of the G20, especially as it is often seen as a self-appointed forum working to manage global economic governance (Stiglitz et al, 2009). Concerns have also been expressed about the weakness of the G20 as an informal network and for its lack of strong leadership (Sungjoon Cho and Kelly, 2012).

On the other hand, many observers strongly support the G20. The role of emerging economies in G20 is an aspect that is attracting increasing attention (Cooper, 2013). Though the diversity of its members

is considered by some to be a weakness, many see this feature as a great opportunity for different voices to be heard on global economic governance issues. Moreover, some point out how the G20 represents a bridging platform that is able to bring developed and developing economies together to push for global leadership that embraces the needs of countries that are not represented by the platform. It represents a leadership that works “on behalf of the whole and not narrowly based on the interests of the major economies” (Bradford, 2014).

2.2.3 Redefining a new world of regions

The emergence of a multi-polar world has been accompanied by the proliferation of bilateral and regional agreements that aim to overcome the gaps in a fragile global governance system. Indeed, regionalisation cannot be considered a new phenomenon, since its origin predates the mid-20th Century. Before the BWIs were established in the 1940s, the world economy was basically governed regionally or bilaterally. After the global economic system was integrated, regionalisation was strengthened even further. However, since the mid-1980s there has been an explosion of different concepts of what a region represents. These are characterised by specific regional landscapes. This new round of regionalisation conceives a ‘region’ as a place that does not have clear boundaries and is not necessarily based on nation states. Regions can overlap, be multi-layered and have multiple actors, and are politically, socially, functionally, and culturally defined. New regional agreements tend to be sub- and supra-national, and typically include sub-

regional, regional, pan-regional and cross-regional levels. The nature of connections, interactions and therefore the dynamic processes of building a region represent the core of its borders (Hettne 2005).

There are a range of different regionalisation patterns that have emerged. For example, there are dialogue platforms such as the Asia-Pacific Economic Cooperation (APEC). Other more formal formats require a legal agreement to be settled between countries in a particular region – an example is the WTO Free Trade Area. The deepest regionalisation processes extend to more comprehensive regional cooperation. This can include cooperation surrounding trade, monetary policy and immigration, and even political issues, as the case of the EU, and ASEAN appears to be trying to move towards.

This new round of regionalisation has different characteristics to regionalisation of the past. Asian integration has progressed rapidly, prompted in particular by the 1997 Asian financial crisis. The process has primarily been led by the ASEAN countries, and more recently by the ASEAN+3: China, South Korea and Japan. Though the proposed Asian Monetary Fund (AMF) was never established, the ASEAN+3 members introduced the Chiang Mai Initiative (CMI) in 2000 (Siregar and Chabchitrchaidol, 2013). After the 2008-09 financial crisis, this initiative was multi-lateralised, and funds were increased to US\$240 billion.

It is important to note that that the dynamism of Asian regionalisation has had China’s active leadership, both regionally and internationally. Among China’s recent initiatives includes

its promotion of Asia as more than a trade-oriented region. China has encouraged the region to expand into more comprehensive areas, particularly infrastructure financing. The Asia Infrastructure Investment Bank (AIIB), proposed by China in 2013, aims to enhance support for regional infrastructure connectivity, and marks a step forward in Asia's development history.

Besides inter-regional changes, the rise of China has also provoked geopolitical competition at a global level, drawing attention from the international community, especially from the U.S. Since 2010, the Obama administration has driven TPP negotiations. These negotiations involve 12 countries in the Asia-Pacific region, including Australia, Brunei,

Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam, and act as the economic arm of Obama's strategy to Asia namely "Pivot to Asia" (The Foreign Policy initiative, 2015). Another U.S. strategy includes the TTIP trade negotiations with the EU, a process that began in 2013 and is ongoing. As previously mentioned, this latest initiative has caused a domino effect in the Asian region, with the RCEP negotiation due to end in 2015. Although these agreements have mainly been created to build free trade areas, they have the potential to strongly influence geopolitical stability. The world appears to be evolving around three mega-regions: the TPP, TTIP and RCEP. Furthermore, it's important to note that China is also working on a bilateral

BOX II. The Asian Infrastructure Investment Bank (AIIB)

There has long been a gap between the demand and supply of infrastructure in the Asia Pacific area. As predicted by the Asian Development Bank (ADB) in 2012, the financing needs of Asian developing countries for infrastructure investment – including energy, transport, telecommunications, water, and sanitation – is likely to amount to around US\$776 billion per year between 2010-2020 (Bhattacharyay, 2010). The AIIB, a regional organisation proposed by China's President Xi Jinping in 2013, aims to fill this tremendous financing gap by creating a multilateral cooperative financing channel that specialises in infrastructure development. On 24 October 2014, 21 Asian countries signed the Memorandum of Understanding (MOU) on Establishing the AIIB, joining the AIIB as founding members. These countries included: including Bangladesh, Brunei, Cambodia, China, India, Kazakhstan, Kuwait, Laos, Malaysia, Mongolia, Myanmar, Nepal, Oman, Pakistan, the Philippines, Qatar, Singapore, Sri Lanka, Thailand, Uzbekistan and Vietnam. The MOU specifies that the authorised capital of the AIIB is US\$100 billion, and that the initial subscribed capital will be around US\$50 billion, with a paid-in ratio of 20 per cent. A trial operation, due to take place in 2015, will incur a paid in capital of US\$5 billion, towards which China will contribute US\$2.5 billion. It has been agreed by the founding members that voting rights will be distributed based on percentage shares of GDP. The negotiation phase will come to an end in June 2015, and the AIIB will officially begin its operations by the end of 2015.

The main organ of the AIIB is the Multilateral Interim Secretariat (MIS), and Jin Liqun, who was formerly the Vice-President of the Asian Development Bank and vice Minister of Finance of China, is the Secretary General. The AIIB will draw on the experience of established banks and set up a three-tier structure including a council, a board of directors and a management team (Xinhuanet, 2015). The council will be the supreme authority that will devolve administration to the board of directors and the management team. Upon establishment of the AIIB, a temporary board of directors will be appointed to discuss important policy issues during yearly conferences. A supervisory system will also be established to ensure fairness and efficiency in recruiting people to join the high-level management team (People-net, 2015).

Over 55 countries have applied to be Prospective Founding Members (PFMs) of the AIIB, including the 21 MOU signatory PFMs, and countries from other continents such as many of the G8 countries – the UK, Germany, France, Italy and Russia – and other G20 countries, including Brazil, Turkey, Korea and Australia. Being a brand new initiative, it is quite difficult to predict the effectiveness of the AIIB. What is certain from the development of the Bank, however, is that the AIIB represents a milestone in the restructuring of the global economic governance architecture, since this Chinese initiative was able to align many countries from both the developed and developing world.

basis to conclude important agreements with key countries – for instance in Asia with Korea, Japan and India (Li, Wang, Whalley, 2014).

2.2.4 Towards a cross-regional architecture

In addition to the abovementioned agreements, emerging economies are also paving the way in forming cross-regional groups in a more proactive way; with the BRICS grouping represents the most prominent example. The BRICS – originally conceived by economist Jim O'Neill from Goldman Sachs in 2001 – include Brazil, Russia, India, China and South Africa. The grouping was initially known as 'BRIC' before the inclusion of South Africa in 2010. The initial four BRIC states began holding a series of high-level meetings in

2006, and a full-scale diplomatic alliance began in 2009. All BRICS members are newly industrialised or developing countries, which are experiencing vast, fast-growing economic development and are increasingly influential at a regional and global level. All of the BRICS countries are G20 members (VI BRICS official website).

The BRICS summit was initiated to provide a new platform for these countries to work together to play a collective role in international affairs, with the aim of reforming the international order in a multi-polar way. Despite their qualitative differences (for example, diversity in their economic structures and growth patterns) the BRICS countries share a similar political interest in global

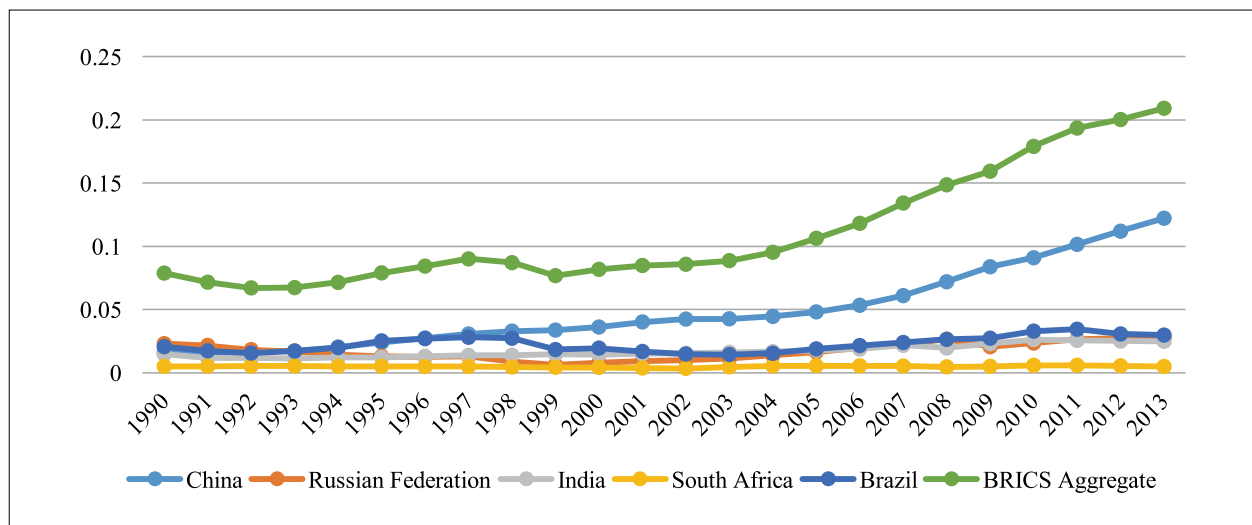
governance reforms, and an awareness of sustainable and inclusive development issues (Niu Haibin, 2012).

Along with the tremendous economic growth experienced by the BRICS countries, their share of world GDP has increased dramatically. Between 2000 and 2007, the average GDP growth rate in Brazil, Russia, India, China, and South Africa was 3.54 per cent, 7.17 per cent, 7.08 per cent, 10.51 per cent, and 4.31 per cent respectively, all far beyond the world growth rate of 3.33 per cent. Brazil performed comparatively poorly due to the Latin American financial crisis in the early 2000s. After the 2008 financial crisis, with strong economic growth momentum, the BRICS countries led the world's economic recovery. The share of the BRICS countries' aggregate GDP almost doubled from 11.8 per cent in 2006 to 20.9 per cent in 2013 (Figure V

and Figure VI).

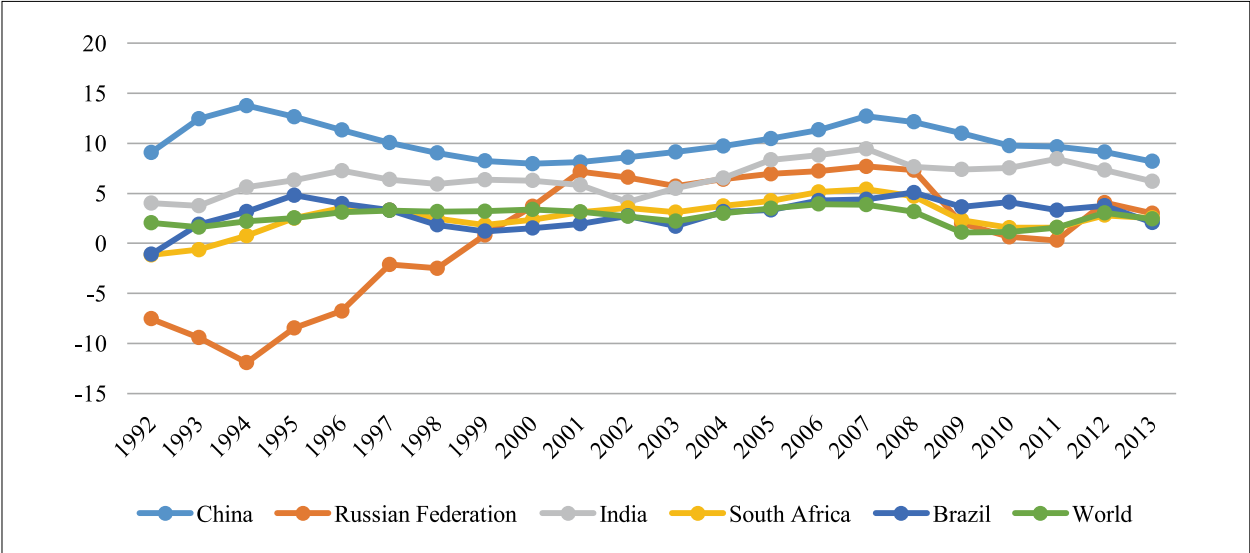
Trade and investment have been two important sources of economic growth for the BRICS. Shares of imports and exports in the BRICS grew from 5.2 per cent in 1990 to 16.4 per cent in 2013. China, which saw a rise in its trade shares from 1.1 per cent in 1990 to 10.1 per cent in 2013, accounts for around 80 per cent of the BRICS' growth (Figure VII). In addition to trade growth, FDI inflow also contributed to the economic rise of the BRICS countries via capital infusion and technology introduction. As demonstrated in Figure VIII, the percentage of the world's FDI inflow to the BRICS countries increased in all BRICS countries except for China between 1993 and 2013. In recent years, there has been an unprecedented reverse flow of capital from developing countries to developed countries. This partly reflects the risks associated with

Figure V. Share of GDP among BRICS countries



Source: World Bank (2014). *World Development Index*.

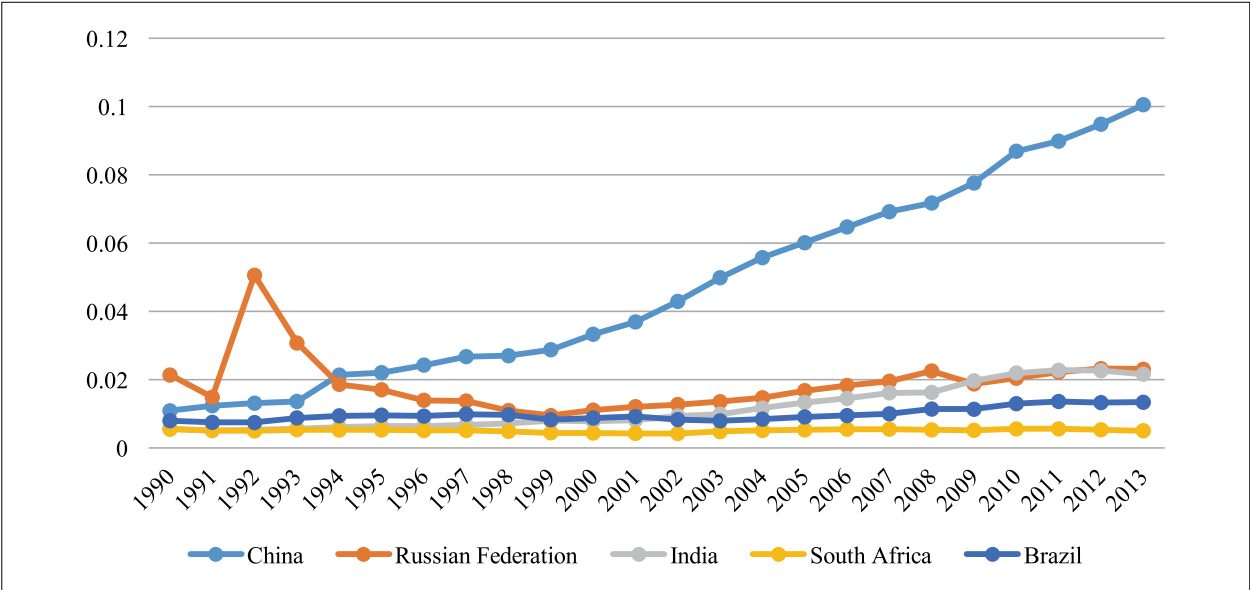
Figure VI. The economic growth rates of the BRICS countries and the world: three-year moving average (%)



Source: World Bank (2014). *World Development Index*.

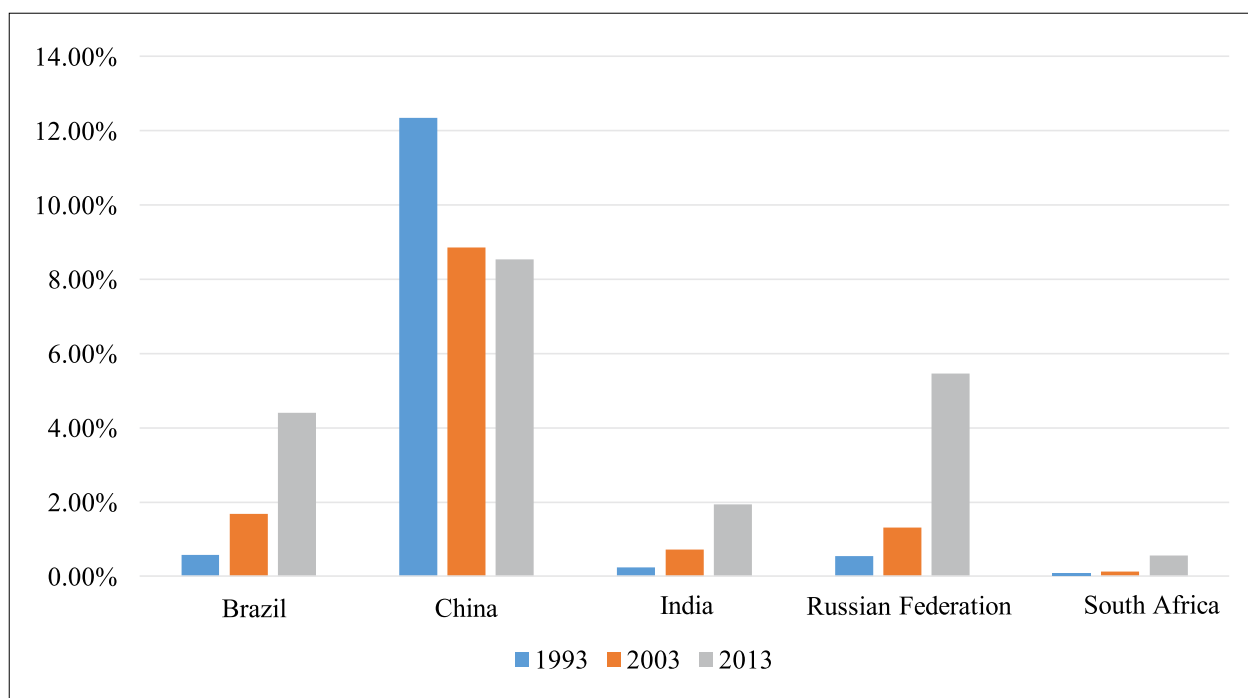
Note: The three-year moving average of the GDP growth rate is calculated as the average of the GDP growth rate of the current year and the previous two years, with equal weight put on each of the three components. Take the year 2013 as an example. The three-year moving average of the GDP growth rate in 2013=(g2013+g2012+g2011)/3

Figure VII. Share of the sum of exports and imports in the world



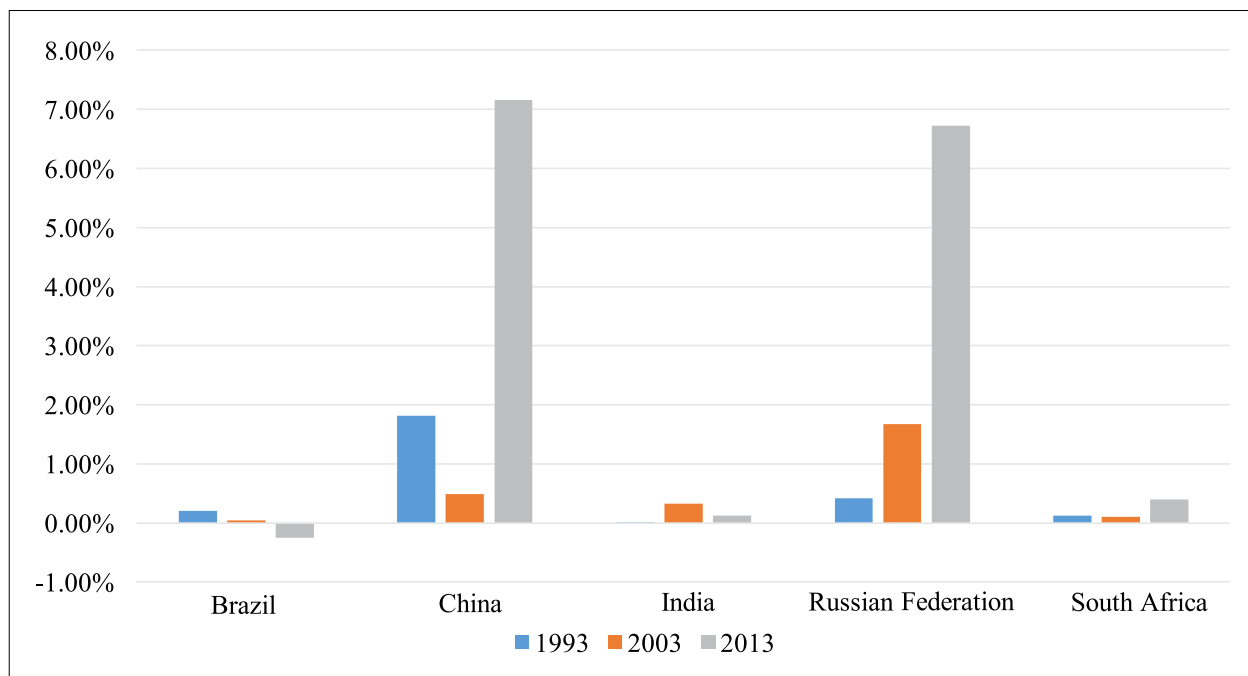
Source: World Bank (2014). *World Development Index*.

Figure VIII. Percentage of world's FDI inflow to BRICS countries



Source: UNCTAD (2014). *Statistics*.

Figure IX. Percentage of BRICS countries' FDI outflow to the world



Source: UNCTAD (2014). *Statistics*.

emerging markets. Take Russia for example, where FDI outflow to the world increased from 0.4 per cent in 1993 to 6.7 per cent in 2013 (Figure IX).

At their last meeting held in Fortaleza in 2014, the BRICS signed agreements for the establishment of two new financial institutions: the BRICS Development Bank (also called the New Development Bank or NDB) and the Contingent Reserve Agreement (CRA). These two agreements represent a very important moment in global economic governance, as they mark the first time that emerging economies have stepped away from the big 'developed' powers to design their own proposals. As the case of the BRICS has underlined, new institutions should be seen as counterparts to the BWIs, not as competitors. A concise description of the above agreements will help to understand the functions of these new institutions.

The authorised capital of the NDB will account for US\$100 billion and the initial subscribed capital is US\$50 billion, which will be apportioned equally by the five founding members. Membership of the Bank will be open to UN member countries; however, BRICS members' share in the total capital of the bank will not be less than 55 per cent. It will be headquartered in Shanghai but will have a regional office in South Africa. The management of the Bank will be shared between India, Brazil and Russia. The aim of the NDB is not only to provide funding for infrastructure and development projects in emerging markets, but also to promote a new mode of development finance to make up for gaps and failings in the current international

financial system (Dhar, 2014).

The CRA was initiated by the BRICS to be their 'bank of last resort'. This will provide precautionary or liquidity instruments in case of potential international payment crises. It will strengthen the Global Financial Safety Nets (GFSN) provided by the IMF, confer on regional financial agreements, negotiate reciprocal currency agreements and manage foreign reserves. The initial authorised capital of the CRA is US\$100 billion, with China contributing US\$41 billion, India, Brazil and Russia each contributing US\$18 billion, and South Africa contributing the remaining US\$5 billion. The maximum access limits are US\$20.5 billion for China, US\$18 billion for Brazil, India and Russia, and US\$10 billion for South Africa. Concerning its governance structure, the CRA implements a double governance mechanism, which incorporates both a Ministerial Council and a Standing Committee in decision making processes. The Ministerial Council, comprising the Finance Minister or Central Bank Governor of each member country, will make strategic decisions via consensus. The Standing Committee, on the other hand, will be in charge of the administrative affairs and daily operations of the Bank. Voting rights are tied to capital contribution, with 5 per cent of the Bank's total shares distributed evenly to all member countries. The voting share held by China is 39.95 per cent. Brazil, Russia and India evenly hold 18.10 per cent of total voting power, while South Africa holds the remaining 5.75 per cent (BRICS Economic Think-Tank, 2014).

Another significant outcome of the last BRICS Summit, which is mentioned infrequently

despite its undeniable importance, is the Multilateral Cooperation Agreement on Innovation (MCAI). The MCAI, originally formalised in 2010, is an arrangement agreed by the BRICS Interbank Cooperation Mechanism. It aims to enhance interbank cooperation and support technological innovation and embedded projects, especially in areas such as infrastructure, clean energy, and agribusiness (Dhar, 2014).

2.3 Means of implementation for the Post-2015 development agenda

2.3.1 Plurilateralism versus multilateralism - Making the UN fit for purpose

Global governance encompasses institutions, policies, norms, procedures and initiatives through which states and their citizens endeavour to bring more predictability, stability and order to their responses to transnational challenges. Effective global governance can therefore only be achieved with effective international cooperation. Intergovernmental cooperation, at the centre of the global partnership for development, plays a vital role in the achievement of global development goals (UNDESA, 2014). Strengthening global governance is imperative this year, as the international community led by the UN is working hard to build consensus on the adoption of a new development agenda and to implement its 17 SDGs.

As noted earlier in this chapter, global economic governance is experiencing a transition period that is progressing incrementally, but in a fragmented and chaotic

way. Current conditions are unlikely to lead to a quick agreement for the establishment of a new system, as happened after the Second World War with the establishment of the BWIs. Today's situation differs substantively from the past. On the one hand, global economic institutions are considered especially relevant since the global issues they address are becoming more challenging. On the other hand, global economic governance institutions are struggling to restructure at the speed required to keep up with global economic power shifts, and the proliferation of bilateral and regional initiatives that are striving to overcome gaps in the existing system. The process has been described by Eric Helleneir as 'cooperative decentralization'. This scenario is likely to endure in the long term if the status quo does not change (Helleneir, 2014).

One of the main reasons behind these recent developments is the fact that the current system is built on a dual-structure of economic rules that differentiates developed and developing countries. This pattern does not match the current triple-structure of global power characterised by the advent of the 'emerging economies'; a group that has risen in-between developed and developing countries. Helleneir (2014) suggests this current situation is the consequence of an active policy strategy of the U.S., accompanied by weakness in Europe, combined with the conservatism of policy makers in the large emerging economies.

The current scenario can be inscribed into a framework that contra poses multilateralism and plurilateralism. Plurilateralism is not something new to international relations, since

countries have always come together in small groups to formulate, influence or negotiate inside or outside multilateral frameworks. On the contrary, plurilateralism represents a reaction to the failure of multilateralism. Paradox is intrinsic to plurilateralism. On one hand it can be used to support and achieve desired agreements, however on the other hand, it can harm traditional multilateral principles and thus the international multilateral system itself (Oyane, 2001), as the case of the international free trade regime and the WTO demonstrate. Furthermore, plurilateral negotiations often exclude the smallest and poorest members, which lack the power and size to be able to participate (Jones, 2014). The proliferation of bilateral and regional agreements appears to be an irreversible trend. Whether these developments can lead to better global economic governance will largely depend on strategic management.

As a truly universal institution, the UN is also facing the challenges posed by the current fragmented global order. Concern is rising around effectiveness versus representation. Nevertheless, the current negotiations around the Post-2015 Agenda have witnessed wide participation, with more than 100 country consultations and thematic debates, a High-Level Panel of experts from across the Global North and South, a global survey that has reached over 5 million people, and 13 meetings between UN Member States via the OWG on Sustainable Development – making the process one of the most democratic and collaborative in the history of the UN.

Achieving the objectives of the Post-2015

Agenda, and tackling challenges associated with the Agenda, will be politically very challenging. However, the international community has to take responsibility, which is why a renewed call for strengthening and reforming existing global governance institutions is needed now more than ever. The UN itself, while leading this initiative, is also conducting internal reviews via the UN Economic and Social Council (ECOSOC) dialogue, which seeks to reposition the UN development system. This dialogue highlights the need to take into account the aims of the Post-2015 Agenda to ensure that the UN is fit for purpose. The initiative, under the ECOSOC Resolution 2014/14, includes a series of events that started last January and will continue until May 2016. Discussions will be focus in particular on the inter-linkages between the alignment of functions, funding practices, governance structures, capacity and impact of the UN development system, partnership approaches and organizational arrangements with the aim of supporting the implementation of the post-2015 (E/RES/2014/14; Jenks and Aklilu, 2014).

2.3.2 Defining means of implementation

After the OWG on Sustainable Development defined the new goals and outlined what the new goals should deliver, policymakers and stakeholders began to focus on how to deliver the Post-2015 Agenda – the “Means of Implementation” (MoI). However, MoI represents one of the most controversial issues in intergovernmental negotiations. That said, a more clear definition of their contents is emerging from the just issued Zero Draft



6. The ICESDF was established next to the OWG at the Rio+20 Conference in order to develop options for a financing strategy to facilitate the achievement of the SDGs.

of the outcome document on the post-2015 development agenda. Other documents that specify the MoI including the OWG document, the Report of the Intergovernmental Committee of Experts on Sustainable Development Financing (ICESDF)⁶, the SG Synthesis Report and the revised Zero Draft of the Addis Ababa Accord released on May 7 2015. Though these documents are structured differently, they provide recommendations on many of the same areas.

In terms of their content, discussions have already moved beyond a traditional focus on mobilising ODA to a broader focus on making more efficient use of different types of financial and non-financial MoI. Their differences can be distinguished both in terms of key instruments – categorised as financial and non-financial MoI – and/or considered from the perspective of jurisdiction or operating levels – and therefore divided between global, regional national policies and institutions (Battacharya and Ali, 2014).

Concerning financial MoI, the effective mobilisation of public and private resources at both the domestic and international levels is outlined as a key factor in all documents. Particular attention is paid to the implementation of domestic resources, in terms of fiscal reforms and tax revenues, but also to enhancing the role and impact of the private sector, particularly in developing countries. Regarding ODA, all documents state the importance of respecting prior-agreed commitments. What will be crucial is that additional financial resources are mobilised from multiple sources, either via increased South-south cooperation or via the new

opportunities that arise from newly-established institutions such as the NDB and AIIB. Emphasis is placed on the role of remittances and private development assistance. All documents focus on investments, especially FDI and infrastructure. Debt sustainability is underlined in all documents as a priority area.

On non-financial MoI (or systemic policies), capacity building represents a key issue that is highlighted in all documents. Trade remains central as well though different approaches have been identified. The implementation of planned and well-managed migration policies has been highlighted as key issues (especially to drive much needed remittances), though they are not always mentioned. Finally, all documents recognise the importance of enhancing global macroeconomic stability through policy coordination and policy coherence at international and regional levels in order to achieve sustainable development. (Wolff, 2014; Lebada, 2014; OWG 2014; ICESDF 2014; SG Synthesis Report, 2014, FfD Zero Draft revised, 7 May 2015; Post-2015 agenda Zero Draft, 1 June 2015).

2.3.3 Towards an Addis Ababa Accord

The delivery of the Post-2015 development agenda and its SDGs will require the creation of a political agreement on how to finance and drive the new sustainable development agenda. The Third International Conference on Financing for Development, due to be held in Addis Ababa in July 2015, will address these objectives. The Conference will follow the examples of similar conferences in Monterrey and Doha by recognising the need for greater global recognition and action to address and overcome systemic inequalities and achieve

development.

Coherence and synergy between the Addis Ababa Conference and the adoption of the Post-2015 Agenda are essential, as one of the main objectives of the Conference is to provide answers and meaningfully address the issues raised by the Mol. A Zero Draft of the Conference outcomes was released on 16 March 2015, and a revised draft was released on 7 May 2015 as previously mentioned.

The importance of reaching an agreement on the Mol is unanimously recognised, since the Mol represent the ‘glue’ that will help hold the Agenda framework together. However, divergences still persist; especially on what constitute ‘burdens’ among member states, and on how to apply the principle of CBDR. The CBDR issue is central to the success of the three main UN negotiations due to take place this year. Although there is a general consensus that all countries will be responsible for the implementation of the Post-2015 Agenda, taking into account different levels of responsibility depending on national capacities and resources, the problem still remains on how to practically apply this principle. Concerns relate both to historical responsibilities and to the current capacity of developed and developing countries. These encompass diverse issues that range from ODA commitments to climate change financing.

These differences often reflect the positions of the developed world on one side and the developing and emerging countries on the other. The ‘Group of 77’ (G77) and China

– which in reality includes 134 countries – the African coalition, the LDCs and emerging countries like Brazil and India, are fully committed to defend the right to development and the guiding principle of CBDR, as indicated by the Rio Principles of 1992.⁷ This group highlights the linkages between the principles of equity, CBDR and Mol in every discussion on the SDGs and the Post-2015 development agenda. Moreover, they underline the need to define action-oriented and time-bound Mol to support the achievement of each SDG, together with the elimination of systemic obstacles that have prevented the achievement of previous international agreements.

Opposite to this exists the view generally held by the developed world. For instance, the EU, the UK, the U.S. and Japan stress how all countries should shoulder their own responsibilities and that the Conference agenda should focus solely on defining financial Mol in the context of the Post-2015 Agenda. The developed countries oppose that the principle cannot be seen as a foundation of international development cooperation but only applies to environment and specifically climate change negotiations. The EU has pushed for the principle of ‘shared responsibility’, where all actors should contribute ‘their fair share’ to implementing the goals in accordance with their circumstances. They argue therefore that the world should shift away from an ‘outdated’ North-South model (UNDESA Sustainable Development Knowledge Platform, 2015; IISD, 2015; TWN, 2015).

The inclusion of the CBDR in the financing



7. Intended as the responsibility that the developed world bears in the international pursuit of sustainable development. See Principle 7: States shall cooperate in a spirit of global partnership to conserve, protect and restore the health and integrity of the Earth's ecosystem. In view of the different contributions to global environmental degradation, States have common but differentiated responsibilities. The developed countries acknowledge the responsibility that they bear in the international pursuit of sustainable development in view of the pressures their societies place on the global environment and of the technologies and financial resources they command. UNGA, Rio Declaration, 1992.

BOX III. Financing for development - Areas of negotiation

In line with the seven thematic sessions of the revised Zero Draft, a rough summary of countries' positions on the core areas under negotiation is provided.

- Domestic public resources

Domestic resource mobilisation is considered a primary source of development especially by developed countries. Though its importance is recognised, the focus on the responsibility of individual states to achieve development has been criticised by the developing world that considers this approach unjust.

Among the most important issues under discussion includes the link between domestic resource mobilisation and the need to stem illicit financial flows (IFFs). This refers particularly to extensive illegal practices and abuses – such as tax evasion, trade and service mispricing and transfer pricing – that are perpetrated by transnational corporations that operate in developing countries. The African coalition has called for reforms in this area, and the Zero Draft of the Conference outcomes already includes IFFs as a key concern (paragraph 25 of the Zero Draft).

- Domestic and International Private Business and Finance

Recent negotiations have paid great attention to the potential for private financing to help achieve development goals, a position clearly expressed by the EU, the U.S., the UK, Australia and Switzerland. These countries emphasise how the mobilisation of private finances – such as FDIs, blended finance and loans – along with public-private partnerships (PPPs) can help to fund and develop infrastructure in many developing countries. The G77 has been cautious about advocating PPPs, for reasons connected to contingent obligations, fiscal risks and debt burdens, and due to a lack of trust for private corporations. Developing countries have instead the crucial role of the public sector in ensuring sustainable development.

- International Public Finance

When discussing ODA commitments, developing countries repeatedly refer to the principle of 'additionality' that requires developed countries to secure new and additional funding towards climate and sustainable development, while accomplishing their original commitments to ODA as a separate funding entity. In contrast, developed countries underline that the most effective use of public money, including ODA, is to facilitate and maximise other, larger flows of finance for development; they therefore advocate leveraging ODA. The revised Zero Draft has placed similar emphasis on this strategy [paras 53], but underlines: 'an important

use of ODA is to catalyze additional resource mobilization from other sources, public and private. [...] We will hold open, inclusive and transparent discussions on the modernization of the ODA definition and on the proposed measure of "total official support for sustainable development" (TOSSD) and we agree that any such measure will not dilute commitments already made.'

- International Trade as an engine for development

The debate around trade issues is passionate and brings together many opposing views. A certain level of agreement has been reached for the removal of nontariff measures and trade barriers that aim to improve market access for developing countries.

Developed countries point out the responsibility held by emerging countries in the context of South-South and trilateral cooperation. The G77 and the African coalition particularly underline the complementary role that can be played by South-south cooperation. The EU and the African coalition support the idea of 'Aid for trade', which is not warmly welcomed by many Latin America countries.

The G77 emphasises how the WTO and bilateral and plurilateral trade and investment agreements – when not properly managed – can have negative effects on development prospects. On this issue, the revised Zero Draft pledges to 'carry out negotiation and implementation of trade and investment agreements in a transparent manner to ensure that trade and investment treaties do not constrain domestic policies to reduce inequality, protect the environment or ensure adequate tax revenues' [para 78]. In addition, it is noteworthy that UNCTAD is already organising consultations to review investment agreements that will bring them in line with sustainable development objectives.

- Debt and Debt Sustainability

The debate on external debt reveals several opposing positions. The U.S. developed countries more generally are sceptical about using the UN as a forum to discuss the issue, and would prefer to use the IMF or the OECD. In contrast, the G77 and the African group stress the crucial role of the UN as a universal platform.

Currently, debt sustainability is part of the MoI and is therefore included in the SDGs and Post-2015 Agenda. Moreover, in September 2014 the UNGA (UNGA) passed – by majority with clear opposition and/or abstention from the developed world – a resolution on the establishment of a multilateral legal framework for a sovereign debt restructuring processes. The debt issue was included in the Monterrey consensus, and was mentioned in the revised Zero Draft that recognises the ongoing work of the IMF, UNCTAD and the UN regarding external debt [para 85].

- Macroeconomic coordination

The main issue under debate is whether and where the design of global macroeconomic rules should be done. Countries like the U.S. and Japan question the UN's role in this sphere and are pushing to strengthen global economic governance conversations within the BWIs. In contrast, the developing world continually advocates for reform to the international financial institutions, based on principles of inclusiveness and fair representation. They therefore tend to stress the central role of the UN. The revised Zero Draft underlines the position of the UN commitment as follows: 'we will continue to strengthen international coordination and coherence of macroeconomic policies to enhance global financial and macroeconomic stability, and prevent financial crises, acknowledging that national policy decisions can have systemic and far-ranging effects well beyond national borders, including on developing countries' [par. 92].

- Science, Technology, Innovation, and Capacity Building

Improvements to technology, innovation and capacity building, monitoring, data and follow-up have been particularly welcomed by developed countries. Some initial reservations were expressed by developing countries but these components have since been welcomed from their side, and have been included in the MoI and SDGs negotiations. However, some reservations still persist regarding issues related to technology transfer and intellectual property rights.

Source: FfD ZERO Draft revised, 7 May 2015; UNDESA Sustainable development knowledge platform, 2015; IISD, 2015; TWN, 2015.

for development process and in the MoI will influence agreements on the global economic governance architecture; specifically on finance, trade, investment, taxation, intellectual property and technology transfer.

2.4 Recommendations – Strengthening global economic governance towards the delivery of the Post-2015 Agenda

The objectives of the Post-2015 Agenda are challenging and multifaceted, since they reflect the complexity of today's changing world. In

order to succeed, common efforts and strong international cooperation is imperative; the Agenda and its implementation will only work if efforts towards effective global governance are shared. The role of the UN, as the only truly universal institution, will become crucial in order to align plurilateral forces, as it can keep open the debate and work on how converge divergences. The process of repositioning organisations towards the delivery of the Post-2015 Agenda will be decisive for its success. The international community shares responsibility for the achievement of the

proposed global development goals, both in terms of policy decision-making and norm-setting (as is currently the case), and also in terms of resource mobilisation and technical assistance, which will become more important in future.

In order to strengthen global economic governance and global rules towards the delivery of the Post-2015 Agenda, emphasis should be placed on reinforcing the following approaches:

a) Strengthening inclusive, transparent and accountable institutions

Global governance institutions should be strengthened so that they are representative of and accountable to the international community. They should guarantee a democratic, inclusive and transparent decision-making process to ensure that agreed commitments and duties are accomplished.

For example, financial institutions could open up to make room for the most disadvantaged countries in global decision-making processes. Special mechanisms could guarantee their participation and assistance given to support developing countries with their efforts.

In practical terms, the international community should continue to reform the IMF and the World Bank in a more inclusive way, while platforms for specific sectoral issues such as the WTO should receive a renewed emphasis and commitment because of their potential to help address systemic MoI identified in the Post-2015 Agenda.

b) Subsidiarity and harmonization of

existing and new institutions

To ensure that global governance is more effective, it is important to recognise that several issues might be better and more efficiently tackled at the local, national and regional levels. This will serve to reduce the number of disputes at the international level, while simultaneously emphasising the importance of regional cooperation.

The proliferation of bilateral and regional agreements appears to be an irreversible trend. Whether these developments can lead to better global economic governance will mainly depend on strategic management. The establishment of different fora, groups and regions can also offer positive developments. For instance, the competition between the G8 and the G20 may contribute to positive outcomes if the G8 can coordinate the developed world and manage internal problems. The same holds true for the BRICS and other regional fora.

New institutions should be welcomed, especially if they can complement the work of existing institutions. However, it is important that institutions – old and new – better harmonise their work; this is where international cooperation is urgently required.

c) Finding win-win situations: countries and policy space

The complexity of various development strategies means that flexibility is an ever-important trait, since targets, goals and instruments can be understood differently by different actors. If the Post-2015 Agenda is to succeed, effective policy instruments

should be accompanied by an enlarged policy space. This will allow governments to identify and pursue the most appropriate policy strategies (with the shared goal of equitable and sustainable development) that best suit their national circumstances. The sharing of policy knowledge between countries will become critical. Moreover, in terms of targets, the success of the SDGs will be determined by the degree to which results are 'win-win'. Therefore, working to converge goals at both the national and international levels is of absolute importance (UNCTAD, 2014).

d) Implementing goals in a comprehensive way

By their very nature, the SDGs are complex and multifaceted; it is therefore vital that the international community invests time in discussing their implementation. Coordination will be needed to address overlapping goals within the SDGs, since the success of one will determine the success another. This is one of the main ways that the SDGs differ from the MDGs. While the MDG's were very distinct, the SDGs are more integrated. This is at the same time one of the SDGs' main strengths and greatest challenges. This feature therefore highlights the need to maximise the number of instruments required for their success, while taking into account their different degrees of effectiveness. Many goals are interlinked and many targets have the potential to contribute to a number of goals, even if important trade-offs exist between them. Strong national leadership capacities will be needed to ensure effective implementation; strong coordination between different actors will also be required to ensure that the goals

are achieved successfully. Effective resource mobilisation and partnership building with different development actors is also required for addressing the multidimensional nature of the SDGs and for ensuring the long-term sustainability of their results. Finally, greater dialogue between countries is necessary, so that nations can share practical experience, along with advice on how to address the challenges that the goals present.

Part II – The Role of China and Possible Global Responses for a Sustainable Development Pathway

Chapter 3 – What is China’s role in global development as a developing power that is global in nature?

Greater efforts have been made to ensure that China's development and development of the world are mutually reinforcing, and that China continues to play an even greater role in regional and international affairs as a major responsible country.

– Wang Yi

Minister of Foreign Affairs of the P.R.C.

Since 1978, when policy reforms and opening-up were announced, the world has watched China grow exponentially. China’s rise has not only improved the wellbeing of domestic citizens, but it has also positively contributed to the global economy as well as to the attainment of several MDGs, such as eradicating extreme poverty and hunger, achieving universal primary education, and promoting gender equality. Thanks to the marked rise of Chinese representation and China’s contribution of capital and knowledge to major global fora, its role in the global governance system has become a world focus. As the second largest economy in the world (and according to the IMF, the largest) and certainly the largest ‘developing country’ (IMF, 2014), China’s presence in the international arena is increasingly important. Given China’s position as a G20 nation, its backing of voting reforms that are currently

taking place within the BWIs, its assistance with the establishment of new institutions such as the BRICS NDB and the AIIB, China is expected to further influence the international economic architecture in years to come.

These outstanding results should be understood within the context of China’s unique experience and future challenges. China has risen, but its rise has also been incomplete. China is on track to continue to lift millions more people out of poverty, but also has major economic reforms to continue, and massive environmental degradation to reverse. These changes are required at the same time as China is making significant advances in the area of global governance. While the dilemma of China’s rise defines its position in the global market, its domestic needs strongly influence its international progress. The complexity of China’s international position makes its role in global economic governance conditional, a ‘work in progress’ characterised by the intricate coexistence of both strength and weakness. What is certainly true is that China’s development experience, both past and present, is profoundly valuable for the international community as a whole. Further, China’s experience might also provide a solid foundation on which it can build itself a more proactive position in the future, especially

if future steps focus on the following three strategies. Firstly, China may focus on integrating the domestic agenda into the global agenda, whilst strengthening mutually beneficial (or “win-win”) cooperation on a global scale. Secondly, China could embrace new institutions and enhance coordination among new and existing institutions to ensure they complement one-another, create synergies and build new solutions to global problems. Thirdly, China could maximise alliances with other countries, both developed and developing, especially in areas such as poverty alleviation, growth and development. A great opportunity to align these strategies might arise with China’s G20 presidency in 2016 and with the implementation of the post-2015 development agenda.

3.1 China’s spectacular but incomplete rise - China’s challenges in the global economic system

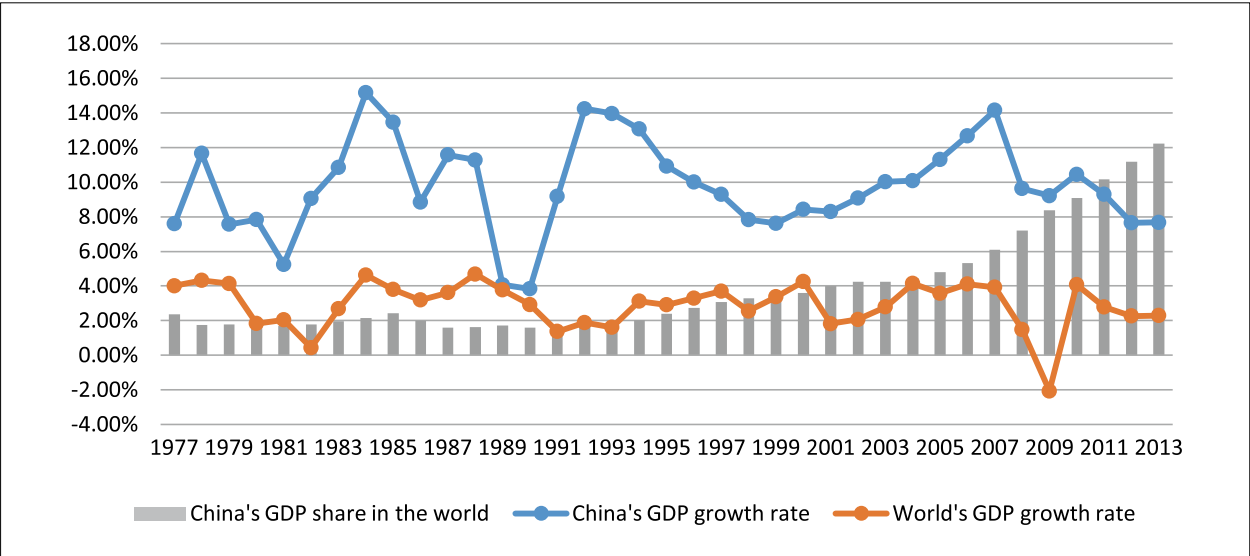
3.1.1 An outstanding development experience

During the three decades after China’s reform and opening up policies were applied, China’s economy grew at an average rate of 9.8 per cent per year; 6.8 per cent higher than the world average (Figure X). China’s global GDP share increased from 1.7 per cent in 1978 to 12 per cent in 2013 (World Bank, WDI 2015); it is now the second largest economy in the world after the U.S. (Figure X). Trade has long been a powerful engine for China’s economic growth. China has recorded a significant rise in its foreign trade since the early 1980s, its share of global exports increased from 0.79 per cent in 1982 to 10.4 per cent in 2013,

while its share of imports grew from 0.61 per cent to 9.7 per cent over the same period. With a total import and export value totalling over US\$4 trillion in 2013, China surpassed the U.S. to become the world’s largest trader (Figure XI). Thanks the tremendous growth in its net exports, China’s foreign exchange reserves have also seen a rapid increase from US\$0.167 billion in 1978 to US\$3.8 trillion by the end of 2014 – it now equals around one third of the world total (IMF, IFS 2015). In addition to trade, investment has also been an important engine for growth in China. In recent years, China has been one of the most attractive destinations for FDI among all emerging markets, due to its abundant supply of cheap labour, large potential domestic market, and friendly opening-up policies. The average growth rate of FDI inflows to China was as high as 36 per cent between 1980 and 2013 (UNCTAD official data 2015). FDI inflows contributed to China’s economic rise by bringing in foreign capital as well as the technology and management needed for industrial upgrading. In recent years, the growth in FDI inflows has slowed, counterbalanced by a tremendous growth in FDI outflows. The share of China’s global FDI outflows saw a sharp increase from 0.07 per cent in 2000 to 7.16 per cent in 2013 (Figure XII). In 2014, China finally became a net FDI exporter. Other indicators also exemplify China’s rise, though these are not always considered positive. These include China’s position as the largest global energy consumer and the largest greenhouse emitter.

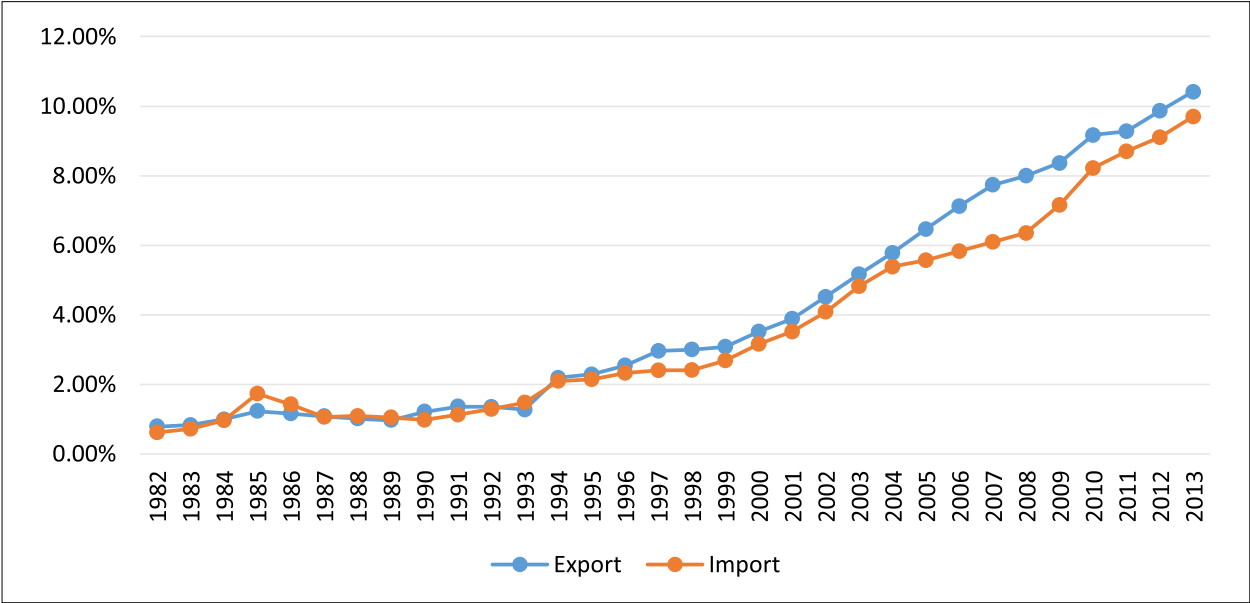
China’s is often used as an example by other countries at similar stages of development, however many question the extent to which

Figure X. China's GDP (growth rate and share in the world)



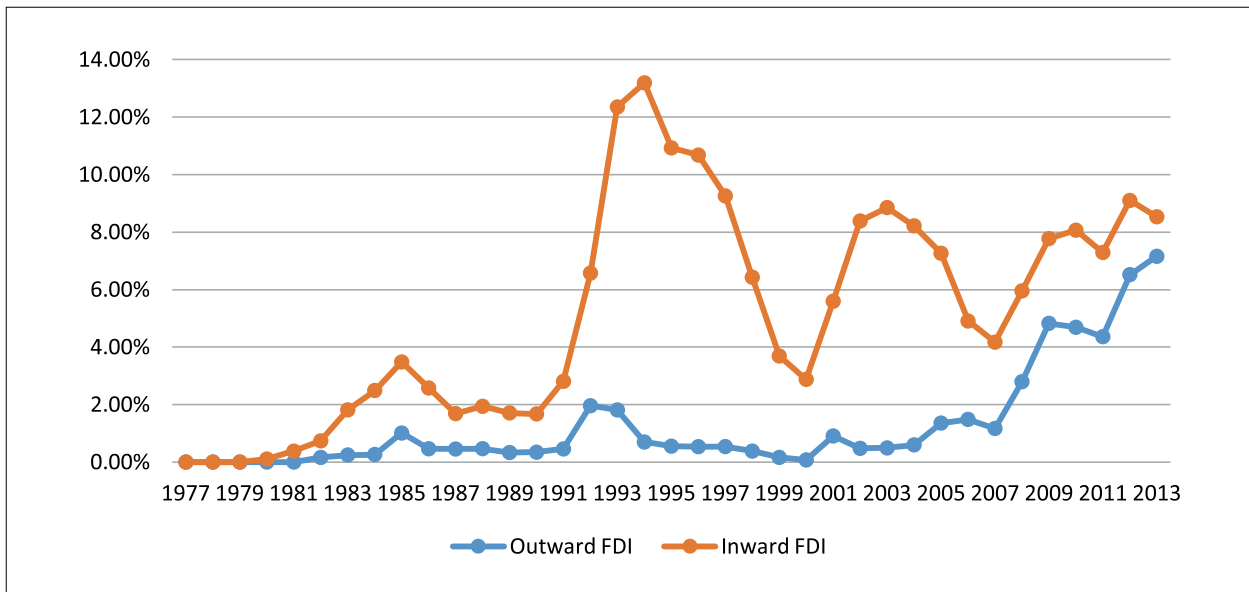
Source: World Bank (2014). *World Development Index*.

Figure XI. Share of China's trade in the world



Source: World Bank (2014). *World Development Index*.

Figure XII. Share of China's FDI in the world



Source: UNCTAD (2014). *Statistics*.

China's development experience is replicable. Framing China's results within the MDG agenda, it is undeniable that China has made substantial progress in realising several crucial goals. This is because the MDGs were well integrated and in line with China's development objectives. Between 1990 and 2005, over 470 million people in China were lifted out of extreme poverty and given access to clean drinking water, and gender disparity in primary and secondary education was largely eliminated (UN-China MOFA, 2013).

Indeed, some of China's achievements have exceeded expectations. In terms of eradicating extreme poverty and hunger, the proportion of rural Chinese population living under US\$1.25 per day was reduced from 46 per cent in 1990 to 10.4 per cent by 2005 – over a decade ahead of schedule. This made China the first developing country to achieve the MDG poverty reduction target (since then 20 other countries have achieved it). Possessing around one-fifth of the world's population, China has made a huge contribution to reducing extreme poverty and hunger on a global scale.

Table III. China's progress in achieving the MDGs

GOALS AND TARGETS	CURRENT SITUATION
Goal 1: Eradicate extreme poverty and hunger	
Target 1A: Halve, between 1990 and 2015, the proportion of people whose income is less than \$1.25 a day	Already met
Target 1B: Achieve full and productive employment and decent work for all, including women and young people	Potentially
Target 1C: Halve, between 1990 and 2015, the proportion of people who suffer from hunger	Already met
Goal 2: Achieve universal primary education	
Target 2A: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling	Already met
Goal 3: Promote gender equality and empower women	
Target 3A: Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015	Already met
Goal 4: Reduce child mortality	
Target 4A: Reduce by two thirds, between 1990 and 2015, the under-five mortality rate	Already met
Goal 5: Improve maternal health	
Target 5A: Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio	Likely
Target 5B: Achieve, by 2015, universal access to reproductive health	Potentially
Goal 6: Combat HIV/AIDS, malaria and other diseases	
Target 6A: Have halted by 2015 and begun to reverse the spread of HIV/AIDS	Likely
Target 6B: Achieve, by 2010, universal access to treatment for HIV/AIDS for all those who need it	Already met according to available information
Target 6C: Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases	Likely
Goal 7: Ensure environmental sustainability	
Target 7A: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources	Likely
Target 7B: Reduce biodiversity loss, achieving, by 2010, a significant reduction in the rate of loss	Unfulfilled
Target 7C: Halve, by 2015, the proportion of the population without sustainable access to safe drinking water and basic sanitation	Already met
Target 7D: Achieve, by 2020, a significant improvement in the lives of at least 100 million slum dwellers	Likely
Goal 8: Develop a global partnership for development ⁸	
	N/A

Source: UN-China MOFA (2013). *China's Progress towards the Millennium Development Goals*.



8. There is no specific target set under Goal 8

3.1.2 A development-oriented government at the root of China's progress

China's successful development experience and the achievement of the above MDGs can be attributed to three key factors: a development-oriented government, a rapidly expanding but well-managed economy and a favourable social and demographic setting.

The role of the Chinese government in contributing to China's progress is of crucial importance. Economic growth in China has been achieved by a very proactive government that is development-oriented, rational in goal setting, and progressive in its domestic resource mobilisation. Five-year plans, national goals formulated and implemented by the Chinese government, have allowed the government to guide the direction of macro-economic policies and to regularly make deliberate policy adjustments. Furthermore, some of China's national goals – listed in the five-year plans – were consistent with the MDGs. Finally, a results-oriented evaluation system at every level of government, along with a specific national plan, has driven China's spectacular progress and contributed the process of achieving several MDGs.

The Chinese government has also been active in promoting the mobilisation of domestic resources and investing overseas, while allowing the financial sector to use funds for large 'physical infrastructure' projects, such as roads, high-speed railways, airports, energy and communication networks. The combination of these with 'social infrastructure' projects including improving education, healthcare and pensions, have boosted

development and led to extreme poverty eradication. Income redistribution has also been improved via taxes, remittances, and other revenues generated by public and private savings and investments (UNDP, 2015). This has significantly mitigated income inequality. While China still has a long way to go to completely eradicate poverty, China's great achievements to date cannot be denied. But it is the process of how, rather than the what, that many developing and emerging economies could learn valuable lessons from China's development experience.

3.1.3 China's development - Challenges and reform potential

Bearing in mind China's outstanding performance, it is important to also consider China's future trajectory, especially since China has recently experienced a slow-down to its economic growth (Figure XII). China's economy has slipped into a new development stage – commonly hailed to be 'the new normal' – that is characterised by a downturn to its economic growth and intensive adjustments to its economic structure. The growth rate of China's manufacturing industry has decreased steadily over the past 4 years (Figure XIII). In addition, due to overcapacity problems experienced in its early development stages, fixed asset investments (especially real estate investments), which were once the engines of China's economic growth, have experienced a downward trend during the past 5 years (Figure XIV). The new normal has thus raised concerns the possibility of China being caught in a 'middle income trap'.

An in-depth examination shows that China's rise is far from complete. The incompleteness

of China's rise is reflected in three ways - the distorted real sector, inefficient financial markets, and remaining development challenges.

There are three facts that show that the structure of the real sector is distorted. The first is that there is too much reliance on imported technology with a lack of domestic innovation. China's increasing Total Factor Productivity (TFP) over recent decades is mainly attributable to trade and inward-flowing FDI, which has stimulated demand for foreign technology. However, China's public and private expenditure on research and development (R&D) remains low (Li, 2012). According to the "Trade in Value-added" initiative (TiVA), undertaken by the OECD and the WTO (2013), in 2009 China's exports only made up 67 per cent of domestic value-added, which was far lower than the 89 per cent experienced by the U.S. and the 76 per cent average experienced by OECD countries – ranking the last but one among G20 member countries. China has acted as the world's 'assembly centre', whereby other countries have taken advantage of its low labour costs rather than its technical strengths.

Secondly, closer analysis reveals a skewed industrial structure. China's economy is dominated by the manufacturing industry, and only 46.1 per cent of GDP has been generated by the service industry (Zheng, 2014). The overreliance on manufacturing has led to an over-investment in specific sectors, such as real estate and iron and steel, which has caused overcapacity and resource wastage. Another important by-product of the distorted industry structure is serious environmental

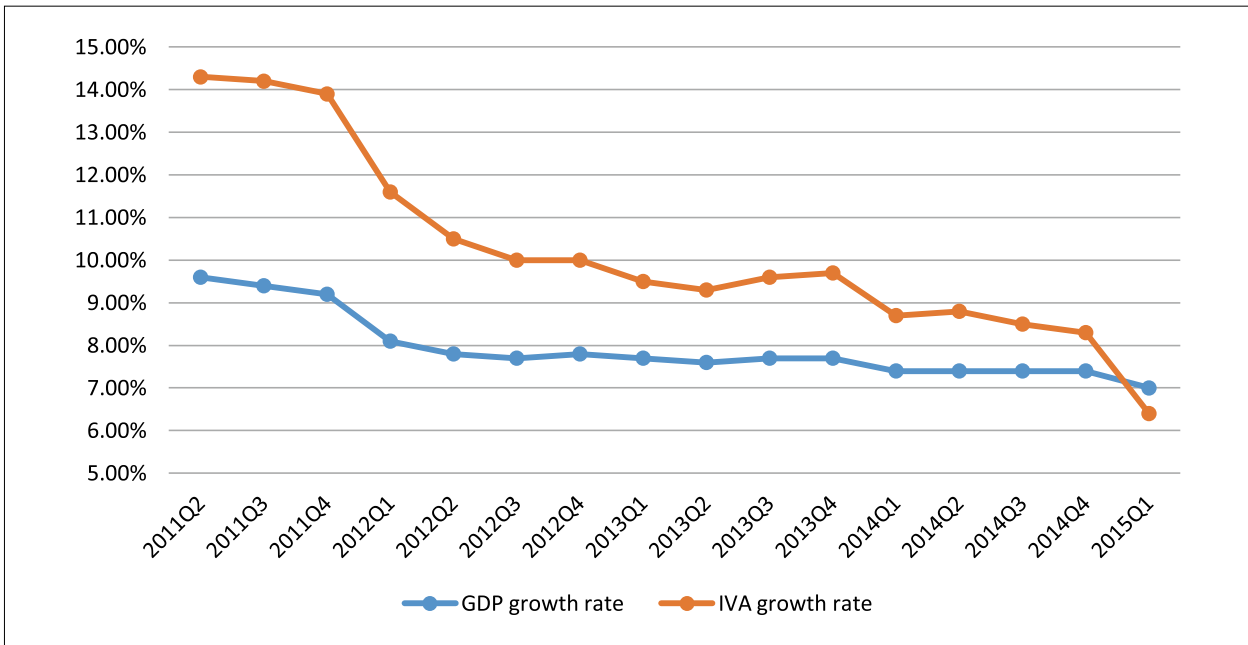
degradation and high energy consumption per unit of GDP, which is around 2.5 times the world average. 80 per cent of China's grassland is experiencing degradation, and industrialised cities suffer from hazardous pollution levels.

Thirdly, China is suffering from a slowly declining population dividend. China's competitiveness on the global stage has largely been attributed to its cheap labour costs. However, due to its rapidly aging population, China is gradually losing its competitive advantage, and is being forced to pursue alternative means of achieving sustainable growth.

China's weakness also lies in its financial sector. Even with government intervention, China still has a long way to go towards liberalising its interest rates and capital accounts. In addition, the depth and scale of China's capital market is far from sufficient to allocate financing resources efficiently. As a result, large state-owned enterprises often take priority when seeking bank loans and other financial resources, whereas small entrepreneurs are hardly able to raise enough funds to establish themselves. The Chinese government is attempting to shift this with new measures, but they will take time to bed out and prove themselves.

Though China has done very well with most MDGs – whose progress brought the achievements of many of the MDGs at the global level - the incompleteness of China's progress is also reflected in mixed progress for some of the MDGs, and the need to eradicate poverty for about 100 million people (UN-China MOFA, 2013; World Bank, 2015).

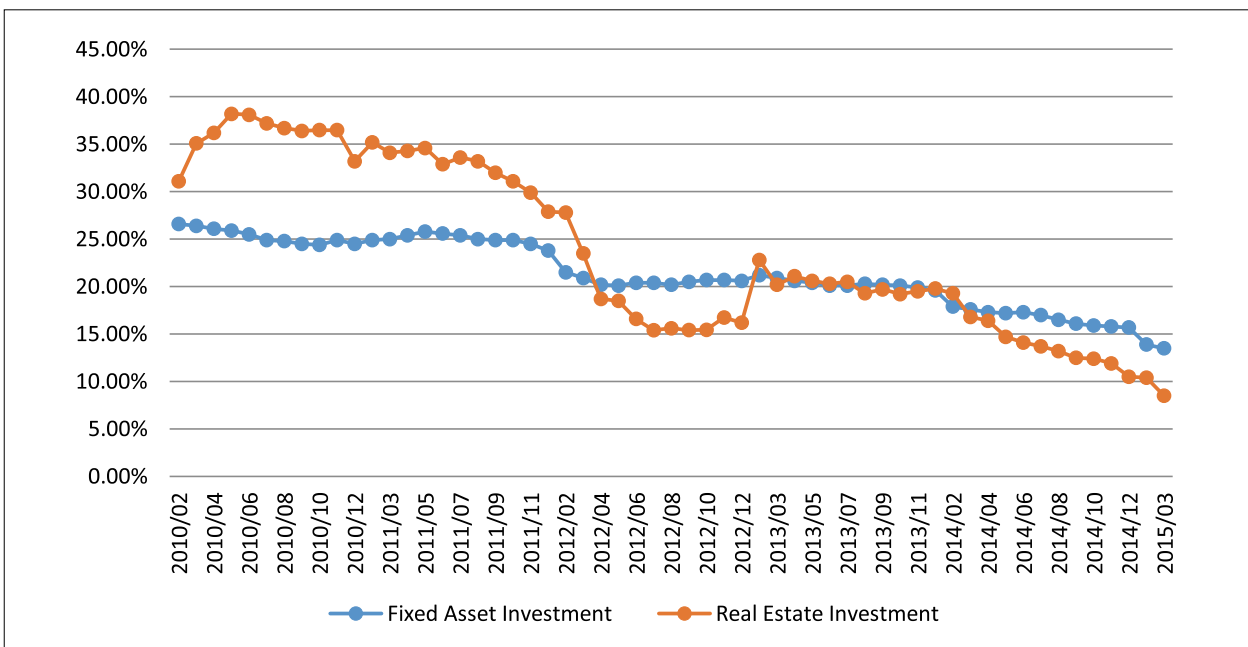
Figure XIII. Growth rate of China's GDP and Industrial Value Added (IVA)



Source: China's National Bureau of Statistics (2015)

Note: Industrial value added refers to the final results of industrial production of industrial enterprises in money terms during the reference periods. It can be calculated by adding gross industrial output to industrial intermediate input and value added tax.

Figure XIII. Growth rate of China's GDP and Industrial Value Added (IVA)



Source: China's National Bureau of Statistics (2015)

According to the MDGs progress report in 2013 China still faces some challenges in the complete achievement of several targets such as full and productive employment and decent work for all, especially for women and young people; universal access to reproductive health and in reversing the spread of HIV/AIDS. Last but probably the biggest challenge for China in next future is ensuring environmental sustainability, in terms of loss of environmental resources, biodiversity, water and air pollution and urbanization.

At the Third Plenum of the Eighteenth Congress of the Chinese Communist Party (CPC) in late 2013, 60 points were listed on China's reform agenda, including: fiscal and financial reforms, the reform of state-owned enterprises, reconsidering land use and natural resource pricing, improving administrative systems, appraising rule of law and social equality, promoting innovation and managing urbanisation. Essentially, key reforms will address how to redefine the relationship between the government and the market in order to transform China from a resource-based to an innovation-driven economy. In other words, reforms will centre on forging a unique country-level strategy towards achieving inclusive growth and sustainable development on a massive scale.

3.2 China's inputs in global development cooperation

3.2.1 More resources in enhancing global development cooperation

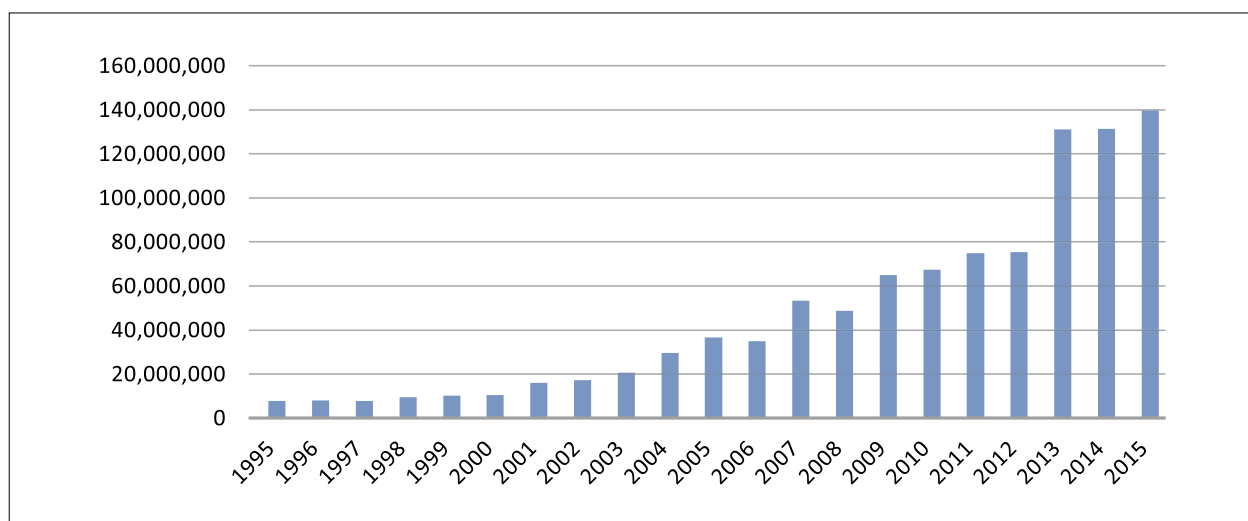
Given China's success in meeting most of the MDGs, its role has switched from an aid

recipient to an assistance provider. In recent years China has significantly increased its role in financially supporting and advising other developing countries. According to the second White Paper on Foreign Aid published by the Chinese government last July 2014—which refers to aid and concessional loan data provided by the Ministry of Commerce and Eximbank – China is consistently increasing its foreign aid. Between 2010 and 2012, China provided a total of RMB89.34 billion (US\$14.41 billion) in the form of grants (36.2 per cent), interest-free loans (8.1 per cent) and concessional loans (55.7 per cent) (UNDP, China's second White Paper on Foreign Aid, Issue Brief 2014).

China has employed a multi-pronged approach by both influencing the global development agenda and devoting resources to more technical development aims, such as ODA, private investments, multilateral initiatives and contributions to IFIs.

China has also increased its financial support to the UN system through assessed and/or voluntary donations. The last two decades have witnessed a tremendous increase to China's UN (regular) budget contributions (Figure XVI), which have grown by 16.83 per cent from around US\$8 million in 1995 to US\$140 million in 2015. China now accounts for 5.04 per cent of the UN's total (regular) budget; making it the sixth-largest UN contributor after the U.S. (23.63 per cent), Japan (10.61 per cent), Germany (6.99 per cent), France (5.48 per cent) and the UK (5.07 per cent).

Figure XV. The net contribution of China to UN regular budget



Source: UN official page on contribution, 2015

As one of the five permanent members of the United Nations Security Council, China has also provided increasing support to UN peacekeeping operations in recent years. China ranked sixth in terms of assessed contributions to UN peacekeeping operations between 2013 and 2015, and is the largest contributor towards peacekeeping missions among the five members of the Security Council. Echoing its commitment to provide military forces for UN peacekeeping operations, China sent its first 700-strong infantry battalion to South Sudan in 2014.

Moreover, China has made several voluntary contributions to various cooperative mechanisms under UN auspices. For instance:

- As one of the first countries to participate in South-South cooperation (SSC) with the Food and Agriculture Organization (FAO), China signed an historic deal of US\$30 million to establish the FAO-China Fund in

2009, and has recently replenished it with another \$50 million. This supports other developing countries in improving their agricultural productivity and achieving the MDGs.

- China has spent a total of US\$7.8 million since 2005 on two phases of a tripartite cooperation agreement: United Nations Environment Programme (UNEP)-China-Africa Cooperation on the Environment.
- China has committed US\$2.5 million to trilateral cooperation with UNDP. This plays an important role in bridging governments and local communities of recipient countries in a coordinated manner that enables better project delivery and efficiency.

China has also assumed a more active role in the Post-2015 Agenda-setting process than it did in 2000 when the MDGs were formulated. For example, China hosted two national consultations in 2012 and 2013, adopting

a bottom-up, participatory approach where 75 per cent of participants were from social organisations. The government also released a position paper on the Post-2015 Agenda in 2013 – an updated version was published in May 2015 (China MOFA official page, 2015) – and ran a workshop with UNDP in 2014 on the specific contents of the Agenda. This year China's role is set to be even more significant, as its involvement in UN's three main work streams that are due to take place in Addis Ababa, New York and Paris will demonstrate.

China also plays an incisive role within the G77+China grouping. China has been an active player in the G77 since the Gabon Meeting in 1981. As the largest developing country intergovernmental group, the G77+China work to promote the interests of the South, enhancing their negotiation capacities on all major international economic issues within the UN system and encouraging SSC development. The diversity of the G77 represents both a strength and a weakness as it attempts to consolidate the position of its 134 members. Though divergences occur – as there are increasing numbers of smaller groups within the G77 (e.g. the African Group, BRICS, SIDS) – the group has continued to promote and steer common objectives. For instance, the G77+China has expressed a united position in the Post-2015 negotiations;

especially in stating that poverty eradication should remain a priority.

Furthermore, at G20 summits, Chinese leaders repeatedly emphasise developing countries' interests, arguing how the largest imbalance in the world economy is related to development (Ye, Xue, and Zha, 2014). After the crisis, China also played a vital role in pushing IFIs towards governance reforms that would empower developing countries (Kim Xia et al, 2014). Moreover, Chinese caution in regulating capital accounts prevented it from incurring serious damage during the financial crises of 1997 and 2008. This, to some extent, persuaded the IMF – after the 2008 crisis – that some control of capital accounts was useful. (Ye, Xue and Zha, 2014).

China has also devoted a significant amount of time and resources to organising global summits and holding numerous meetings with Africa, Latin America and Asia – most recently hosting APEC in 2014. Its preparations for the 2016 G20 presidency are also underway.

China has also become even more active in its contributions to global governance, predominantly through bilateral, regional and cross-regional initiatives, such as the Belt and Road initiative, the Forum on China-Africa Cooperation (FOCAC), the AIIB and the BRICS NDB and CRA.

BOX IV. The Belt and Road initiative

Since its introduction by President Xi Jinping during his visits to Kazakhstan and Indonesia in 2013, the New Silk Road Economic Belt and 21st Century Maritime Silk Road (together referred to as the Belt and Road initiative (一 带 一 路 倡 议)) have been extensively discussed by policy makers. The New Silk Road Economic Belt, announced by the National

Development and Reform Commission (NDRC) and the Ministries of Foreign Affairs and Commerce, will link China with Europe through Central and Western Asia via a network of highways, railways and other critical infrastructure. The 21st Century Maritime Silk Road will connect China with Southeast Asia, the Middle East, and Europe by expanding ports and coastal infrastructure (Yun, 2015). Official media have indicated that up to 60 countries may be included in these initiatives, which will involve around two-thirds of the world's population and one-third of global GDP (The Economist Intelligence Unit, 2015). The aim of the initiative is to promote greater financial integration, to strengthen regional information and communications networks, and to clear barriers to cross-border trade and investment in this vast region.

Figure XVI. The Belt and Road initiative



Source: Xinhua Finance Agency, 2015

Some progress has already been made. In terms of financing, the Silk Road Fund (SRF) was established in 2014, with a contribution of US\$40 billion from China. This sum has been backed by the China Investment Corporation, the China Development Bank, the Export-Import Bank of China and the State Administration of Foreign Exchange. The interbank association that will join the new SRF, the NDB, the AIIB, the China-ASEAN Interbank Association and the Shanghai Cooperation Organisation (SCO) will also provide infrastructure funding for the initiative (Malik, 2015).

A comprehensive action plan called 'Visions and Actions Outlined on Jointly Building Silk

Road Economic Belt and 21st century Maritime Silk Road' was issued by the NDRC, the Ministry of Foreign Affairs and the Chinese Ministry of Commerce in March 2015 (Xinhuanet, 2015). The Belt and Road initiative has also been integrated into provincial government objectives. 18 provinces in China are involved, and various projects are due to commence. For example, the construction of several transport projects, such as three roads across Northern, Central and Southern Xinjiang, and six major railways and three highways in Fujian province is due to commence in 2015. Regarding trade, Guangdong will be actively involved in the Hong Kong-Macau-Guangdong Free Trade Zone (HSBC, 2015).

Aside from provincial integration, the Belt and Road initiative will reach far beyond China's borders. In April 2015, during President Xi Jinping's visit to Pakistan, China signed a series of agreements committing US\$46 billion to cross-border development deals. The projects under negotiation are mainly in the energy and transport sectors and are included within the framework of the 'China-Pakistan Economic Corridor', which stretches 3,000 kilometres from Kashgar in Western China to Islamabad and the port cities of Karachi and Gwadar (CNN, 2015). Another significant deal worth US\$5.5 billion has recently been signed in Africa by the China Railway Construction Corp (CRCC). According to the agreement, CRCC will construct a US\$3.5 billion intercity railway line in Nigeria and a US\$1.9 billion residential real estate project in Zimbabwe (Wildau, 2015).

Each of these projects shows China's strong commitment to the Belt and Road strategy, which will enhance the infrastructure investment in the developing world with the aim of tackling the connectivity bottleneck in and around Asia. As the initiative is quite new, we are yet to see its long-term results.

3.3 Defining China's international role

3.3.1 Balance between expectations and reality

China cannot be characterised as either a developed or developing country; thus the stark divide between these categories is arguably invalid today. China describes itself as 'a developing power of global nature' (全球性发展中大国), that is primarily preoccupied with tackling domestic challenges but also strives to pursue its global economic interests. This position has a pluralistic quality, signifying that

China's role in global economic governance is likely to continue to be transitional and evolutionary (Ye, Xue and Zha, 2014). The dilemma of China's rise defines its position in the global market, especially with regard to its trade, FDI, and capital flows.

Existing literature reveals China's increasingly active but not yet proactive role in global economic governance. In recent decades, Chinese representation in, as well as its contributions of capital and knowledge to major global fora has markedly increased. However, this involvement is nevertheless rather limited compared to external expectations. With

foreign reserves of over US\$3.8 trillion, and sovereign wealth funds ranking among the top five in the world, the Chinese government has significantly increased its intergovernmental loans and other foreign aid, while also steadily offering knowledge and experience to international organisations such as the IMF and the World Bank. While they are increasing, these financial contributions are still relatively small as a share of global contributions. For instance, its largest grant of US\$0.3 billion to the International Development Association's (IDA) 17th Replenishment makes up only a minor proportion of the US\$48 billion total. However, it's noteworthy that the international position of China under the leadership of President Xi Jinping has changed in terms of financial contributions. Besides the many bilateral agreements, China is in fact now creating and giving contributions to other regional and plurilateral funds such as the aforementioned AIIB, the NDB and the SRF.

Besides these engagements, China, with significant sovereign wealth funds, is one of the leading advocates of South-South cooperation and other regional arrangements. On one hand, regional cooperation enhances financing and technology sharing among developing countries, and on the other it boosts China's outward FDI, especially in the manufacturing and infrastructure sectors, so that China's overcapacity problems are relieved and its industrial structure readjusts. Contingent arrangements are established to ensure regional financial safety as well as to improve the domestic financial market, and development banks are being set up to boost infrastructure investment in surrounding developing countries. China's structural

problems that have emerged during its incomplete rise have provided incentives to establish a new South-South cooperative multilateralism.

However, China's economic restructuring is also having impact on geopolitics and international relations, particularly since the country is currently facing increasing competition from both the North and the South. China is trying to upgrade its exports, which has led to rising disputes with the North. Additionally, exporting labour-intensive products is still very competitive, which means that China is in direct competition with other developing countries.

Increasing challenges will arise as the Chinese economy moves towards a new stage of development. One of the most significant problems that will face China in the near future will probably not come from competition in similar labour-intensive sectors, but from the delocalisation or "going out" of Chinese industries in other countries, especially in Africa. How other developing countries absorb new comers, and how Chinese businesses respond, will define China's image abroad, especially in the developing world.

Further, on development cooperation, China tends to adopt a cautious approach. The Chinese government is simultaneously stressing the importance of North-South cooperation, while also advocating South-South cooperation. China often still regards itself as a developing country that supports the application of the CBDR as the basic principle for global governance. Moreover, the firm push on the quota reform of IFIs is not balanced by substantial new proposals on their modus

operandi. More recently, an increasing number of authors are focusing and questioning a potential hegemonic role of China specifically in regional or cross-regional initiatives like BRICS. Some LDCs remain concerned that a restructuring of global economic governance will be in favor of emerging economies at their costs (Vestergaard, 2011). Therefore, together with more proactive, substantive engagement, China could increasingly show an inclusive approach and an consideration about different levels of participation.

3.4 Recommendations - What could China's future role be in the international arena?

The complexity of China's international position makes its role in global economic governance conditional, a 'work in progress' characterised by the intricate coexistence of both strength and weakness. Yet, in the last decade, China has achieved much more representation on various international platforms. For example, China is the member of the G20 that campaigned to possess a more decisive voice within the IFIs. In addition, if the 2010's reform package comes into effect, China is expected to become the IMF's third largest shareholder. And, if the country overcomes its current structural constraints, China may have the domestic space to exert a more influential position at the international level. This will enable China to share its experience with other developing countries.

This suggest that China has the potential to build itself a more proactive global position in the future. The following recommendations have been identified as ways that China

could work to enhance its position at the international level.

a) Finding the win-win between China's national and global agenda

China has to manage its domestic challenges – namely, structural economic transformations – while strengthening its role in the international arena. China's recent development momentum provides it with competitive advantages. It should ensure that its reform processes work in tandem, as causes and effects. As Chinese leaders have repeatedly emphasised, its future reform strategy needs to integrate both domestic and global agendas while strengthening mutually beneficial relationships on a global scale. Chinese initiatives at regional and bilateral levels should also be framed in this context. If these policies are not well managed they have the potential to increase fragmentation at a global level.

This approach can give China the opportunity of taking leadership in drafting global priorities. For instance, China's push for certain areas and initiatives especially on infrastructure with the Belt and Road initiative or the AIIB could be framed to reflect its ideas about what should be prioritized in the global agenda, for example environmental goals. Such ideas may be welcome and even supported by the international community.

b) Harmonisation between new and old institutions

The introduction of new institutions like the AIIB and NDB has been welcomed into the global development financing arena, since they

aim to address some important development gaps. However, besides developing new initiatives, China's future efforts could place more attention on enhancing coordination among new and existing institutions to overcome past inefficiencies, create synergies and build new solutions.

In addition, recent developments on the trade agenda in the Asia-Pacific region – such as competition between TPP and RCEP – could escalate tension between the world's two major players, China and the U.S. This will most probably affect future global economic governance developments, posing challenges for China. The need for coordination and harmonisation is therefore more urgent now than ever before, and China could continue its effort to build on the successful 2014 APEC meeting, calling for a renewed dialogue within the WTO.

c) Maximising alliances with other countries

China could strengthen its own position within the G20, enhance its internal coordination mechanisms and build more common interest communities externally, including discussions around accession to the OECD (Kim, 2014). Due to its unique position, China can act as a natural bridge between institutions and nations, encouraging more effective dialogue that draws on the hope, concerns and needs of the developing and developed world (Ye, Xue and Zha, 2014). Thus, China could do more to embrace a policy strategy that engages more closely with other developing countries' needs and expectations, both in global economic governance debates and within institutions.

Major areas where China has the potential to achieve tangible results include: poverty alleviation, growth and development in line with China's own priorities. To build trust more effectively, specifically with other developing countries, China could also play a more proactive role in promoting environmentally and socially "best or good practice" industrial transfers and infrastructure financing to other developing countries within both the South-South cooperation framework and the Belt and Road strategy.

Finally, China's G20 presidency in 2016 promises great opportunities for the adoption of the Post-2015 Development Agenda. By taking a proactive role in shaping the G20 development agenda in line with the objective of the Post-2015 Agenda, China has the potential to catalyse action for the implementation of the SDGs. This will both facilitate China's own success, and will pave the way towards a better world for all, especially for those in need.

Chapter 4 - A potential G20 response and partnership for sustainable development

Now in the history of humanity we need a new sense of common destiny to shape our future in an economic, political and cultural sense. A new world order based on inclusiveness is needed.

**– Ahmet Davutoglu
Prime Minister of Turkey**

As a group that includes both developed and developing countries, the G20 has demonstrated its ability to develop coordinated economic policy for all countries. By granting equal opportunity to all member countries and respecting their national interests, the G20 also distinguishes itself from the BWI. In recent years, development issues have been continuously discussed on the G20 platform. The Development Working Group (DWG) in particular was established at the Toronto Summit with the aim of shaping a development agenda and working out the development strategic policies. In line with the nine pillars identified at the Seoul Consensus in 2010, and the tenth on green growth added by Mexico, each subsequent G20 Chair has chosen its priorities with the aim of achieving concrete and high-impact outcomes.

Though the broad scope of G20 agenda has sometimes been criticised, its focus on development has continued thanks to the achievements of the DWG and each presidency. At the Brisbane Summit in 2014, the DWG advocated to make the development

agenda an extension of the G20's growth agenda. The Turkish Summit this year marks a further step towards the mainstreaming of development into the core of the G20 agenda. This is because strengthening sustainable development has been included as a top priority. Since China's presidency of the G20 in 2016 is likely to advance the progress that Turkey makes in the area of sustainable development this year, this could provide impetus and momentum for the implementation of the United Nations post-2015 global development agenda.

Prioritising development could offer a way for China to strengthen its political and economic role at the international level. China could do so by focusing on one or more specific priorities both at the Leader's Summit and the DWG. For instance, boosting the economy while investing in infrastructure and sustainable business; enhancing green growth; fostering innovation; reinforcing balanced and inclusive growth; to strengthen an international tax system; to implement the SDGs at a national level; to activate a data revolution; to harmonise international financial institutions in order to finance the Post-2015 Agenda and to strengthen inclusive institutions.

Figure XVII. G20 Members Map



Source: G20 (2015). *G20 and the World*.

4.1 The G20 global development agenda

4.1.1 The G20 platform and the establishment of the Development Working Group

Around 20 years after the establishment of G7, it became clear the need for the key emerging economies to be involved in global economic management efforts. As previously mentioned in Chapter Two, the first ministerial level G20 was formally created in 1999 to provide a

new mechanism for informal dialogue in the framework of the Bretton Woods institutional system and therefore promote cooperation to achieve stable and sustainable world economic growth that benefits all (G20 Communique of the Finance Ministers and Central Bank Governors Meeting, 1999).

When the G20 was formally hailed as a premier forum for international economic cooperation, and elevated to Heads of State level, its main objectives were to find ways to overcome the negative effects of the global

financial and economic crisis of 2008–09. However, it is important to remember that the G20 was initially founded to provide an informal forum to enhance dialogue between developing and developed countries on issues of mutual interest, such as finance, the economy, growth and also development. Indeed, its elevation reflected the long-felt need to institutionalize the dialogue between the advanced and emerging economies in a more effective setting (Homi and Lombardi, 2012). Thus this remains an important goal. The question is how to treat broader issues – especially development – in the dialogue going forward. For instance, the development agenda can be treated as a separate track and focus by G20 countries, or it can be mainstreamed through the G20 economic and financial agenda. No one approach is right or wrong, and there are other hybrid options. This framework simply illustrates the fact that there have been possibilities and options that each G20 President has had, and that China will have going forward.

For instance, in 2009, at the G20's London Summit, the G20 made some key steps towards the creation of a development agenda, in which a US\$1.1 trillion program was announced to boost the world economy. One of the main topics at the London Summit was “ensuring a fair and sustainable recovery for the world economy.” Leaders agreed to provide US\$50 billion to support social protection, to boost trade and to safeguard development in low-income countries (Homi and Lombardi, 2012). One year later, at the Toronto Summit, the DWG was established with the aim of shaping a development agenda in order to enhance policies that would

stimulate economic growth and resilience (G-20 Toronto Summit Declaration, 2010). A multi-year action plan (MYAP) was announced and later adopted at the Seoul Summit in 2010. At the Korean Summit leaders agreed that “narrowing the development gap and reducing poverty are integral to our broader objectives of achieving strong, sustainable and balanced growth and ensuring a more robust and resilient economy for all” (Seoul Development Consensus, 2010). Since then, the DWG has remained focused on developing strategic policies to create enabling environments for development. These aim to link the main G20 policy goals to the needs of LICs (Saint Petersburg Development Outlook, 2013).

4.1.2 The G20's impact on development to date

The Korean summit represents one of the key presidencies where development received great attention. Indeed, possibly the most important G20 document on development was adopted at the summit, namely the Seoul Development Consensus. The document focused on nine pillars that are essential to strong, resilient and inclusive growth: i) infrastructure; ii) human resource development; iii) trade; iv) private investment and job creation; v) financial inclusion; vi) growth with resilience; vii) food security; viii) domestic resource mobilization; and ix) knowledge sharing. From that point onwards, each subsequent G20 Chair chose priority pillars with the aim of achieving concrete and high-impact outcomes. For example, France focused on infrastructure, food security and innovative financing in 2011. In 2012, Mexico prioritised food security,

infrastructure and financial inclusion and added a tenth pillar called “inclusive green growth”. During Mexico’s presidency, a distinction was drawn between key challenges (green growth, infrastructure and food security) and prior commitments. At the 2013 St Petersburg summit, the focus was on five priority areas: food security, financial inclusion and remittances, infrastructure, human resource development, and domestic resource mobilisation. The Post-2015 global development framework was also added for the first time together with the adoption of another key document the ‘St Petersburg Development Action Plan’. In addition, Russia began the process to deliver an accountability framework initially proposed at the Seoul Summit (Wonhyuk, 2014).

The nine pillars, the MYAP on development, and the ‘St Petersburg Development Action Plan’ have shown how the various presidencies have given attention and brought positive impact to development issues, however some argue that more could have been done in terms of clear action and especially commitment of resources (Davies, 2013).

Following the priority areas raised at the St Petersburg Outlook, the Brisbane Summit in 2014 shifted direction somewhat by including the development agenda as an extension of the G20’s broader growth agenda. As Zhang Haibing (2014) has underlined, the Brisbane summit’s focus on the two key areas of growth and infrastructure provide an example of how the G20’s development work is not only related to the specific objectives of the DWG but also to the realisation of development itself.

Specifically, Leaders signed off on a peer-reviewed growth package consisting of more than 800 new country-specific growth that will, if implemented, raise growth projections by 2.1 per cent by 2018. In order to boost economic growth and to realise the growth target of 2 per cent, measures such as increasing competition, relieving the private sector of unnecessary regulation and increasing female participation in the labour force were introduced. On financial regulation, commitments were agreed to strengthening financial institutions, addressing shadow banking risks, deleveraging derivative markets and reforming the international tax system. Potential impacts on development included reducing the infrastructure gap – at a cost of US\$70 trillion – over the next 15 years (G20 Global infrastructure initiative, 2014), as well as helping both G20 and developing countries seize a larger share of tax revenues from transnational corporations through promoting automatic international exchanges of tax information and curbing Base Erosion and Profit Shifting (BEPS) According to the African Union High-Level Panel on IFFs (AU-ECA, 2015), such manipulations have contributed to the loss of more than US\$50 billion a year on the African continent – more or less equal to Africa’s total FDI and more than its total annual ODA (Kende Robb, 2013). These actions had clear links with prior DWG work on tax and investment financing. However, some experts suggest Brisbane should have included a commitment to transparency in the mining industry, particularly on payments to governments in developing countries (Robertson, December 2014).

Finally, the DWG itself during Australia's presidency moved forward on more traditional areas, welcoming the Food Security Review prepared by the FAO in partnership with the OECD, and a G20 Food Security and Nutrition Framework. The Agricultural Market Information System (AMIS) and its Rapid Response Forum were also established to help improve market transparency in key commodity markets and to stimulate open discussions relating to price volatility. The DWG also implemented the G20 Financial Inclusion Action Plan and worked out an innovative approach to reduce remittance costs.

It is noteworthy that from the Canadian and Korean presidencies up to Australia, the DWG has made good progress on increasing coherence between G20 work streams. In particular, in linking infrastructure, DRM, financial inclusion and remittances with the G20's finance track. Further, in accordance with the G20 Sherpa's⁹ instruction, attention focused on creating links between development and the G20's work on anti-corruption, employment, energy and trade. On the operational side, the G20's multi-year action plan on development ensured continuity regarding implementation, hosting DWG meetings and co-facilitators for each pillar on a regular basis. The DWG's triennial accountability report, which assesses the G20's development actions, while monitoring the progress on the MYAP has also been helpful in terms of reporting to the Sherpas (DWG, 2014).

Despite progress made, nevertheless, concerns still arise over the effectiveness of the DWG. Some point out that the MYAP is so ambitious that its feasibility is far from guaranteed. It's very difficult to see how many of the nine pillars defined in the action plan respect the process-related principles requiring complementarity, partnership and an orientation toward concrete outcomes (Davies, 2013). Homi Kharas and Domenico Lombardi (2012) also argue that the G20 development agenda is too broad. They regard the nine pillars devised at the Seoul Consensus as disconnected, with the potential to generate unstructured and unproductive discussions that undercut the very premise of the G20.

This year and the coming years will therefore be crucial in the evolution of the G20 platform, as Turkey and China – two of the most influential emerging economies – hold the presidency. It should be noted that since the Australian presidency, stronger engagement between developed and developing countries has already emerged. Certainly with Turkey this year a continuous and further deepening discussion of development issues and a more active involvement of emerging countries is emerging and even more will be expected as China takes to the fore.

4.2 Exploring the G20's potential impact on global development cooperation

4.2.1 Coordinating a pluralist institutional landscape towards a unified global agenda



9. In the G20, the Sherpa indicates the personal representative of a government or of a head of state who coordinates and organize the international summit.

In the immediate aftermath of the global financial crises, the G20 was able to support a recovery from a severe economic crisis. Although the debate is still open regarding the effectiveness of the G20 and how it could function more effectively, thanks to its structure, the G20 currently holds power and influence over both the global economy and national economies that are crucial to the current landscape. The G20's format has demonstrated that it is well suited to forming coordinated economic policy for all countries; developed or developing alike. Furthermore, the consensus rule in the G20 decision-making process provides an opportunity for all member countries to be equal, to use all of the G20's advantages and its format to incorporate national interests in final decision-making processes. This arrangement is unique and distinguishes the G20 from other cornerstone international organisations such as the IMF (Sainsbury, 2015; G20, 2015). These specific features highlight the potential that characterises the group. It has the potential to enhance coordination at the international level, and to enhance global governance on economic aspects.

Looking at the G20's historical evolution and the dynamics of its institutional arrangements it is evident that it is vital to formalise the dialogue between advanced and emerging economies in a more effective way. The Group accounts for around 85 per cent of the world's economy, giving its members the right to ask for a more active role in decision-making processes within the global economy. Correspondingly, the G20 also includes more than half of the world's poor population, a factor that makes the Group particularly well-

suited for discussing and finding solutions to global development issues. The G20 therefore represents a natural bridge between developed and developing countries, and is one of the most effective platforms for pursuing inclusive and sustainable development.

As a forum for major and emerging economies, some concerns have arisen over the fact that the G20 excludes a priori the LDCs and LICs and therefore does not and cannot possibly represent all of their interests and needs. At regional level, it should be noted that the African continent is under-represented, as South Africa is the only African country member included on the platform. This problem of attempting to be both effective and representative is a major concern for the group itself. In order to address these issues the each year the G20 President invites a selection of guest countries to attend the Leaders' Summit and to participate in the discussions on the agenda. With this mechanism, the group tries to give non-members an opportunity to bring their views to the discussion table. The guest countries are selected to represent every region in the world. Each year the G20's guests include Spain (a permanent invitee); the Chair of ASEAN; the Global Governance Group; two African countries (the chair of the African Union and a representative of the New Partnership for Africa's Development (NEPAD) and a country or countries invited by the presidency, usually from its own region (G20, 2015). At this year's Summit, Turkey is particularly keen to engage with non-members to develop an international understanding of the G20, working especially closely with low-income developing countries (LIDCs). This should continue and could even

be strengthened through the appropriate mechanisms in the presidencies that follow.

Indeed, the G20 could do even more by creating a strong, permanent link with the UN. The formal process of driving the G20 towards the Post-2015 process started at the St Petersburg Summit in 2013. In the same year the UN resolution 67/289 was adopted, recognising the importance of the G20's actions and encouraging better coordination between the two entities (UN resolution 67/289, 2013). In the last communiqué of the Brisbane Summit on November 2014, it was stated that the G20 encourages increased collaboration with the UN and supports efforts to agree an ambitious Post-2015 development agenda. With the Turkish presidency this year, development has been elevated to a top priority in the agenda, marking a very important step towards the continued mainstreaming of development in the G20 agenda and paving the way for a unified global development agenda.

4.2.2 What impact could the G20 aspire to achieve?

Last December 2014, Turkey officially assumed the G20 presidency and announced the priorities of the G20 for the 2015. The three pillars have been identified as: 1) strengthening the global recovery and lifting the potential, 2) enhancing resilience, 3) buttressing sustainability. This last area focuses extensively on development issues, making development and the inclusion of developing countries a core priority of this G20 summit. Buttressing sustainability also includes energy sustainability and climate change financing as key issues on the discussion

table. In the Turkish presidency in 2015, the three I's – inclusiveness, implementation, and investment – are being extensively promoted. To operate inclusiveness on the international stage, the Turkish presidency seeks to enhance the voices of developing countries in G20. As Turkish Prime Minister Ahmet Davutoğlu has pointed out, the link between inclusiveness and growth should be highlighted, and the representation of LIDCs should be guaranteed in order to establish a sustainable and pragmatic agenda. It can certainly be asserted that inclusiveness has become one of the defining aspects of the Turkish presidency. The cooperation and interdependence of investment to drive growth and increase employment has also been strengthened in the Turkish presidency. The Prime Minister has called for development banks in both the developed countries and developing countries to work cooperatively towards infrastructure investment and construction. Investments in climate change should also be improved and the financial system should be stabilised to support the private sector in emerging markets to invest, especially in areas such as infrastructure and Small and Medium Enterprises (SMEs). Moreover, on specific development issues, the focus on improving infrastructure investment will continue, broadening financial inclusion and contributing to the reduction of remittances and transfer costs as well as assisting developing countries and LIDCs to benefit from the international tax agenda through further capacity building. With Turkey as the first G20 presidency to implement the Food Security and Nutrition Framework, food security in the developing world has been hailed as another important issue. Topics

include the enhancement of sustainable food systems and productivity improvement for smallholder farms (G20 official website, 2015; Sainsbury, 2015).

Turkey's 2015 G20 presidency is ambitious and its success will be a milestone on the road to shaping a G20 agenda with a major focus on development. Furthermore, it would be an even greater success if its experience and achievements were connected to China's G20 leadership in 2016. This synergy could be a source of impetus and momentum for the implementation of the UN global development agenda.

In addition to following the path paved by Turkey, China could do even more. The unsolved debate, if China is to be considered a developed or a developing country, has been substituted by the common request for a more proactive Chinese role at the international level. Chinese initiatives within the South-South cooperation framework, and especially the establishment of new regional arrangements such as the AIIB and the NDB (mostly designed to improve the financing environment and to enhance regional infrastructural investment in the developing world) are welcomed and show China's commitment to participating more actively in the global arena with a greater attention on global development cooperation. Moreover, as the 2016 is the first year of the implementation of the ambitious global post-2015 agenda – and therefore a crucial year for translating this vision into action – China can truly take a step further by prioritising the Post-2015 Agenda and the SDGs in its G20 presidency. This might be of domestic use

as China has already noted that it will closely link its domestic priorities to the SDGs. In addition, the universal character of the Post-2015 Agenda represents an opportunity for China to encourage developed countries to demonstrate their domestic commitment to the post-2015 agenda.

4.3 Recommendations - What specific options for the G20 does China have?

There are a number of specific areas China could focus on in order to deliver a development focused agenda through a combination of the Leaders' summit, the DWG and the Finance Minister's meetings. Doing so would build on the Turkish Presidency in 2015, which has put the SDGs on the agenda for the Leader's summit. In order of priority with highest first, our recommendations are:

1) Boost the economy while investing in infrastructure and sustainable business

Infrastructure development is currently a major aspect of China's foreign policy, as illustrated by the Belt and Road initiative and the establishment of the NDB and the AIIB. It is also of crucial importance for the implementation of the Post-2015 Agenda. As noted earlier, last year at the Brisbane Summit, G20 members agreed to pursue a global infrastructure initiative which this year's Turkish presidency is following up in particular through a newly created G20 Investment and Infrastructure Working Group. However, the initiative has not yet delivered results. China could further drive the agenda and promote a specific "Top 10" or "Top 20" list of investments

in physical and social infrastructure projects and commercial activities. This list could take a particular focus on developing countries and LDCs, in Asia, Africa and Latin America to be activated by the end of 2016. China could promote policies that support the engagement of public-private partnerships and private sector activities to enhance implementation. In addition, China could also promote a frank discussion about coordination and harmonization of lending policies among new and old development banks.

2) Enhance green growth

China is already taking major steps to face its great environmental challenges by focussing on green and inclusive growth, and it stands as an example for many countries to observe how a new, greener model of development is possible. In addition, the climate change summit will take place at the end of 2015 and will need immediate follow-up by the largest economies. China could therefore encourage G20 countries to commit to a number of practical steps to advance green growth domestically, building on the China and US climate announcement made in October 2014 and the work done by Korea and especially Mexico in 2012 with its “green growth” pillar.

For instance, based on the G20 Principles on Energy Collaboration and G20 Energy Efficiency Action Plan reached in 2014, China could encourage new commitments to energy efficiency, clean energy and investment in R&D to boost technology, or an agreement to reduce tariffs on and prices of environmental goods. There may also be many other initiatives to consider.

3) Foster innovation

China is entering a new stage of economic development characterized by the main shift from a labour-intensive economy towards a knowledge-based and innovation-driven economy. China’s firms are trying to develop niches in technology and hoping to influence and generate demand in the rest of the world for their products. Innovation is thus becoming an imperative in China’s new economic landscape.

In parallel, the G20 has started to pay attention to innovation, spurred especially by countries like Germany who will be a potential candidate for the 2017 Presidency. China could therefore create synergies with other G20 members and strongly drive support towards the promotion of innovation. In doing so, China could push for major investments in research and development with focus on several key areas that favours sustainable development. Further, special attention could be given to practical issues related to technology transfer to accommodate the needs of LDCs and LICs.

4) Enhance balanced and inclusive growth

Another subject on which there is interest by the G20 is inclusive growth, a key component of China’s economic restructuring toward the “new normal” and one of the top priorities of the G20 Turkish presidency. Inclusive growth was also selected as the main theme of the 2015 APEC agenda. Ensuring that growth is balanced and inclusive is a major objective in guaranteeing the core Post-2015 principle of “no one left behind”.

China could thus use its presidency to help address inequality globally by encouraging further action by G20 countries on domestic taxation, the development of social protection measures to reduce gaps in certain areas such as nutrition, health and education, or other types of policies. This would complement the work done on food security, which has been a priority since the Seoul Summit. Specific funds for implementation of the SDGs related to social issues could even be created by the G20.

5) Translate the SDGs to the national level

The Post-2015 Agenda has become a special priority in the G-20 agenda, particularly due to the Turkish presidency. In its presidency, China could take this forward by encouraging all G20 countries to show leadership by explicitly shaping or publishing their national strategies to align with the SDGs, with regard to both the universal goals and also to the means of implementation. Each G20 country could present a short report on their domestic progress – there is precedent for this. This open sharing could enhance the role of government ministries, parliaments and other stakeholders in implementation, as access to these reports would improve awareness of and capacity to plan for the legislative, regulatory and budgetary implications of the Post-2015 Agenda. The Development Working Group itself could be adapted to become a discussion mechanism for the SDGs within the G20, which could also build on the accountability work initiated in that forum.

6) Strengthen the international tax system

China can continue the work done so

far by the G20 on the implementation of regulations for an international tax system. Building upon the attention to domestic resource mobilisation raised at the Korean, Australian and particularly Turkish summits, China can push to build consensus on the broader implementation of BEPS measures, transparency and the Automatic Exchange of Information (AEOI) mechanism in the international tax environment, with a particular attention to protecting the interest of LDCs against illicit financial flows. A more specific proposal could be designed to support LDCs in strengthening their tax administration capacity and implementation.

7) Spur a data revolution

In China and elsewhere, the emergence of big data is playing an increasingly major role in public sector decision-making. Big data can reveal insights on societal trends related to sustainable development issues. These insights are badly needed – but in many poor countries it is near impossible for governments on their own to gather data – even conducting simple survey exercises pose major challenges.

The UN High-Level Panel on the Post-2015 Development Agenda therefore called for a “data revolution”, and in 2009, the UN Secretary-General also initiated the UN Global Pulse initiative to harness the benefits that the use of big data can offer to development.

In this context, China could encourage the G20 to engage with and lead on the development of big data techniques in supporting the Post-2015 Agenda, both by beginning to use big data for domestic

priorities and communication, and/or also by providing finance for the use of big data. For example, big data could, if implemented well, support improved productivity in the public sector, provide a better understanding of socioeconomic development trends, improve poverty mapping and allow for more sophisticated urban transport planning, among other uses.

8) Harmonise IFIs towards the financing of the Post-2015 Agenda

China could use its G20 leadership to drive for convergence and harmonisation between the work of the BWIs and new institutions such as the NDB and the AIIB, the establishment of which China is playing a decisive role in. Extra financing from these institutions will be of vital importance to the implementation of the Post-2015 framework, but confusion over different roles, rules and standards could at the same time threaten implementation and therefore long-term contributions to sustainable development.

9) Strengthen inclusive institutions

China could use its G20 leadership to continue the push for reform to the international economic system and financial architecture, in partnership with the other emerging economies. More specifically, following the Seoul Summit and the fresh impetus from the Turkish presidency, previous commitments to reform the IMF and World Bank and maintain the WTO's prominence on trade issues could be reiterated. However, China could itself do more to enhance the visibility of other developing countries, building on the G20 5th anniversary vision statement from the

Russia Summit. This statement stressed the importance of listening carefully to institutions and countries that are not in the group, an objective shared by Australia and the special focus of Turkey's presidency on LIDCs. For instance, China could create a formal mechanism for meeting with the G77+China. This would help provide better representation of the world's poorest countries.

Conclusion

The journey of a thousand miles began with a single step.

千里之行，始于足下

- Laozi
Chinese Philosopher

This report suggests that 2015 represents a year of change. It is a year of great expectations and hope and also a year of big challenges – not only for defining what we want to achieve in the future, but also how. This report builds on the discussions that took place at the Global Governance Forum held in China in November 2014, and examines the state-of-play on vital development issues. The report argues in the first chapter that the three major work streams to develop a global Agenda led by the United Nations – the Addis conference, the September Summit and the climate change conference – will help in pushing governments to work together to achieve an integrated, comprehensive and strategic vision for a better world and better lives. Discussions raised by these groups have provided the momentum needed to strengthen the governance of the international system. This will be necessary in order to overcome the imbalances and insecurities of our contemporary world. Given the world's current imbalances, this chapter calls for the international community as a whole to rethink the global economic governance structure and to reconsider the macroeconomic policies currently in place towards a shift that favours stability and development. Further, the report also calls on each country towards the

prioritization of the SDGs into their national agenda. In parallel, in order to build inclusive and sustainable economies, metrics to evaluate economic performance must become broader, deeper and more precise. Therefore, enhanced data availability is now crucial for pursuing an evidence-based course towards sustainable development.

This is critical because global economic governance is progressing incrementally, but in a fragmented way. Its institutions are struggling to restructure at the speed required to keep up with global economic power shifts, and the proliferation of bilateral and regional initiatives are striving to overcome gaps in the existing system. Considered as an irreversible trend, our analysis underlined that whether these developments can lead to better global economic governance will largely depend on strategic management. As the only truly universal institution, the UN is also facing the challenges posed by the current fragmented global order surrounded by an open debate around effectiveness versus representation. Achieving the SDGs and tackling challenges associated with the Post-2015 Agenda, will be politically very challenging and that's why this report implies that strengthening and reforming existing global governance institutions is needed now more than ever. The second chapter recommends how institutions should be developed in an inclusive, transparent and accountable way, making the voices of the developing and emerging countries integral part of the global decision-making process. This will help to reset global economic rules to effectively deliver the Post-2015 Agenda.

Furthermore, there is also a rising awareness that many issues might be more efficiently tackled at the local, national and regional levels in order to support the progress of all countries. Therefore, if the Post-2015 Agenda is to succeed, an enlarged policy space should be discussed that would allow governments to identify and pursue national strategies that best suit their circumstances but are also win-win for other countries as one size cannot fit all.

The second part of the report moves forward to identify possible global responses to sustainable development, and more precisely in the third chapter the report considers China's significance as the largest developing country in the world. China's development experience, both past and present, is profoundly valuable for the entire international community and might also provide a solid foundation on which it can build a more proactive position in the future. Due to its unique position, the report stresses how China can act as a bridge-builder between institutions and nations, encouraging more effective dialogue that draws on the hope, concerns and needs of the developing and developed world. In doing so, the reports suggests in particular that China may focus on integrating the domestic and the global agendas, whilst strengthening mutually beneficial cooperation on a global scale.

In the fourth and final chapter the report argues that a great opportunity might arise with China's G20 presidency in 2016. Following the achievements of the Brisbane Summit and work done up to now by the Turkish presidency in the mainstreaming of

development into the core of the G20 agenda, China could have the potential to catalyse action for the implementation of the SDGs and pave the way towards a better world for all, especially for the poorest. The report also argues that this convergence offers a unique opportunity for China to take action on a global but manageable agenda that has specific, strong and visible 'win-win' links to Chinese domestic economic priorities.

Expectations might be high, but the opportunities for China's support for the core areas of sustainable development through its own domestic action and international engagement are also huge. China does not need to necessarily take a strong "leadership position" in order to take advantage of this opportunity, but on the other hand, this is a positive agenda on which to build a positive global reputation, with the UN as partners.

Just as every journey starts with a single step, China's G20 Presidency has high potential to kick-start the implementation of the Post-2015 Agenda.

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ANNEX. Authors and Participants Biographies

Strengthening Economic Governance by Addressing Enduring Political Barriers

Randall GERMAIN

Introduction

The global economy has experienced nearly a decade of disruption and uncertainty. Traditional economic engines of growth have stagnated, and the prospect of financial crisis in Europe has depressed financial flows worldwide. Emerging economies, which grew robustly during the early years of the 21st century, have slowed. Currency fluctuations, debt levels and payments imbalances among major economies have raised global concern, while several international trade negotiations appear deadlocked. Indeed, agreement on either the causes or the solutions to a wide range of global economic problems is in short supply. In such an environment, many look to the political leadership of powerful states to steer the global economy towards a renewed growth path.

However, the political history of global economic leadership and governance is marked by enduring barriers which time and again have compromised efforts to resolve the political differences at the heart of global economic turmoil. These political differences transcend narrow economic indicators such as debt levels, trade deficits and surpluses and currency values. Instead, they are about more fundamental debates over the relationship of states to their economies, and speak to the global organization of the

capitalist world economy. My contribution to this Report considers what contribution China's Presidency of the G20 might make over the coming year to what I see as perhaps the most critical problem of global economic governance, namely the need to relax the drive for liberalization as the key prism through which states and international economic institutions constitute economic relations. China will not be able on its own to resolve this problem, but it can certainly work to make this problem more clearly visible and begin a dialogue to reduce its malignant effects.

Two key challenges to the global economy and possible solutions

The fact that recovery from the global financial crisis of 2008 has been hesitant and uneven suggests that it is more than a mere 'economic' event. The starting point of my analysis is that the 2008 financial crisis is an inflection point in the global political economy reminiscent of what the English historian E.H. Carr called the 'Twenty Years Crisis' between the two world wars of the 20th century (Carr, 1946). The hallmarks of that crisis period included a rebalancing of international economic relations, a realignment of global power relations, a reconstitution of state-economy relations, and social transformation on a world-wide basis. The world also witnessed a revolution in military affairs and a world-wide

ideological confrontation. We are fortunate at this moment not to face a significant threat of war among Great Powers, although of course many states are heavily involved in military operations of varying degrees of intensity. We do however face serious versions of what confronted political leaders during the first 'Twenty Years Crisis', and I will briefly consider two.

a) Global capitalism under stress

Economic growth rates in high income countries have been dismal since 2007, and now growth rates in many low and middle-income countries are slowing. Corporate profitability has recently come under pressure, while societal inequality and income stagnation have become issues of concern in many countries. These are clear indications that the global organization of capitalism is today under stress (Underhill, Blom and Mügge, 2010). Since the global organization of capitalism is a direct consequence of the relationship between states and markets, this relationship should be a key subject of global political leadership. And similar to the 'Twenty Years Crisis' of the 1920s and 1930s, today we have a model of this relationship which is no longer operative. The highly liberalized model of political economy that has underpinned global capitalism since the early 1970s can no longer serve as the only or dominant model of capitalist relations. What should take its place?

Here China can provide meaningful leadership by clarifying and outlining a model of global political economy that carries a global resonance. This model should focus on opening markets to international economic

exchange, but with adequate scope to build social safety nets that support the transitions which workers and citizens will need to make to increase and/or maintain their competitiveness. This is a form of liberalization which rejects the kind of austerity currently being peddled by euro-zone governments, for example, and instead seeks to embed liberalism within a responsible commitment to providing minimum levels of social protection (cf Polanyi, 1944/1957). Such a model resonates among many emerging market economies and many European countries currently suffering from excessive austerity measures.

The key challenge to overcome here is a collective action problem in two parts: part one is that no single state can re-define a central pillar of state-market relations on its own. But China, still a developing country, is in an unusual position: a carefully developed proposal along these lines could resonate among emerging market economies that face similar competitive pressures, while also reaching out to growth-deprived Euro-zone populations. An important element of any embedded liberal model would be a commitment to redistribute a suitable part of national income towards social benefits, which paradoxically is a pillar of successful economies such as Denmark and Norway that practice embedded liberalism as conceived here. Part two of the collective action problem is that any such model needs to be fluid and flexible enough to be adaptable to many different contexts. This is one of the central problems with the current liberal model of political economy: it is considered to be uniformly applicable across a wide variety

of economies regardless of their level of development. Indeed, according to this model, less developed economies urgently need to liberalize along the lines of more highly developed economies, but without the social protection that liberalization has historically required. If China can champion a sufficiently flexible form of embedded liberal model of political economy, it will have brought global economic governance into the 21st century.

However, there is one further challenge which championing such a model must face, and that is how to moderate the expectations which it might unleash. One of the results of extending social protection to marginalized and vulnerable populations, in addition to making them more economically competitive and productive, is to mobilize them politically. Indeed, the 'Twenty Years Crisis' witnessed a revolution in political mobilization as country after country confronted the economic devastation of the Great Depression. Such political mobilization is a healthy development, but it can run ahead of the capacity of the economy to generate adequate returns, or for governments to properly target social benefits. Therefore China should also seek to support political reform connected to any embedded liberal model of political economy which it champions. These reforms should focus on developing transparent governance practices, clear lines of accountability between government agencies and citizens, and ultimately responsible modes of political participation. Economically active populations are also politically mobilized populations, but they must be organized in a balanced relationship in order to be mutually constitutive and successful.

b) Getting the role of international economic institutions right

During the 'Twenty Years Crisis', rebalancing international economic relations and realigning global political relations made existing international economic institutions unable to operate in any meaningful capacity. They were beholden to dominant states for their capacity to act, but these same states were embroiled in a decades-long social, economic and political transformation that absorbed their energies. International economic institutions were essentially orphaned during this time, although they did manage to lay important groundwork for the advances of the post-1945 period (Pauly 1997). I believe that a similar set of circumstances is at work today: the emergence of powerful new economic trends together with shifts in the distribution of political power among what international relations scholars call the Great Powers has upended the roles played by international economic institutions, most significantly the International Monetary Fund and World Bank. These institutions, for so long proxies of G7 states and the United States most importantly (Lavelle, 2011), are figuratively and literally in a 'new' world. A key challenge facing them – and the G20 by extension – is how to configure for them a new role within a world economy that continues to be globalized in significant ways. The question of how to align the purposes and capacities of international institutions in a period of profound transformation is an enduring problem of global economic governance.

Here again China can provide leadership during its Presidency of the G20, most

importantly by exploring how the IMF might become the lead international agency charged with compiling and disseminating global data for use in deliberations concerning global economic governance. It may be a truism to say that knowledge is power, but in the case of global economic deliberations, access to solid, accountable, verifiable and authoritative data is absolutely critical. Such basic economic indicators as employment, inflation and money supply are often calculated by countries quite differently, which makes establishing global benchmarks difficult. And how can agreement on the roots of common economic problems proceed when some of the key economic indicators lack a globally-agreed precision? Herein lies an important role for the IMF, but one which it has yet to get on top of despite years of work on data dissemination standards. We need to move beyond dissemination standards to grapple with collection and measurement issues as a global public good.

The challenge in steering the IMF towards a role that emphasizes data collection rather than crisis prevention or liberalization is that it will reduce substantially the arc of IMF activity (cf Meltzer, 2000). This will also reduce the international weight of G7 countries (along with several other European states) in the global economy. In other words it will contribute to the realignment of global political relations and further reflect the rebalancing of international economic relations. For this reason it will be resisted by established economic and political powers. But I would suggest that this realignment is already going on and has been since the turn of the millennium, although it was interrupted by the

global financial crisis (Germain, 2010). Middle income countries are turning away from the IMF (and World Bank), and low income countries are exploring alternative sources of international credit for both crisis-relief and development finance. China could perform a valuable role for the international community by kick-starting a process of 'thinking beyond' existing international financial institutions. It has already begun this in one respect with the launch of the Silk Road Infrastructure Fund and the Asian Infrastructure and Investment Bank (together with the BRICS Bank). These are initiatives which provide alternative financing options for Asian countries, and have so far received a warm reception in many quarters of the global economy.

Were China to launch a review of global data collection during its G20 Presidency (to explore how, where and under what auspices a genuinely cooperative effort to collect, establish and maintain sound global data standards could be successful), a new chapter in international economic institutions might be opened. Such an initiative would be a bold attempt to address an enduring barrier to strengthening global economic governance by facing the thorny political question of how we obtain, measure and then use data in our governance deliberations. As well, such an initiative might also help to refocus attention on the broader problem of IMF reform, which has seemingly ground to a halt. Whether from within the IMF or from the broader platform of its G20 Presidency, pushing for concrete progress on global data collection by China will advance the cause of global economic governance.

In summary, we live in trying economic and political times. Many long-established patterns of behavior are under stress. I have highlighted two areas where change and transformation are ongoing, but which nevertheless face significant and enduring barriers that prevent global political leadership from responding to these needs. China can, during its Presidency of the G20, at least begin to chart a course that might strengthen the kinds of deliberations upon which sustainable and sound global economic governance might be based. Such a contribution would be of much value to the organization and operation of the global political economy.

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Economic Security - Key Challenge of the 21st Century

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From the beginning of the new century, the qualitative upgrading of economic security issues can be registered. It can partly be explained by the limited use of hard (military) power due to failed interventions in various parts of the world with negative consequences, as political destabilization, growing poverty, ethnic cleansing and massive migration. At the same time, rapidly growing economic interdependence, ongoing liberalization of production factors, such as commodities, services, capital and, to a lesser extent, labour have contributed to the growing importance of economic security. Also, the global financial and economic crisis and its management have certainly increased the awareness of policy-makers but also of societies on the necessity of addressing this issue. In some cases, existing international organizations are potentially able to face this challenge. However, the efficient management of several economic security problems requires new international approaches and crucial institutions such as the G-20, which includes the most influential countries of the global economy – to take new responsibilities.

This short essay highlights the main areas of concern related to economic security, to underline the importance of addressing these issues in future outstanding meetings and in the preparation of international policy decisions.

1) Security of access to markets and production factors

For several decades, and reinforced by the experience of crisis management, international trade has proved to be the engine of sustainable growth. Although multilateral negotiations in the framework of the WTO were stopped, as an answer, we witness the rapid spread of bilateral and regional free trade agreements. It is not yet clear, whether, at a later stage, they can be integrated into a global trade liberalization framework or we have to live with a fragmented global trade regime. In addition, transnational companies with global and regional production chains, and generating at least half of the international trade, represent a key factor of liberalization of commodity flows but, increasingly, also of services. Therefore it would be recommended in the next years that international organizations, including the WTO and the G-20 should not only secure further trade liberalization but also a progressive opening up of national service markets taking into account basic interests of countries at different levels of socio-economic development.

2) Supply security

When talking about economic security, supply security, and even more, energy security ranks first. Despite the fact, as it will be argued in this paper, supply security is just one of economic security issues, and even

within supply security energy is just one of the components. Beyond energy, supply security includes raw materials, food, industrial inputs and, as the strategically most important element, water.

Energy security is based on the physical availability of different energy carriers, the price at which they can be acquired, the disposable supply sources and the security of transit routes. At present, and in contrast to previous forecasts, neither physical availability nor the price level represent a security challenge (in some cases, just the opposite, lasting low energy prices may lead to socio-economic and political instability in oil and gas producing countries). However, the choice between geographic diversification of supply and transit routes may create a security challenge. For energy importing countries, diversification of supply (and less dependence on one or a few dominant suppliers) is expected to lead to lower security risk. However, if diversification of supply sources is connected with transit routes through several and partly unpredictable countries, additional risks may emerge.

Similar to energy, the international raw material market is characterized by twofold disequilibria. First, production and export of most raw materials (including metals and rare earths) are concentrated in a few countries. Second, a not less important market dominance of national or international monopolies can be observed. Both the growing demand for raw materials in rapidly developing countries and the increasing importance of special materials (mainly rare earths) for high-tech sectors in many economies generate more competition

for resources. Longer-term economic security requires international rules in order to prevent potential and highly dangerous conflicts.

Geographic constraints characterize the international agricultural and food market as well. Although, taking into account the global agricultural potential, a world population of 9 bn can be fed, but the decline of arable land (due to urbanization, climate change and traditional agricultural techniques), changing consumption structure due to higher income, the impact of alternative energy production and the not yet known consequences of gene modified organisms (GMO) raise serious security concerns.

Finally, and most importantly, in about 15 to 20 years, availability of (sweet) water will constitute the key supply security issue (for people, agriculture and industrial use alike).

3) Financial security

In this context, the global financial crisis can be considered as the watershed. It raised domestic and external financial security concerns and urgent tasks. In the domestic field, the management of budgetary and structural crisis as well as the role of internal savings deserve particular attention. External financial security includes the management of indebtedness in foreign exchange, growing financial imbalances between surplus and deficit countries, size, composition and use of foreign exchange reserves. A particular challenge consists in exchange rate security among key international players with different convertible currencies (USD, Euro, Yen, CHF, GBP). In January 2015, many investors have been affected by the lifting of the CHF-

Euro exchange rate. Rapid or continuous appreciation or depreciation of national currencies increase the probability of "currency wars" with serious impact on global and regional trade and investment flows. However, and most importantly, a new international financial system has to be established. It should correctly reflect the already occurred shifts in the global economy, and take account of the growing role of emerging countries. The G-20 has key responsibility for developing a sustainable international financial framework.

4) Environmental security

This issue has been the topic of many high-level international conferences. Still, as of today, no adequate solution could be reached. In fact, we do not know how much of the climate change is due to man-made pollution and how much can be attributed to long-term universal impacts (which, over millions of years, several times changed the earth's climate). However, even if a small part is caused by man-made pollution, we have to do our best to moderate the negative impacts. A co-ordinated international policy has to find a right balance between environmental, economic and social security by combining environmental requirements with those of sustainable socio-economic development and competitiveness. In addition, priorities of countries on different levels of development, as well as the "accumulated responsibility" for current pollution levels of industrialized countries have to be taken into account. In other words, any international agreement has to be based on combining universal values (our common future) and the fair treatment of countries on different levels of development.

5) Technological security

In this context, three issues deserve special attention. First, the access to new technologies is limited and dependent on the regulation of technology producing and exporting countries. Since the development of new technologies and products (particularly in the pharmaceutical industry) require huge and risky investments, profits to be earned from new products have to be secured. Regulation of intellectual property rights has been one of the key issues of the WTO. Maybe, a new solution has to be found in the future, including the G-20 forum.

Second, the use of new technologies raises important questions. On the one hand, the international trade in „dual-use" technologies (including arms, nuclear, biological and chemical weapons) has to be regulated. On the other hand, technological security is closely linked to environmental and food security. In the first case, the security of nuclear energy-producing plants, in the second, the potential impact on human life of GMOs is on the agenda of international cooperation. Finally, as the most important challenge for our common future, the borderline between scientific achievements, business interests and ethical issues can be mentioned. There is no doubt that, already in the near future, we have to face this "choice" (and decision pressure), looking at the dramatic development of the biotechnology and gene technology.

Third, nobody seems to be prepared to offer a security network against cyberspace attacks. Since their consequences (including technology-driven misunderstanding among interdependent partners) may lead to

incalculable reactions, we urgently need a global regulation, before it will be too late. Again, G-20 should take up this task and offer an adequate regulatory framework.

6) Social security

At first sight, social security seems to belong to the competence of nation-states. However, it has direct and indirect global security relevance as well. Directly, the demographic development (ageing vs. rapidly increasing young population, shrinking vs. growing labour force in different parts of the world, new challenges to worldwide healthcare) has to be dealt with. Indirectly, the pressure on national social welfare systems generates national, regional and partly also global security risks. In the developed countries, mainly in Europe, the reforming of the traditional (and for a long time stability-fostering) social welfare system is more and more unavoidable. In many rapidly developing countries the creation of an adequate social welfare system represents a not less important strategic task.

7) Value security

This is probably the most challenging issue for the sustainable development of mankind in the 21st century. Part of the topic, namely migration, is linked to social security. At present, about 3 per cent of the world population is permanently living in a non-native country – a huge contrast to practically complete capital liberalization and a high-level free circulation of commodities and increasing liberalization of the service sector. Even by very moderate calculations, in the next two decades, the share of people living in a non-native country will be doubled. Taking into

account the growth of world population from 7 to 8 billion, it would affect about 480 million persons. Even if migration between/among neighboring developing countries will not be included into our forecast, three main magnets (USA, Australia, and Europe) have to be prepared to face massive migration flows. In this context, Europe has a double challenge. First, Africa's population is growing fastest and is expected to reach the level of India or China in less than 20 years (1.4 bn). Second, this young, mobile, poor and mostly less educated population has one developed region only in its immediate geographic neighborhood. At the moment, Europe is absolutely not prepared to face and manage this risk.

Another big challenge consists in how globalization, the influence of mass media, ever stronger interdependence not only in political and economic terms, but in people-to-people relations is changing our everyday life and our thinking about traditional values as well as our readiness for and capacity to adjust ourselves to new values. In principle, multiculturalism is a big asset for all of us in the 21st century. However, at the same time, it can easily become the biggest security challenge in many parts of the world. Therefore, it is our common task and responsibility to benefit from the added values of different and interacting cultures and diminish/constrain the political, economic, social and psychological risks/costs. In the evolving global system based not only on political and economic, but, increasingly, also on cultural interdependence international institutions recognizing these opportunities and challenges correctly and at the right time are crucial. Therefore, the agenda of the G-20 should deserve utmost

attention to this task. Moreover, we need a two-way approach: not only a top-down to be expected by international organizations, regional institutions and national governments, but also a bottom-up movement, the growing responsibility of citizens of the Earth for our common future.

Concluding remarks

Growing strategic importance of global economic security issues has emerged in parallel with the unfolding new international institutional structure represented by the G-20. It is imperative that the G-20 takes increasing responsibility for global economic security. First, even if part of the economic security topics has been or should have been permanently addressed by existing international organizations, the nature and scope of the problems need new approaches either leading to new tasks of the G-20 or upgrading the activities of available international fora (trade and environment), Second, new organizations in general, and the extended activities of the G-20, in particular, are required to embrace those economic security issues that have only partially been covered and managed by existing global or regional organizations (financial security and migration). Third, we have been facing with new challenges without any international organization responsible for efficiently management, such as global supply security, technological security and, probably most importantly, value security. Particularly in the latter, the G-20 has a unique opportunity and an unprecedented responsibility to develop a lasting and credible agenda for international

debate and common actions.

At least for three reasons, China is expected to play a special role in the process of developing the global economic security framework. On the one hand, as the second largest economy, the leading player in international trade, a rapidly emerging global financial and gradually also technological actor and a crucial factor of sustainable supply security, China's interest in and responsibility for economic security has to be underlined. On the other hand, in 2016 China will take on the G-20 Presidency. This platform should be used to make substantial progress at least in some of the global economic security areas and strengthen the framework of international cooperation for the next and longer period. Finally, China's unparalleled experience with a history of 5000 years and its successful catching-up process to the developed world and its smooth inclusion into the international political, economic and institutional structures can definitely be considered as a highly-valued asset. In consequence, during its Presidency period, China can and should fully exhaust its potential role as an „honest broker” in key international economic security issues.

Facing Global Economic Governance Gaps - The International Monetary and Sovereign Debt Restructuring Regimes

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International monetary and sovereign debt restructuring regimes at the global level share one characteristic: they both represent gaps in global economic governance. Some observers characterized the current international monetary system as a “non-system” (Mateosy Lago, Rupa and Goyal, 2009; Padoa-Schioppa, 2010; Shanghai Development Research Foundation, 2011). Others defined the existing mechanisms for international debt restructuring regime as a patchwork of ad hoc arrangements (Herman, 2004) and a gap in the international financial architecture (Krueger, 2001).

This essay argues that the Group of 20 (G20) could well take action to address such gaps in global economic governance and that it will be justified to do so both on economic and ethical grounds. The essay will offer evidence on the channels by which such gaps exacerbate vulnerabilities of the global economy, and how they also represent obstacles to developing country broad-based participation and accountability in global economic governance. Then it will offer some ideas on what G20 actions to address such gaps, under China’s Presidency, could look like.

Due to the limited space, this essay is not expected to provide a full account of the discussions on reform of the international

monetary system and sovereign debt restructuring, but only focus on their global economic governance dimensions, economic and ethical arguments for addressing such gaps and some recommendations for how to do so.

The gaps in global economic governance make the global economy vulnerable

After the global financial crisis of 2008-09, while the global economy recovered from the worst of it, it continues to struggle to regain its pre-crisis pace. Expressions such as “two-speed” economy (IMF, 2011a) and more recently a “new mediocre” (Lagarde, 2014) are now common references in outlooks of the global economy. The unconventional monetary measures taken by the US Federal Reserve initially, contributed to the recovery but their withdrawal is now generating its own set of new systemic consequences, while the European Central Bank, after attempting less radical forms of stimulus, is now embarked in its own program of quantitative easing.

In the context of this challenging global scenario, the two gaps in global governance are important handicaps. How? In the case of the international monetary system, through the

following channels:

a) Exposure to shocks affecting the economy of the main global reserve and trading currency:

The current international monetary regime, although nominally a multi-currency one, depends on a single currency as main reserve and trading currency. This creates worldwide exposure to the shocks that affect such single currency. (Zhou, 2009; IMF, 2011, p. 24; Bergsten, 2009)

b) Limitations to job-creation and investment:

The current regime has a bias towards recessionary adjustments, which reduces global aggregate demand and job-creation. (UN 2009, p. 112; Ocampo, 2010, p. 2) The bias is particularly appreciable during crises, when the threat of capital flight or the lack of adequate financing forces deficit nations to adjust, a pressure not faced by surplus nations. (Mateos y Lago et al. 2009, p. 7) It is worth highlighting that the country that does not face this constraint on the deficit side is the country issuing the reserve and trading currency, the United States, but it does so at tremendous costs in terms of macroeconomic imbalances projected onto the rest of the world. (Stiglitz and Greenwald, 2010, p. 5)

c) Constraints to trade:

Providing support to the expansion and balanced growth of international trade was a chief reason to create the Bretton Woods system in the first place. A stable exchange rate system is crucial for international trade and in particular for countries that want to

expand their economies through trade. As put by John Maynard Keynes: "It is extraordinarily difficult to frame any proposals about tariffs if countries are free to alter the value of their currencies without agreement at short notice.

. . . Without currency agreements you have no firm ground on which to discuss tariffs." (UNCTAD, 2004) The stability of trade and its expansion is an incentive for long term, especially domestic, investment, associated to trade (UNCTAD, 2007, p. 21-22). This channel of impact is highly asymmetric due to the simple fact that for developing countries the share of trade in GDP is roughly double that of developed countries. (UNCTAD, 2009, p. 9)

d) Reduced development finance:

The Special Drawing Rights (SDRs)—a reserve asset that the IMF can issue and allocate to its members under certain conditions -- have an enormous potential as a tool for financing development. However, rules under the current international monetary regime squander that potential. First, the requirements for issuance of SDRs are so restrictive that SDRs in the system represent, even after the exceptional amount issued post-2008 financial crisis, merely less than 5 per cent of global reserves. (IMF 2010) Second, the rules for the allocation of SDRs require that they be allocated in proportion to quotas countries hold in the IMF. This means normally most of any given issuance would end up with the countries less in need and least likely to use them. (SDRF 2011) In addition, to give SDRs a more central role in the system changes in the design and issuance of the SDRs would have to be associated to public policy interventions such as fostering issuance of SDR-denominated assets, price benchmarking, etc. (Zattler,

2010, p. 296)

The gap in global governance regarding sovereign debt restructuring makes the global economy vulnerable through two main channels:

a) Threats to global growth and financial stability:

The lack of a mechanism for orderly, timely, efficient and comprehensive sovereign debt restructuring makes financial crises unnecessarily costly and lasting. (Hubbard 2002; IMF 2003) It also adds instability in the financial system. (IMF 2002, p. 6) Because crises can wipe out GDP and employment gains of years, the lack of a system for dealing with them means periodic losses for overall growth and stability. (ECLAC, 2011, Chapter II B and D)

This is not just a problem for the individual countries suffering such crises. Even before 2008 and the ensuing European crisis, economists had mentioned that debt crises in “emerging economies” were a focus of international policy attention not only because of the damage done to the countries themselves, but also because sometimes they have threatened the world financial system itself. (Herman 2004) After the Greek debt crisis, whose repercussions were felt in the whole Eurozone, it is undeniable that if a crisis affects a country of some size and interconnections, the effects could ripple into a regionally or globally systemic one. Given how many advanced economies carry the highest level of debt they have had in peace time,

this is not a far-fetched possibility. (Bank of International Settlements 2013, Chapter IV)

b) Lost opportunities to achieve market discipline:

The current sovereign debt restructuring regime, by not ensuring certain creditors – especially private ones - take losses in correlation with their bad lending decisions, introduces a distortion in the operation of available mechanisms for market discipline. One of the purposes of having ex ante clarity on sovereign debt restructuring rules is to ensure creditors know how they would be involved in a prospective resolution. This would give them incentives to care about the creditworthiness of sovereign debtors ex ante and thereby improve the operation of mechanisms of market discipline. (Gianviti, Krueger, Pisani-Ferry, Sapir and Von Hagen, 2010, p. 10)

The absence of clear ex ante rules on debt restructuring leads to misallocation of resources and episodes of over- or under-lending uncorrelated with the real fundamentals of countries. (Zettelmeyer, Weder di Mauro, Panizza, Gulati, Gelpert & Buchheit, 2013) It also leads to a transfer of private losses to the public financial institutions. (Ib.; Gianviti, et al. 2010) Again, should a country of a certain size have to go through a crisis, the size of emergency lending public funding available will be in question (let alone whether it can be disbursed in a timely fashion). The answer to this is not to have ever growing financial safety nets – though to some extent this represents a useful complement-- but to set up mechanisms for burden-sharing with private sector creditors.

The gaps in global economic governance limit developing country broad-based participation and accountability in global economic governance

Addressing the aforementioned gaps in global economic governance is not just desirable from the perspective of strengthening resilience of the global economy. It is also necessary on the ethical grounds of refocusing the global economy to the priorities and needs of developing countries.

Under the current international monetary regime, the increased volatility, impacts on trade flows and development finance have disproportionately higher effects on developing countries. The lack of credible mechanisms for monetary policy coordination means that decisions that affect the dominant international reserve and trading currency are made without proper consultation and barely notified after the fact to developing countries that are de facto most impacted by them. (Zhou, 2009; Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development, 2013, para. 3, and 2014, para. 3)

As discussed above, the system for issuance and allocation of SDRs is unfavorable precisely for those countries that would need them most. Some experts have noticed that the composition of the basket of SDRs includes four currencies of developed countries and called for expansion to include all major economies – including some of the developing countries. (Helleiner, 2009)

But an analysis that goes beyond the specific

currencies in the SDR to scrutinize the criteria underpinning the valuation method reveals that this method is lopsided towards the interests of developed countries. This is because there are trade-offs between achieving a currency basket optimal both as a unit of account and as a reserve asset. For the former, what matters is the correlation structure of exchange rate changes of the component currencies. For the latter, what matters is high liquidity of the component currencies. Since the SDR is trying to combine in one basket functions of both a unit of account and a reserve asset it is understandable that some degree of suboptimality for each will be unavoidable. But the current valuation method adopts the principles that the currencies of the basket have to be “freely usable currencies”, as defined in Art. XXX of the Articles of Agreement. This guideline means the current regime leans towards an SDR that better (one could even say exclusively) serves the functions of liquidity needed in a reserve asset as opposed to the functions of stability that a unit of account requires. (Caliari, 2011) In following this approach rather than a more balanced combination of criteria, the valuation method leaves developing countries, which are essentially more affected by volatility, at a disadvantage. Moreover, the clear option for “freely usable currencies” opens an extra dimension of volatility as such currencies are by definition, being most subject to speculation in international financial markets, less stable.

The sovereign debt restructuring regime is also highly imbalanced against developing countries. Creditors – generally developed countries—are in this regime the ultimate decision-makers on the level of debt at which

a restructuring is allowed and the size and conditions in which it can proceed (Argentina's debt restructuring's favorable terms are an exception to this in recent times but whose limits are also starkly reflected by the still ongoing holdouts litigation).

The onus on making a sovereign debt restructuring succeed strongly rests on the debtor. Although recent times have witnessed episodes of debt crises in developed countries, countries undergoing debt crises are usually developing countries, so they are the ones negatively affected by this gap.

What the G20 could do about them - The promise of China's Presidency

The G20 is a privileged forum for consensus-building among the largest economies of the world. China's upcoming Presidency of the G20 will offer an opportunity to offer leadership on addressing two gaps with, as argued in this paper, substantial implications for global economic prospects and equitable impacts on developing countries. If it does so, China will have reinforced simultaneously the role it has played as the engine of growth in the post-2008 period and as a champion of the voice of developing countries in the international financial architecture.

Under China's presidency, the G20 could resume the discussion on the reform of the international monetary system that it had started in 2011 and lay the ground for a smooth path towards a revamped system with 1) an institutionalized, credible forum for coordination of monetary policies, 2)

greater reliance on SDRs as the main reserve currency with attached reforms to amplify and balance their characteristic both as a stable unit of account and a reserve asset, and allow it to play some role as a trading currency and a development financing source, 3) support greater utilization of capital flows management measures and 4) support greater contribution by regional monetary cooperation.

With regards to sovereign debt restructuring, the G20 could draw the link between growth and financial stability and existing shortcomings in sovereign debt restructuring. It could also forge political agreement on the main lines of a mechanism for orderly, efficient, timely and comprehensive sovereign debt restructuring that goes beyond the recent agreements on a new layer of reform to collective action clauses – without denying such reforms are a step in the right direction.

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Global Public Interest - The Key to Establishing a New Order of Global Governance

Chen WENLING

Current challenges for global governance

Both global economics and politics are experiencing profound adjustment because of impact of global financial crisis, triggering a series of problems and difficulties for global governance. Today there are seven challenges for global governance:

First, capital imbalance. More capital is being allocated to the countries with the rights of capital monopoly. Developed countries dominate the global financial market, and due to the advantage of capital, global commodities and labour resources are being allocated to the developed countries. In contrast, most backward and developing countries, without a voice in global financial governance system, are disadvantaged in global capital allocation. The GDP proportion of emerging economies has greatly increased in that of the world's total. However, IMF2010 quota reform agreement, which reflects the reality, is hard to be implemented. What's worse, the voice of emerging economies in IMF is greatly restricted, indicating that it is arduous for these countries to strive for international capital.

Second, wealth imbalance. The problem is increasingly severely between countries and in every country. According to the report released by Organization for Economic Co-operation and Development (OECD) on December 9th

2014, the gap between the rich and the poor in the world's richest 34 countries records a 30-year high. In the most developed country, the income of the richest 10% of people is 9.5 times that of the poorest 10%, comparing to 7 in 1980. In the United States, the increased poor people have boosted dollar store, whereas the rich people have made luxury consumption prosper. In China, income gap is wide both in urban and rural areas. In urban areas, the highest 20% of urban household income is 19 times that of the lowest 20%. In rural areas, income inequality is more serious than in urban areas.

Third, distortion of democracy. The so-called democracy that US and some countries in Europe advocate has lost the real meaning of democracy, and has caused unrest in some countries and regions. Democracy should have been a concrete mode in which people being master of themselves and exercising the country's power. Meanwhile, it should have been a way for the socialization of "human right". With economic and military advantages, developed countries output the so-called "universal" democratic value to the world regardless of the other country's political balance. In fact however, they want to control the rich oil resource in these countries, and that's the primary cause of regional instability in the world.

Forth, ecological unbalance. It's a severe challenge the world is facing. Since the industrial revolution, due to the change in people's modes of production and life, and the use of massive fossil fuel like oil and coal, and agricultural fertilizer, the greenhouse gas concentration has increased sharply. According to statistics, in the past 100 years, the content of carbon dioxide in the atmosphere increased by 30%, methane 145%, and nitrous oxide 15%. Too much greenhouse gases caused the Earth's surface temperature to rise, and over the past 100 years, the Earth's surface temperature increased by 0.3-0.6 degrees Celsius.

Fifth, improper development. Both developing and developed countries are facing the problem of changing the way of development. The global economic crisis caused by the financial crisis in 2008 brought a great calamity to the development of global economy, which is still in recovery. It shows that developed countries overdevelop virtual economy, enormous trade deficit, and premature consumption, and it should be changed.

Sixth, governance failure. Many international organizations have achieved some results in global governance, but most existing governance measures have failed, and the governance direction has deviated. Today's global governance systems including the United Nations (UN), World Bank, and the International Monetary Fund (IMF) are all rebuilt after the World War II, but the global economic pattern has changed significantly, with the rise of developing countries, especially the BRICs led by China, and Asia, it's more clear that the center of global economy is

moving eastward, and the existing old global economic governance order is not suitable for the new global economic pattern.

Seventh, market failure. The global economic crisis in 2008 indicates that free capitalism advocated by developed countries is now difficult to adapt to new reality. Total reliance on market for resources allocation results in hyper-inflation of global economy, excessive development of virtual economy and imbalance of global resources allocation, demonstrating that there is need for government intervention and macro-control.

We are all facing the seven challenges, and it's urgent to improve the global governance system.

Reasons for global governance dilemma

The deeper causes of global governance dilemma include: first, some countries put their interests above global interests, and they prefer their own interests rather than global common interests when making a decision or taking an action. Nowadays, economic globalization and economic integration are inextricably interwoven with each other. Therefore safeguarding and promoting global common interests is, to a certain extent, safeguarding and promoting interests of individual countries themselves. What's more, community of human destiny is gaining momentum today, requiring us to pay increasingly close attention to global interests and thus enhance global governance. In practice, global governance should be based on global interests while taking into account

interests of all stakeholders. Second, some politicians put their interests above the interests of their countries and people. Today, corruption is rampant. It has crossed borders, becoming a kind of international crime. In the west, there are political contributions and bribes among high ranking officials. In the east, family corruption is commonly seen. After the launching of Fox Hunt 2014, over 400 economic crime suspects were arrested from abroad within four months. Corruption has now become a serious issue that troubles global governance. Third, the power of the market is excessively advocated, and is put above the country and society. Fourth, the old system formed with the Cold War and World War II mentality is put above the new global order. Fifth, regional integration is put above the globalization.

The key to establishing a new order of global governance is the global public interests

Currently, it is necessary to highlight the importance of maintaining global public interests when establishing new order for global governance. The post-2015 development agenda which puts sustainable development at the core will be adopted next September. This agenda, covering all key areas of sustainable development, emphasizes “Build Peace and Effective, Open and Accountable Institutions for All”, “Leave No One Behind”, inclusive growth and sustainable development. It is such a guiding document that could be applied worldwide. It is also necessary to make change in our awareness and action for the realization of goals as

enshrined in the post-2015 development agenda. This change should stress the importance of global public interests in the new era, so as to promote the integration of international community with global interests and to facilitate the establishment and perfection of framework and mechanism for sustainable development.

Africa's Dream for Global Governance - How Can China Help Realise It?

Fantu CHERU

Much of the formal institutional architecture of global problem-solving was formed during the generation following the Second World War, spurred in particular by the Marshall Plan to rebuild Europe. At this time, most African countries - save a few such as Ethiopia and Egypt - were colonies of Europe, and therefore had little say in formation of the post-WWII global governance architecture. While the UN system operated on the principle of one country-one vote, in the multilateral development banks, namely the International Monetary Fund (IMF) and the World Bank (WB), voting power is distributed on the basis of each country's quota subscription. The United States alone, with its 17% of quota subscription, has the power to veto any decision in these institutions. Consequently, the combined G-7 countries, namely the US, Britain, France, Germany, Italy, Canada, and Japan, exercise considerable political influence in the management and operations of the Bretton Woods institutions (BWIs).

The newly independent developing countries, who were not at the table at the 1945 Bretton Woods conference that established the IMF and the WB, were reluctant to fully embrace the new global governance architecture, save only the United Nations where every member country has equal voting power. Cognizant of the undemocratic nature of the post-war governance architecture, the countries of Asia, Africa and Latin America came together

to advocate for an equitable international economic order. At the 1955 Bandung Conference, they established the Non-Aligned Movement (NAM), comprising more than one hundred countries. And in 1964, the Group of 77 (G-77) was formed as the largest Third World coalition in the United Nations, providing a forum for developing countries to articulate and promote their collective interests relating to the global economy (Willetts, 1978). This was followed by the creation of the United Nations Conference on Trade and Development (UNCTAD) with the sole aim of addressing the structural concerns of developing countries through instrumentalism and negotiation (Williams, 1991; Narlikar, 2006). In all these coalition formations, China played an important and constructive role although it did not have the same level of economic and political leverage as it does today.

Through the G77, African countries found a strengthened collective voice, enabling the region to negotiate outcomes on a number of areas. Among the major achievements of the G-77 were: the successful negotiation the Generalized System of Preferences (GSP), a scheme designed to allow trade preferences to be extended by developed countries to developing ones on a nonreciprocal basis; and the Integrated Program for Commodities, which includes the Common Fund, a fund designed to compensate developing countries in the

event of shocks in the commodities market. Other landmarks include the adoption by the UN General Assembly in the early 1970s of the Declaration and Program of Action for the Establishment of a New International Economic Order (NIEO) (De Silva, 1983).

Despite decades of political mobilization to build a strong tactical alliance among developing countries to reform the global governance system, these efforts produced much rhetoric but no significant results. With the rise of conservative governments in the United States and Britain in the 1980s, a multilateral approach to global problem solving under the auspices of the UN lost its political currency in the face of strong anti-UN campaign by the Reagan administration and its allies. Consequently, the power and influence of the IMF and the World Bank in the management of the global economy was significantly enhanced at the expense of the United Nations (Khor, 2000; Morphet, 2004). Not only did the US leadership put a deaf ear to the demands of developing countries for democratizing the international system, the Reagan administration deliberately started to undermine the influence of the United Nations and some of its specialized agencies, such as UNCTAD and UNESCO which it considered to be anti-west and a nest for Third World radical nationalist ideology.

The End of the Cold War and new impetus for reform

The case for reform of international institutions became a renewed source of contention in the waning days of the Cold War. The 'South Commission', chaired by the former President

of Tanzania, Julius Nyrere, launched its study in 1988 in which it called for reform of the Security Council and the BWIs to better reflect the concerns of developing countries. The 'Commission on Global Governance', whose report was issued in 1995, set out the general case for significant reform of international institutions to take into account the changing political and economic dynamics of the international system in the post-Cold War period. Unfortunately, the members of the G-7, chose to ignore these recommendations believing that they continue to govern the world unopposed indefinitely. They were soon to find themselves on the opposite side of history with the outbreak of two crisis: the deadlock on a multilateral trade agreement under the auspices of the WTO; and the 2008 global financial crisis.

1) The 1999 WTO negotiations in Seattle: a turning point

The debilitating impact of two decades of structural adjustment programs, the continued refusal of the developed countries to accommodate the demands of developing countries for democratizing global governance, and the rise of a global civil society movement mobilized against neoliberal globalization, were to provide a new impetus for a new south-south tactical alliance against the dominant developed countries.

The two defining moments of renewed Third World activism were the 1999 WTO ministerial meeting in Seattle and the 2003 WTO meeting in Cancun, Mexico where a new multilateral trading system was being negotiated (Bernal, Kaukab, Musungu and Yu, 2004).

Led by China, India, Brazil and South Africa, developing countries organized themselves into different caucuses, and demanded on receiving 'Special and Differential Treatment' in recognition of their low level of development; they opposed to extend the remit of the WTO into new areas of investment, the so-called 'Singapore Issues' on the free movement and operations of international investors (Lavelle, 2001). They stood together in their separate and combined demands to be fully recognized in the WTO agreements. This was the first time the developing countries came together to stop a multilateral trade negotiation dead on its track, signalling the emergence of a new post-cold war political order.

2) The 2008 Global Financial Crisis: New opportunities

With the outbreak of the global financial crisis of 2008, which originated in the United States but engulfed the rest of the world with devastating consequences, there emerged renewed call for fundamental restructuring of the global financial architecture. The financial G-20 (F-G-20), a forum for finance ministers, was soon transformed into a G-20 at the heads of states level in 2008 (Helleiner and Pagliari, 2009; Cooper and Takhur, 2013). Since the outbreak of the 2008 financial crisis, China's role in stabilizing the system while promoting new norms in global governance has been significant (Grey and Murphy, 2013). Working together with other BRICS members, they pledged \$75 billion for boosting the IMF's crisis reserve fund, which substantially enhanced the Fund's capacity to support the Eurozone countries. About \$40 billion of the \$75 billion came from China (Banerjee

and Vashisht, 2012). In addition, China put together a \$500 billion stimulus package to boost economic growth in China which in turn stimulated growth in the advanced countries.

Subsequently, in 2010, the IMF took a major decision to overhaul the Fund's quota and governance structure, which was seen as a historic step towards strengthening the Fund's legitimacy and effectiveness. The IMF Board also endorsed proposals that called for a more representative, all elected Executive Board (Fues and Wolff, 2010). The proposed reform would have shifted more than 6% of quota shares to emerging market and developing countries while protecting the quota share and voting power of the poorest members. The 6% quota re-allocation would have come from the over-represented countries, resulting in a major rebalancing of voting power. As a result of these changes, China's voting share was expected to increase from 2.98% to 6.07% while India's share would have increased from 1.91% to 2.63% by 2013. Importantly, the share of the US would have declined to 16.49% from 17.6%, thus preventing the US from using its veto power to stop any major decisions in the IMF (Dhar, 2014). These changes were expected to be in place by 2012, but the refusal of the US Congress to endorse the proposed changes have effectively blocked any move towards the reform of the governance structure of the IMF.

How China can use its G-20 presidency to advance African concerns

As far as Africa is concerned, the challenge is how to gain voice in global governance. The

continent's 54 countries are represented by one member state, South Africa, in the G-20 forum. The G-20 agenda deals with issues such as recapitalizing banks in the wake of the 2008 global financial crisis, but these are not the chief concerns of vulnerable populations in Africa. More critical for Africa are the following: market access, trade financing and the removal of trade distorting practices; access to adequate development finance other than aid; climate change mitigation and access to green technology; and addressing the continent's huge infrastructure gap.

The question is: how can China use its G-20 presidency in 2016 to influence the other G-20 members to take a combined radical action to help African countries overcome some of these development challenges? The author believes that such an agreement is possible given China's track record in supporting African causes in various multilateral forums, as well as China's strong bilateral relations with the continent through infrastructure development, concessional loans, and expanded trade that has transformed the economies of many African countries over the past decade. Besides the G-20, there are other avenues where China can exercise its influence to promote Africa's development.

The first proposal is with regard to China's role in FOCAC. Fifteen years have passed since the establishment of the Forum on China-Africa Cooperation (FOCAC), an event that marked an important milestone in China-Africa relations. The forum is a platform to promote mutually beneficial South-South cooperation between China and Africa, based on mutual respect and non-interference in the internal

affairs of African countries. In its fifteen years existence, FOCAC has achieved in deepening China-Africa relations in the economic field. Trade, investment, infrastructure and capacity building have been comprehensively promoted. But as FOCAC enter mid-way in the second decade, a number of steps must be taken by China to strengthen current institutional arrangement by expanding space for private sector and civil society engagement, and by increasing the frequency of follow-up process to ensure effective implementation of agreed upon targets (Li, Liu, Pan, Zen and He, 2012). Indeed, FOCAC's success has influenced other donors, such as Turkey, India, South Korea, and the US to set up similar dialogue forums. These dialogue forums are important platforms for African countries to articulate their specific development needs. For China, FOCAC offers an opportunity to discuss with African partners issues that has to do the broader global governance architecture. It is possible for China to take ideas expressed by Africans within FOCAC to the larger discussions in the G-20 meeting.

The second proposal is with regard to China's role in the G20 and BRICS meetings specifically. At it currently stands, African representation in the G-20 includes only South Africa, leaving out many other important African power houses, such as Nigeria, Ethiopia, and Kenya. China could lobby to expand G-20 membership by including more African countries. In addition to membership expansion, China can influence the G-20 to agree on a special mechanism for supporting infrastructure development in Africa, given the financing gap for infrastructure. This would provide a strong impetus to other multilateral

organisations such as the World Bank and IMF to join hands with the G-20 to beef up infrastructure financing for African countries.

While exerting influence on the G-20, China should also be prepared to open up its own new BRICS financial architecture. The new BRICS financial architecture, established in July 2014 during the 6th BRICS summit held in Fortaleza, Brazil involve three institutions: the BRICS New Development Bank, the Contingent Reserve Arrangement, and the Multilateral Cooperation Agreement on Innovation. The combined resource of the three is well in excess of \$200 billion (Brazil Ministry of External Relations, 2014). It is still unclear whether non-BRICS members can access these funds since terms of lending and eligibility criteria are still to be determined. Given that much of the initial capital comes from the Chinese state, there is considerable room for China to alter the current formula and allow lending to African countries.

The third and final proposal is with regard to China's role in the UN. Over the past decade, the visibility of emerging economies in the field of development has increased --not only due to their growing role as providers of cooperation but also through their contestation of the current global governance architecture, including the UN. Both individually and through new alignments such as the BRICS, emerging powers are engaging more directly not only in the practice of development but also in key normative debates (Carmody, 2013). On most issues, the BRICS position and vote in the UN bodies are more closely aligned to one another than to the G-7. In this regard, China can help shape a new, post-2015 global development agenda on poverty, sustainable development and inclusive growth.

Along with other BRICS countries, China can also give voice to developing country interests and concerns on new rules for health care, pharmaceuticals, intellectual property rights, etc. by encouraging more substantive analysis and dialogue within the UN to come to agreements on these issues of most interest to African countries. Such dialogue could even be between the G20 and UN groups – for instance the Africa group or LDCs. By supporting issues so fundamental to developing countries, China also benefits by strengthening its position in UN politics, with the full backing of the G77 representing nearly 2/3 of the UN membership.

Of course, these three proposals may well be insufficient to make a tangible difference to meet the multilateral gap in ensuring development in Africa. In addition, they are ambitious – while there are analogous precedents for each of the proposals, no one country has sought to do all three in one go. However, the author believes they are all within China's capability to deliver, especially given the opportunity that its G20 Presidency in 2016 presents. What matters is the political will, and how far this political will can be mobilised to truly support Africa's growth and development. China consistently reiterates how strong a friendship it has with Africa. This is well demonstrated bilaterally, and China is indeed helping many African countries realise their dreams in this manner. The time is now to demonstrate this friendship in a new way, so that African countries can realise their dreams through global governance in future as well.

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An Unfinished Agenda - The Rise of China in a Gaussian Framework

FU Jun

Caesar non est supra grammaticos. Essentially this famous Latin phrase says that without sound structure to organize our observations, phenomena would mislead our judgment. In that spirit, this paper does three things: 1, it gives some descriptive statistics to demonstrate the dramatic growth of the Chinese economy in the past three decades. 2, it puts China's recent rise in a longer historical perspective to illustrate China's past, present, and future. In the meantime, by drawing on the conceptual insights of Gaussian distribution and Cobb-Douglas production function, it outlines the challenges that lie ahead. 3, the article ends with a few additional observations and comments on China's role in a global context.

China's spectacular rise

Since its reform and open-up programs began in the late 1970s, China has become the fastest growing economy in the world. For many of the past three decades its annual GDP growth rate approached double digit. By contrast, the average annual growth rate of the world economy was about 3% during the comparable period. As a result, the aggregate size of the Chinese economy has already surpassed that of many of the largest economies in the world. It overtook Canada, Spain and Brazil in 1995; it overtook Italy in 2000. And in the first 10 years of the 21st century China overtook France, Britain, and Germany successively.

In 2010 China overtook Japan to become the 2nd largest economy in world, next only to the United States.

Mirroring the spectacular economic rise is China's rapid urbanization drive, defined as the ratio of those living in cities vis-à-vis total population. According to Chinese official statistics, Chinese urbanization was 18% in 1978, and it rose rapidly to 53% in 2013, with a yearly growth by 1.01 percentage point. In a global perspective, for urbanization to rise from 20% to 40%, it took Britain 120 years, France 100 years, Germany 80 years, the United States 40 years, and Japan 30 years.

Newly industrialized countries (NIC) typically experienced urban population growth rate of 5-6% annually during the 15-20 year period of their most rapid industrialization, where urbanization rose rapidly from 20-25% to 70-75% in 3-4 decades. True, Chinese urbanization rate is not extraordinary in light of the NIC experience, but its scale is indeed mind-boggling. In the past three decades Chinese urban residents (including rural migrants and natural growth of urban population) soared by more than 400 million, which is more than the entire population of the United States. Now, over 700 million Chinese, roughly the total population of Europe, live in cities.

Rapid urbanization reflects rapid industrialization. Manufacturing jobs in China increased

dramatically from 70 million in 1978 to 225 million in 2011, averaging a yearly growth rate of 3.6%. Service sector jobs rose from 49 million to 273 million, averaging a yearly growth rate of 5.3%. Consequently China has become the world's manufacturing centre, producing 85% of all TVs, 70% of all air-cons, 50% of all refrigerators, and 40% of all washing machines in the world. Rapid industrial transformation has sustained high growth rates in the past three decades, and lifted some 500 million people out of poverty. Chinese per capita GDP in 1978 was a mere US\$155, but has since increased to about US\$7,000.

Research (Glaeser, Edward, et al, 2010) suggests that globally, cities have been a powerful engine of economic growth, because enhanced human capital in the form of knowledge accumulation and spillovers in urban density not only leads to improved worker skills but also to more creative ideas. They attract innovative businesses because of positive externalities. And history shows that no nation has been able to become high-income countries (per capita GDP at US\$12,000) without successful urbanization (e.g., average urbanization of advanced economies is 76%), and China seems to be well on its way. Experts at the Chinese Academy of Social Sciences projected that by 2030 Chinese population will reach 1.5 billion, and 68% them, or one billion, i.e. the equivalent of the current combined population of all advanced economies, will live in cities.

Incompleteness of China's rise

The prospects look good, but the going won't

be easy. The Chinese economy is currently at a cross-road, having almost exhausted the potential of its extensive mode of growth, and is yet to shift successfully into an intensive mode of growth. Using historical and demographic statistics, let us first sketch out a board picture of where China was, is and will probably be, such that we delineate the rough parameter of the incompleteness of China's rise thus far.

According to Angus Madison, 200 years ago Chinese population was roughly 1/3 of the world's total, and at the time China was producing roughly 1/3 of the world's total GDP. A century later China's share of the world's total GDP declined to about 10%, and slide further down to about 3% in the late 1970s. Today, after three decades of rapid economic growth, and with a population about 1/5 of the world's total, China has come back to roughly 13% of the world's total GDP, which is US\$77.6 trillion in 2014, according to the World Bank. Yet, as indicated by the conceptual insight of Gaussian distribution (see Figure I), were the Chinese economy performing "normally" in the Gaussian sense, 1/5 of the world's population should produce roughly 1/5 of the world's GDP, *ceteris paribus*.

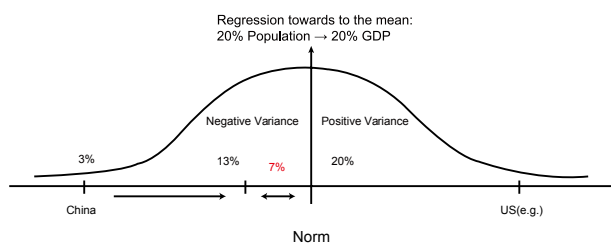
Thus, in the Gaussian framework of normal distribution, the incompleteness of China's rise, were we to put a rough figure, is another 7% of the world's total GDP, or about US\$5.5 trillion in current value. Until then, one may argue, China continues to under-perform its growth potential. Put it another way, China is yet to recover from its relative standing with the rest of world some 200 years ago.



10. A growing body of evidence supports the proposition that the success and failure of nations has much to do with the quality of their institutions. A key aspect of "institutional technology" has to do with drawing the right balance between hierarchy and markets with the correct alignment of incentives at the micro-foundation. Thus the Global Agenda Council on New Growth Models of the World Economic Forum makes the case that institutional learning and innovation is a key pillar of inclusive and sustainable growth patterns (World Economic Forum, 2014).

Growth after all is a function of population multiplied by technology (including institutional technology),¹⁰ given resources. Not surprisingly, some 300 years ago, i.e. before modern scientific revolution started to boom in the west, technology frontier was roughly uniform across countries, east or west, and their per capita GDP remained roughly the same for many centuries. Today per capita GDP of many advanced economies has exceeded US\$40,000, while that of China is about US\$7,000, which stands in the 80-90th rank, and is below the world's average of US\$10,500, according to the World Bank.

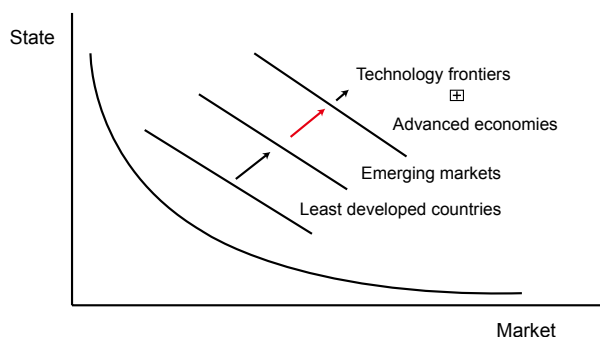
Figure I. Gauss Distribution



To crystallize our picture further, China's rise in the past 3 decades can be seen as a powerful upward regression line towards the mean (or the norm) in the Gaussian scheme. And it has taken place under globalization whereby China has managed to narrow its technological frontier with advanced economies (see Figure II). The regression started at a very negative variance, and has not arrived at the norm thus far. The gap is roughly another 7% of the world's GDP. By contrast, measured by GDP per capita, many advanced economies have already moved beyond the norm into the field of positive variance. GDP per capita in the US

for instance is above US\$40,000. For China at the moment, however, it still faces the middle-income trap, especially as its growth has significantly slowed down in recent years – a trend likely to continue, unless suddenly there are bursts of innovations or what Joseph Schumpeter calls “a gale of creative

Figure II. Technology frontiers and catching up process



destruction” across a wide range of products, processes, organizations, and institutions to reverse the process.

Note also that globally, out of 180 or so developing economies since the World War II, only 13 have managed to get out of the middle income trap, including Japan and the “4 little dragons” (i.e., Singapore, South Korea, Taiwan, and Hong Kong).

What then are the major hurdles along the road that China has to overcome before it can get out of the middle income trap and complete its rise? Let us draw on the theoretical insight of Cobb-Douglas production function to shed some light.



11. Mathematically, a more sophisticated translog form of the Cobb-Douglas model can be expressed as:

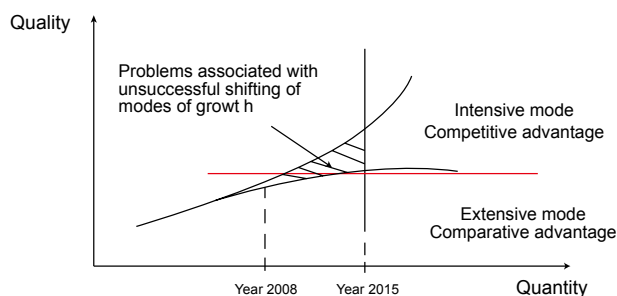
$$\ln(Y) = \ln(A) + aL\ln(L) + aK\ln(K) + aM\ln(M) + bLL\ln(L)\ln(L) + bKK\ln(K)\ln(K) + bMM\ln(M)\ln(M) + bLK\ln(L)\ln(K) + bLM\ln(L)\ln(M) + bKM\ln(K)\ln(M)$$

$$= f(L, K, M).$$

Where A = total factor productivity, L = labor, K = capital, M = materials and supplies, and Y = output. a and b are the output elasticities of capital and labor, and their values are constants determined by available technology. Output elasticity measures the responsiveness of output to a change in levels of either labor or capital, ceteris paribus. If a + b = 1, the model has constant returns to scale; if a + b < 1, returns to scale are decreasing. If a + b > 1, returns to scale are increasing, which may indicate a case of having increasing competitive advantage rather than mere comparative advantage.

According to Cobb-Douglas production function, growth is a function of R (resource), L (labor), and K (capital).¹¹ The Cobb-Douglas model in turn can be viewed as having two modes, extensive and intensive. The extensive mode can also be expressed as comparative advantage due to better endowments of nature. Intensive mode, on the other hand, can be expressed as competitive advantage by focusing on the quality rather than quantity of inputs through innovations. Conceivably, a country's growth strategy can be a mix of varying degrees of the two stylized modes, depending on the size of its endowments and different stages of development.

Figure III. New Normal: from extensive to intensive mode



Viewed within this framework, China's growth in the past has basically been driven by the extensive mode, relying more on quantity than quality. But now for its growth to be sustainable years down the road, China has to shift gears to the so-called "new normal" (see Figure III), i.e., from the extensive mode into the intensive mode of growth, if only for two simple but powerful reasons, both reflected in the Cobb-Douglas growth model:

1, In terms of energy and natural resources

(i.e., the R variable in the model), constraints have been rising, as there are already high degrees of pollution in its soil, water, and air, and related are the ecological concerns of climate change. In short, environmental degradation is significantly diminishing the health of its citizens and the quality of life even as incomes rise.

2, In terms of demographics (i.e., the L variable in the equation), while Chinese total population is projected to rise until around 2025, the productive portion (age 15-60) has peaked in 2015, causing wages to rise rapidly. But the problem is that if wage increase is not matched by productivity increase through innovations, profits will be squeezed. Indeed, increasingly China is being sandwiched between advanced and less developed economies. There are signs of multinationals moving out of China for cost considerations.

Thus, in the conceptual framework of the Cobb-Douglas equation, under the twin pressure of the powerful structural forces outlined above, unless innovations, including institutional innovations, quicken steps to arrest, offset, and reverse the process,¹² (or expressed differently, China successfully shifts from an extensive to an intensive mode of growth, or from comparative advantage increasingly to competitive advantage), the recent growth slow-downs of the Chinese economy, in spite of very powerful stimulus packages,¹³ can be seen as the early signs of a downward regression line towards to the world's growth average in the past three decades, i.e., a bit over 3%, ceteris paribus.¹⁴

12. If that happens, statistically, it may be indicated by a steady and significant rise of the total factor productivity (TFP) in the Cobb-Douglas production function, or by the presence of positive output elasticity, where $a + b > 1$.
 13. As counter-cyclical fiscal and monetary measures, they started with the very powerful 4 trillion RMB stimulus package in the wake of the world financial crisis in 2008, to be followed in recent years with various forms of micro and/or targeted quantitative easing.
 14. GDP growth of Liaoning Province in the 1st quarter of 2015 for instance has already slowed down to 1.9%.

The slide, however, can be stopped, but China has to do more beyond short-term counter-cyclical fiscal and monetary measures. The key here is to continue to close the moving line of technology frontiers, including institutional technology.¹⁵

In intermediate and long terms, there are other difficult hurdles which China must overcome and which are institutional in nature. Principally, while China has thus far set up competitive markets for many goods and services, it is yet to level the ground for factor inputs. As such, China is still halfway between plan and market. The state, to a significant degree, has continued to control factor inputs through various forms of administrative monopolies favoring powerful interest groups. And in the absence of the rule of law (rather than rule by law), power tends to beget power. It is especially true when political power has retained controls of factor inputs, which in turn has given rise to two negative consequences: One is rampant corruption, as paradoxically evidenced by China's current high-profile anti-corruption campaigns; the other is wealth polarization, as evidenced by China's high Gini-coefficient, hovering around 0.5.

Note also that Chinese household income as a share of GDP has also declined to 35% from 50% in 1990, reflecting the fact that China over the years, through various state- rather than market-driven schemes, has subsidized investment by constraining the growth of household income. In this light, to boost private domestic consumption will remain an arduous task, especially when social

infrastructure such as education, healthcare, and safety nets remains inadequate. As indicated earlier, statistically, although China's official urbanization rate is 53%, the real rate may remain as low as 35%, because social infrastructure has lagged far behind physical infrastructure in China's urbanization drive.¹⁶ It is against this background that Chinese Premier Li Keqiang said at 2014 World Economic Forum in Tianjin: "Human-centered urbanization is the biggest structural reform in China."

Indeed, in the next 10 or so critical years, these trends must be arrested and reversed were China to sustain strong growth. For, as indicated by the growing shaded area in Figure III, failure to shift from extensive to intensive mode of growth, and failure to align investment-led growth with consumption-based growth, will result in problems such as industrial overcapacities, housing bubbles, and non-performing loans.¹⁷

To sum up, at a deeper institutional level involving not only economics but also politics, broadly speaking, the incompleteness of China's rise is mirrored by the unfinished agenda of the twin tasks set by the 3rd Plenum of the 18th Chinese Communist Party Congress in November 2013, i.e., deepening market reforms and setting up the rule of law.

As is true elsewhere, well-functioning markets underpin prosperity, but markets and the rule of law are the two sides of the same coin. Here, China is no exception, and will be a case of convergence rather than divergence.



15. In this light, China must also urgently reconsider the family planning policy.

16. This is due to China's unique but dilapidated house-registration system known as Hukou, and as a result, many migrant workers may live in cities, but are denied urban public services such as education, health care, social security, and pension schemes. This institutional barrier has increasingly become a source of social tensions, and if unameliorated, will derail urbanization down the road (Fu Jun, 2014).

17. Previous growth depends heavily on investment and export. Export growth is about a yearly average of 25% in the past 3 decades (but now down to 1 digit rates), and investment is about 25-30% (currently still high at 15-20%).

Poet Robert Frost once said philosophically: “Most of the change we think we see in life is due to truths being in and out of favor.”

China’s role in a global context

The global economic weights are shifting rapidly. 15 years ago, the advanced economies contributed roughly 80% of the growth of the world’s economy, whereas emerging markets and other developing countries contributed 20%. Now the comparative figures are reversed, i.e. 20% for the advanced economies and 80% for the rest of the world. China alone contributes roughly 35%.

Let me conclude by offering a few additional observations and comments on China’s role in a global context, all within the three conceptual frameworks outlined above (see Figures I, II, III), and keep these frameworks as a compass for our policy recommendations surrounding China’s presidency of G20 Summit in 2016.

No doubt, China has come a long way in growth, even though it is yet to complete its rise to its historical heights relative to the rest of the world, and much needs to be on its unfinished agenda. Its share of global GDP has risen from about 3% in 1977 to about 13% in 2014 (comparable figure for the US is 25% and 22%). Its foreign exchange reserve has increased from US\$4.4 billion in 1977 to US\$3,880 billion in 2014 (comparable figure for the US is US\$53.4 billion and US\$450 billion). China (with US\$10 trillion) now is the world’s 2nd largest economy, next only to the US (US\$77 trillion), and it is only natural that China is expected to shoulder more international responsibility on the global stage. This is especially true at a time of staggering

world economic recovery, and when China hosts G20 Summit in Hangzhou in 2016.

Elevated from the previous level of finance ministers, a regular meeting of heads of states at G20 Summit that represent 2/3 of the world’s population and 85% of its GDP has no historical precedent. Cooperative efforts to bring out its vast potential are the best way of dealing with interconnected problems on a global scale. Globally just as domestically, it is critical to conceptualize and engineer growth not as a zero-sum game but as a win-win scenario, otherwise growth is unsustainable in a long run. In spite of or rather because of a daunting array of domestic challenges associated with transitions (see Figure III), China has been moving up the global value chains and is now in a unique position to work as a connecting link between countries of both the lower and higher ends of value chains in a global context (see Figures I and II).

With that in mind, and proceeding on the basis of earlier successes of the G20 leaders, policy initiatives in the following five areas should be considered for programming into the agenda:

- a. boosting domestic consumption to address both domestic and external imbalances;
- b. expanding and integrating free-trade zones with an aim of a WTO-like global framework,¹⁸ and improving regional and global inter-connectivity through infrastructure investments to better align supply and demand growth patterns;
- c. fostering pro-innovation and entrepreneurial activity ecosystems with robust intellectual property rights protection and easy market entry and exit legal and policy framework;

- d. pushing for a speed-up of institutional reforms of the existing international trade and financial architecture to better reflect the changing economic weights of emerging markets, in addition to addressing governance issues related to the internet of things and looming concerns of online vulnerability and cyber-security;
- e. championing by adding more momentum to the fight against environmental degradation and climate change.

The table is quite full, and understandably, international policy coordination can be complicated and difficult. As a programming principle, various ingredients of the five policy areas on the menu should be mixed in such a way that outcome aim not just at periodic financial risks and short-term cyclical recovery but also at long-term inclusive, sustainable, and robust development, and all along the way to generate win-win scenarios of shared prosperity both within China and for the rest of the world.

Good policies are no ad hoc patch-up works. Effective leadership must have a coherent vision, and wins by creating a virtuous cycle to substantiate it systematically – a program design underpinned by planning, action, adaptation, and continued improvement in strengths which inspires people’s trust and motivates them to follow. Seeking the common good is the way to go for a long run, because no one can feel secure when many are struggling around. After all, we all live in a small village called the Earth.

Let me end here by quoting Albert Einstein. Speaking of the importance of having a

clear conceptual framework to understand the world, he once said somewhat counter-intuitively: “It is the theory which decides what we can observe.”

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China and the Reform of Global Governance

SU Changhe

Two faces of global governance are emerging in current world. Over the last two decades, scholars and statesmen witnessed that the hegemonic model of governance for the world has been definitely declined or even failed, while the newly multilateral governance seems to be not set up accordingly during the period of systematic transition. It gives rise to a situation of governance gap in the current world. On the other hand, however, China and the other emerging countries are more proactive in advancing new initiatives for regional and global governance. It is really an interesting contrast.

Before I explore China's attitudes to global governance, it is useful for us to understand three thorny problems which bothering us for achieving better global governance.

The first is related to the domestic system and global governance. Since the financial crisis broke out in 2008, more and more countries are inclined to take protectionism policy when they address global issues. Many global governance arrangements which reached in the level of international area are unfortunately vetoed in domestic politics. In some instances, the split of domestic politics, like in the U.S. current domestic mutual veto system, illustrates that global governance will be hard to be improved without the consensus and support of domestic politics. The more mutual veto occurred in domestic politics, the lower efficiency will be accompanied with global governance. One of the typical case is the

IMF governance structure reform arrangement was vetoed by the U.S. congress, and then reduce the efficiency of international financial governance.

The second one is about the relations between the UN system and the regional governance framework. In the area of security issue, for example, on the one hand, partly for the reason of mutual veto among P5, the U.N. Security Council seems to be difficult to reach agreement on the resolution of some security issue, on the other hand, some regional organization began to be involved into particular country's domestic conflicts in the absence of the U.N. Security Council's approval. Does it mean that the regional organization will be likely to replace the role what the U.N. should do over the history and in international security area? It seems to us that there is no answer for it right now, what we saw is the U.N. Security Council was keeping silent in the recent Yemen case. In terms of global economic governance, the G20 must take seriously of its internal coordination, especially among G7 and BRICS 5 countries, and of its external relations with more and more regional organizations, such as the ASEAN, SCO, CELAC, AU, League of Arab States, as well as its membership EU. In the foreseeable future, the trend of regionalization of global governance means that regional economic organization will play decisive role in addressing intra-region development issues.

The last one is whether should the current

governance institutions go, which mostly arranged after the end of the World War Two, and how to deal with the relations between the old and the newly regional and global governance institutions. It doesn't mean that the old international institutions don't matter completely, it suggests that most of them are really facing competition from the newly institutions emerged in global governance. Unfortunately, the dynamics of reform seems to be too slowly to meet the new international situation.

Obviously, another face of global governance is emerging gradually, the attention people pay is that China is really an active player in global governance. It tries to play more responsible role and even wants to provide more public goods for the world. Only in the last two years since the Communist Party's 18th congress in 2012, China has initiated jointly with other countries some institutions for the world, such as Asia Infrastructure Investment Bank (AIIB) and the BRICS Bank, the Asia Connectiveness and the One Belt and One Road initiations are even grander plan for Euro-Asia continent. These recent initiations, as well as the other institutions such as SCO before, have been as China's understanding version of regional governance. How should we observe it?

China is often seen to be as late comer in global governance area. The process of China's approach to global governance brings some inspiring (?) experience for the rest of the world. In the first, there is few conflict situation between China's domestic politics and global governance, the consultative democracy system in China makes it possible that domestic politics is not likely to veto international governance arrangements which

Chinese government has been reached with the other countries. In the other words, the domestic implementation of any particular international governance agreements in domestic China is relative low in terms of bargaining cost. Comparing with the prevailing confrontational democracy system, or mutual veto democracy system, this consultative democracy system in China has more and more advantages in coordinating domestic and international relations together. The suggestive point here is that maybe we need to reflect deeply about this issue that is the confrontational democracy system in domestic area, which in many instances give rise to the mutual veto situation, may not be useful for the better governance of more and more transnational problems. If we want to have better global governance, we must have a cooperative and coordinative framework between domestic and international governance, does the confrontational democracy system is the optimal or suboptimal one for better global governance in an era of globalization?

In the second place, China is really deliberate in dealing with the old and the newly governance institutions relations. Actually, China doesn't want to challenge or overthrow the old global governance institutions, such as the IMF and WB. China is part one of them, why does China want to overthrow them just like some reports criticize? As mentioned before, these old institutions are facing hard reforms, but bureaucratically they act slowly. The BRICS countries in their Summit Declaration in 2014 in Brazil declare their disappointment about the reformation of the IMF and WB. In this case, China is inclined to take another way, which the Fudan Global

Governance Report called as incremental improvement way, to upgrade current global governance structure. Therefore, when we look into the institutions carefully what China set up, most of them have complementary rather than confronting relations with the old ones. This incremental and gradual reform approach make sure that the transition of international system could be likely in a peaceful rather than radical way.

Lastly, in case of regional governance, China seems to strengthen connectiveness rather than integration between China and its neighbour countries. Over the last years, the EU experience in integration process has been widely seen to be as regional governance model for the developing regions. Concerning the Asian area, however, the EU integration governance model maybe not be suitable for Asian regional governance. The major reason for it is that there is nearly no country in Asia who want to be integrated into a super-national institution, like the EU experience, dominated by few big countries in it. Therefore, the feasible way is to improve connectiveness in the area of infrastructure, FDI, policy and administration cooperation among Asian countries. From this angle, China will concentrate more on regional governance, especially with its neighbour countries. As a guiding principle, China will try to develop its own regional governance theory, it is not likely the simple copy of the EU integration to Asia, as an alternative way, China will focuses on it along with the connectiveness rather than integration theory in the future. Perhaps, connectiveness approach has even more implications for strengthening better governance in Africa and other regions. Then what does it mean for the coming 2016 G20 Summit in Hangzhou, China? My personal

brief recommendation points are the followings. Firstly, the G20 should try to list and reduce the veto points step by step between international economic cooperation and domestic politics; secondly, the G20 should encourage institutional innovations in regional or trans-regional governance, such as the AIIB and BRICS Bank, it also needs to consider the possibility of building strongly dialogue partner with ASEAN, SCO, CELAC, AU, League of Arab States. Thirdly, the G20 may concentrate on the new idea of development for a more balancing, inclusive, and sustainable world. I personally think it doesn't matter to discuss over which standard of rules are the highest for the global economic governance, the most important thing for the current world is which standard of rules are suitable for the wealth of the most rather than the least countries and their people. It represents the real democratization of global governance.

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China in the G20 - From Membership to Leadership?

REN Xiao

The world is changing rapidly. 2015 marks the 70th anniversary of the end of World War II and the founding of the United Nations. Also a post-2015 development agenda will be adopted by the UN Assembly in September. The post-war political and economic arrangements reflected the distribution of power in the world at the time. Logically, as the balance of power changes, the world's political and economic arrangements will change accordingly. Often, there is a time gap between the two but this may not last very long.

According to Robert Zoellick, former President of the World Bank, "The international economy is shifting to a new multipolarity. About half of global growth is now from developing economies and this will transform power relations." (Zoellick 2011) Over the years, there have been repeated identifications of the defects of the international financial system (IFS) and waves of calls for reform. For example, fifty years after the Bretton Woods conference, in 1994, there was a considerable desire to reform the IFS. The major objections to the present "non-system" emerged from considerably adverse effects from exchange-rate volatility and capital flow volatility. (Griesgraber and Gunter 1996: 115) This became a consensus when the 2008 global crisis broke out and shook the world, as it further revealed the problems and the necessity for reform. For Zoellick, "The development of a monetary system to succeed 'Bretton Woods II', launched in 1971,

will take time. But we need to begin. The scope of the changes since 1971 certainly matches those between 1945 and 1971 that prompted the shift from Bretton Woods I to II." (Zoellick 2010) As is often the case, there is considerable disagreement on how and to what extent the IFS should be reformed. The reform proposals vary in degree from increased macroeconomic policy coordination to the creation of a World Central Bank. (Griesgraber and Gunter 1996: 116)

No doubt, there are different assessments of the G20, including its usefulness and impact, and it is easy to brand the G20 a failure. For example, after the Seoul Summit, a Financial Times editorial said it did not embody "collective leadership, but joint abdication of power". (Financial Times, 13 November, 2010) However, some important actions have emerged. The London G20 summit in 2009 produced a \$1.1 trillion global recovery plan, featuring national stimulus efforts, calls for increased IMF resources and greater financing for trade. The London summit also transformed the Financial Stability Forum – a loose grouping founded by the G7 – into a more influential Financial Stability Board open to all G20 nations and tasked with guiding new financial regulatory policies; it has already led to accords on standards and monitoring. The G20 summits in Pittsburg, Toronto, Seoul and Cannes achieved agreements on exempting emergency food supplies from export bans and on agricultural assistance for

Africa. During the IMF Spring 2012 and the G20 ministerial meetings, a consensus was reached to add \$430 billion to the existing funds in order to empower the IMF. China announced, during the June G20 Summit held in Los Cabos, Mexico that it would put in \$43 billion.

For China, first, the G20 is an important platform. G20 emerged from the backdrop when the Western countries were widely held responsible for the outbreak of the financial crisis and the G8 was incapable to singularly cope with it. When G20 at the summit level was born, for the first time major developing countries were engaged in global economic governance on a more equal footing. This has been a significant development and has provided a rare opportunity for major emerging countries, and China should actively participate in the process.

Second, the G20 elevation is a favorable development. When China's comprehensive national power is growing and its international status rising, no matter what form global economic governance will take in the future, it would not be realistic without China's participation. Since America and Europe hope to enlist China's cooperation, Beijing is in a positive and advantageous position. On the whole, there are more gains to choose G20 and to participate in global economic governance on an equal footing. The emerging economies will obtain more representation and vantage point.

Third, make G20 a long-term effective mechanism. After the Pittsburg summit, G20 started a process of establishing regulations and building institutions (jianzhang lizhi), and

entered into a transition from a crisis-fighting to a long-term mechanism for hopefully effective global economic governance. This development has far-reaching implications as it has preliminarily changed the situation in which for many years the developed countries monopolized international economic affairs, and has helped upgrade developing countries' discursive power in them. It is beneficial for China to participate in global governance in a wider platform and to defend China's own as well as many developing countries' legitimate interests.

Fourth, there are three outstanding questions that need to be resolved. One is the issue of legitimacy. The concerns of those non-G20 nations need to be addressed and their interests taken into consideration. Second is the G20 has to be effective. G20 bears the characteristics of hastiness to combat emergencies. When the crisis subsided, clashes of different interests and aspirations would likely emerge and thus pose challenges for the G20 states to continue coordinating their actions or policies for a better governance of global economic affairs. A third one is the power distribution issue. Schemes have to be worked out for proper and improved arrangements regarding financial regulation, share management, and voting power distribution in the international financial institutions, notably the IMF and World Bank. Beijing has been aware that this will take time and will be undergoing a long, complex, and even tortuous process. This was proved to be right given the intense controversies and fights over China's exchange rate policy, especially before the Seoul summit.

In short, China wants the status of G20 as

the premier global economic governance platform to be consolidated, and further turns China's influence into institutional power. By adequately and reasonably taking advantage of its newly increased institutional power in the international governing organizations such as the IMF and World Bank, Beijing hopes to effectively safeguard and expand its development interests, and to shape favorable institutional environment for its participation in international economic cooperation and competition at a higher level. And, this serves China's goal of supporting a shift in the balance of global influence toward multipolarity.

In the meantime, China has also experienced frustrations, especially the slow pace of reform and the resistance of the vested interests. In December 2010, the IMF's Board of Governors approved the quota and governance reform package, which includes a doubling of IMF quotas, a shift in quotas to dynamic emerging economies and under-represented countries, and a proposed amendment to reform the executive board that would facilitate a move to an all-elected 24-member board with improved representation. If the reform is completed, China, as one of the IMF's biggest shareholders, will become its third largest member once the institution's governance reforms become effective.

The Obama Administration requested U.S. congress to approve the package to promote global financial stability and U.S. leadership in the IMF. Despite the administration's efforts to push U.S. lawmakers to approve the widely-scrutinized package, the bill is still stalled at the Congress. As a result, the implementation of reform was delayed and delayed. The

partisan fight between the Republicans and Democrats has not only crippled some investments critical to U.S. long-term growth, but also has negative spillover effects on global governance.

The 2010 reform deal was reached to transfer some voting power to the emerging markets including China, and they deserve. However, with 16.75 percent of the IMF's voting rights currently, the U.S. has veto power over some key IMF decisions. Even after the completion of the reform, the U.S. would still have the veto power with its voting rights slightly edging down to about 16.5 percent. While the Managing Director a European, the position of IMF's first deputy managing director has always been held by an American.

By the time four years had elapsed and the reform was still in limbo, Ms. Christine Lagarde, the IMF's Managing Director who was deeply disappointed, warned that she would not be surprised if one day the IMF moved to Beijing, a deliberately provocative reminder and warning. According to the current rules, any reform has to be approved by the biggest shareholder, the US, and this means the US Congress approval. In this sense, the reform package is hijacked by 535 members of US Congress, a ridiculous arrangement!

Not unrelated to this, when having realized that it could not count on the West's favor, China, together with Brazil, India, Russia, and South Africa, decided to found a BRICS Development Bank and it will be located in Shanghai, China's economic powerhouse. Arrangements have been made for its mission and governance structure. Moreover, in 2014, China initiated to create an Asian Infrastructure

Investment Bank (AIIB), and in October an MOU was signed among 21 countries. By mid-March 2015, 27 countries decided to become the inaugural member states of the AIIB. The Obama Administration proved unwise to have asked some of its allies in the region not to join the AIIB. By April 15, 2015, as many as 57 countries became AIIB's inaugural members, including Australia and South Korea, as well as United Kingdom, Germany, France, and Italy, all member states of the G7.

Moreover, China has opportunities in the G20 to play a leadership role as a member of the troika over the next three years. The G20 troika consists of the previous, current and next hosting nations. In 2015, China is a member of the G20 troika and will host the G20 Summit in 2016. It is still a member of the troika in 2017. This is a great opportunity for China to lead or co-lead the future development of the G20, by helping set agendas, choosing the items of deliberation, and decide what measures to take, together with other member states of the G20.

From the G20's past, we can see that the degree of its success relates to what power hosts the G20 Summit. While the US played a key role in the 2008 Washington Summit, for the first time the G20 was elevated to the summit level, and also in the Pittsburg Summit, some other summits and hosting nations were not very impressive, for example, the Brisbane Summit in 2014. In contrast, China hosted a very successful APEC Leaders' Meeting the same year when a Free Trade Area of the Asia Pacific (FTAAP) became APEC's development goal. Clearly China played a leadership role in this process. Now China has an opportunity to play such a leadership role in the G20 also.

As China is working on a more inclusive global economic governance, it is well-positioned to accommodate the voice of other developing countries. Within the G20, China has been calling for more attention been paid to, and care taken of, the developing countries. For China in 2016 presidency, there is a great opportunity for it to push development as a priority, following the Turkey path, and therefore the implementation of the post-2015 agenda.

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China and the 2016 G20 - Likely Themes and Initiatives

LI David Daokui

Eight years after the global financial crisis and the sudden emergence of the importance of the G20 Summit, China is finally scheduled to be the host country of the Summit in 2016. China's hosting of the Summit is arguably long overdue as many signs indicate that up until two years ago, the Chinese leadership has been reluctant to play such a leadership role. What will China do in its leadership role in the 2016 G20? I would argue that many signs indicate that China will push the two themes of development and reform, as both of these themes are actually trademarks of China's economic success.

China Has Been a Beneficiary of the Current Global Governance System

The past three and half decades of rapid economic growth in China can easily be regarded as a poster story for the existing global economic governance system, which was established following World War II. China, which only entered the WTO in 2001, had already started capitalizing on the relatively free trade system under the General Agreement on Tariffs and Trade (GATT) two decades before its succession into the WTO. China has also been a recipient of investment funds from the World Bank, becoming the largest recipient of investment by the World Bank over the past few decades. Even though China has never received emergency aid

from the IMF, China has continued to receive valuable advice from the Fund. Often times, advice from the World Bank and IMF is ignored by policy makers around the world. However, more times than not, Chinese policy makers have listened to and carefully taken the advice to heart. IMF and World Bank staff members, in most cases, say that the Chinese policy makers implement the advice from these institutions within a few years. Indeed, China's policy makers are among the best students of international organizations and often follow their advice. (Wang, 2011)

Despite being a beneficiary of the current global economic governance system, China also has its own grievances with the system. (Li, 2007) The main issue is that the current system is dominated by the U.S., with the U.S. possessing veto power. Sometimes, China will push for initiatives which are against the interests or wishes of the U.S. For example, China would like to propose investments in Iran or currently in Russia, when these countries are under U.S.-led economic sanction. (Downs, 2011) There are similar cases in Africa. The Chinese philosophy is that economic development benefits people, and often times the poorest people are the first to benefit. Therefore, punishing the so-called irresponsible rulers of fragile states ultimately is a draconian punishment of their people. To the contrary, the Chinese philosophy seems to be that along with economic development there will be more demand for

political reforms, and that political reforms will eventually improve the political governance of these countries.

Another source of grievance that China has towards the existing global governance system is that these international organizations sometimes publish articles or statements criticizing China and proposing actions that China would not be willing to accept. One example is the RMB exchange rate. Over the past decades, the IMF has published research indicating that the RMB was undervalued. Even though the IMF did not publish this widely, the pressure was still on China to conduct rapid appreciation of the RMB. (He, 2009; Zhang & He, 2004) Regardless of whether these policies are good or not for the Chinese economy, they are too harsh for the Chinese leaders to accept.

Chinese New Leadership and Their Proactive International Policies

The current leadership of China took their positions in late 2012. Unlike his predecessor Hu Jintao, Xi Jinping is much more proactive. Hu Jintao followed the Deng Xiaoping doctrine in international affairs, which was to keep a low profile and hide the shine of China, while the overall outlook of Xi Jinping's foreign policy is that China should strive to achieve something which is in line with China's status and standing. (Yan, 2014b) Under Xi Jinping's leadership, we have seen China's strategy of developing the land and ocean bound New Silk Road, the so called "Yi Dai Yi Lu" (one belt and one road). Also under Xi's leadership, China initiated the Asia Infrastructure Investment

Bank (AIIB) project, and the BRICS Investment Bank is also under discussion. Therefore, all of these signs indicate that China's leadership will not waste the opportunity of hosting the 2016 G20 Summit. Instead, China will strive to achieve something significant. (Yan, 2014a; Wang, 2011)

Challenges Facing the China's Proactive Economic Diplomacy

Despite the Chinese leaders' intention to be proactive internationally, they face three visible challenges. First, the Chinese economy and society are still in transition. These are huge development projects, and the development process is far from being complete. Specifically, the economy is still undergoing a slowing down process, which is not a welcoming sign to most policy makers. China's goal is to develop the Chinese economy into a moderately prosperous one by 2021, which will be the 100th anniversary of the Communist Party, and to develop the society into a modern one by 2049, the centennial of the founding of the People's Republic of China. Continued slowing down of the GDP growth rate is not auspicious for achieving these goals. As a result, the current objective is to restore the vitality in the domestic economy.

Second, China has limited pool of talents who are skillful internationally. English is not a working language, or even a second language, of the country, and the Chinese traditional Confucian culture is mostly inward looking. China has been calling itself the Middle Kingdom, waiting for other countries to come to pay homage. The idea of expanding China's influence beyond its border is not an

old concept for China. Even though about 1.5 million Chinese students have studied abroad, they still represent a sparse minority of the society. The international initiatives of China's leaders will face a bottleneck in the lack of necessary talents who have the international skills to implement these initiatives. (Zweig & Wang, 2013)

The third challenge is the popular sentiments inside of China. With the rise of the internet, China's leaders increasingly have to pay attention to domestic sentiments, and given the traditional culture of Confucianism, most people in China believe that domestic affairs are the most important things to take care of. More important, many argue that there are still about 100 million people living under China's poverty line, which is even lower than the international standard. They question: how can the country be very generous in spending its goodwill and economic resources abroad when the amount of people living under the poverty line inside the country is almost as large as the entire population of Germany?

Development and Reform: Two Likely Themes Proposed by China for the 2016 G20

Given the objectives and constraints facing China's leaders, there are two likely themes that China will logically push for. The first theme is development. China will argue that it has the world's most relevant and rich experience in economic development, having transformed the poor country that China was 30 years ago into the moderately prosperous economy it is today. Pushing for development based on China's experience would be highly

consistent with China's domestic policies, and would most easily enhance the reputation and profile of China's leaders and China itself as a country.

The second theme that China's leaders may push for is reform. Again, reform is a trademark of China's economic success. And today under the leadership of the U.S. and its allies, the global governance system is showing its fatigue and limitations. Reform is needed. As a result, China, representing a new force in the global economic arena, certainly will push for reform. (CCWE, 2014)

Ten Initiatives that China will Most Likely Push for in the 2016 G20

Based on the above analysis, I would argue that the following 10 initiatives are the most likely items Chinese leaders will push for leading up to the 2016 G20.

1) Call for support for the world's poorest countries.

China may call for the members of the G20 to support the least developed countries in the world by committing to zero import tariffs for products produced in these countries, as well as to provide a pool of minimum economic humanitarian support for these countries. This call will be popular in the world, and will help enhance the moral legitimacy of the G20.

2) Invite a poor country to be a representative participant in the G20 Summit.

The G20 Summit consists of the 19 largest economies in the world, plus the European

Union. Most of these economies are developed and industrialized economies. China may push for inviting a country with a large population but poor economy to join, e.g. Nigeria, Ethiopia, or Egypt. Such a move will enable discussions within the G20 to include voices from the poorest economies in the world. Again, this would be a popular move to help the G20 become a globally relevant mechanism for economic discussion.

3) Provider wider aide to the world's poorest countries.

China may call for more and a wider range of aide for the poorest countries. For example, sending medical teams to these countries as China has done in Africa for many years. During the Ebola crisis, China's medical team performed well in African countries.

4) Free patents and medicine to the poorest economies.

China may call on the richest countries in the world to put aside some money to buy some relevant patents and knowledge that are relevant for economic development in the poorest countries. In this regard, there might be a partnership with the private sector or a non-profit organization, such as the Bill and Melinda Gates Foundation. Although there are disputes in terms of the relative merits of the protection of IP rights with regard to the poorest economies, knowledge should be free, and this attitude is relatively widely received.

5) Guard against macro policy spillovers from rich to the poorest countries.

In today's globalized world economy,

monetary policy and other economic events in rich countries often have negative spillover effects on poor economies. China may call for technical support for the poorest countries to deal with these negative spillovers. For example, the capital accounts in the poor economies should be closed and the exchange rates of their currencies should be carefully managed in order to prevent these economies from receiving negative shocks from the normalization of the unconventional monetary policy in the U.S. and other countries.

6) Investment guarantee programs for the poorest economies.

In order to develop, the poorest economies would like to attract investments, but private investors may not be willing to take the associated risks. There is room for the governments of rich countries to provide guarantees to a certain degree to investors from rich countries in order to encourage them to invest in the poorest economies. Such a guarantee can play a role in amplifying the power of government money in helping these poor economies.

7) Push for the conclusion of the Doha round of trade talks and for the support of regional free trade negotiations.

China would be the beneficiary of an even more open global trade system. The dragging of the feet in completing the Doha round of negotiations hurts the interests of many countries, with China being the main one. Meanwhile, China is also actively engaged in free trade negotiations with many countries. As a result, China will take the opportunity and call for faster paced negotiations of the

Doha round, and call for relative parties to make concessions in order to make the Doha round successful. China itself may make some unilateral concessions, conditional on other countries making similar moves, to push for the conclusion of the negotiations. China also called for the Asian Pacific Free Trade Zone during the 2014 APEC meeting. Chinese leaders may take the opportunity to call for further action to speed up relevant negotiations.

8) Strengthening the financial capacity of the IMF and the World Bank and to speed up the reform of their governance structures.

As analyzed above, China is a beneficiary of the operations of the IMF and World Bank. At the same time, the IMF and World Bank are undercapitalized. China will likely take the opportunity of the 2016 G20 Summit to call for countries to make contributions to the IMF and the World Bank in order to enable them to be more capable in dealing with today's potential global crises. China again will take the opportunity to call for faster reform of the two international organizations, especially the quotas of voting rights.

9) Cooperation between old and new international organizations.

China is pioneering a new round of international organizations, such as the AIIB and the BRICS Investment Bank. China may take the opportunity of the 2016 G20 Summit to call for collaboration between these new international organizations. For example, one initiative would be for all of these international organizations to have a liaison office in Beijing that would hold annual meetings alternating

between Washington, D.C. and Beijing

10) Effective climate change negotiations.

China and the U.S. already agreed to and signed a pact in 2014 when President Obama came to Beijing to participate in the APEC meeting. China will take the opportunity to initiate a call for wider agreements among relevant countries for climate change regulations.

In summary, the 2016 G20 will not be wasted by Chinese leaders. They most likely will take the opportunity to push for a new round of international initiatives, and further enhance China's profile as an emerging and developing economy.

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China's G20 Presidency in 2016 - An Opportunity to Refocus the G20's Development Agenda towards Economic Transformation

HOU Zhenbo and Dirk Willem TE VELDE

China's G20 Presidency in 2016 will be an excellent opportunity to showcase its leadership in tackling some of the most important challenges for developing countries today. From the uneven economic recoveries after the 2008 financial crisis to renewed uncertainties in the Eurozone, from the infrastructure financing gap in developing countries to the spill-over effects of macroeconomic policies by advanced economies, from stalemate in the WTO Doha round negotiations to the renewed optimism in the global climate change talks, there are many pressing global issues for a G20 host.

As a late industrialising country and still the largest developing nation in the world, China has a lot to offer on these issues. However, leadership has to be earned and it requires far more than complaining about the unfairness of the international economic system. Instead, taking such leadership in a global forum such as the G20 requires experience of negotiations and making trade-offs to deliver the governance global public goods such as global treaties or institutions that would generate goods that are non-rival and non-exclusive to the whole world (Hou, Keane and te Velde, 2015).

In this article, we aim to first of all map out the G20 development agenda, then analyse

the list of actions China has embarked to fulfil these aims, followed by discussing China's role in refocusing the development agenda to economic transformation in its 2016 G20 Presidency. Economic transformation is a key ingredient of the Africa Union 2063 strategy (AU, 2015) and underlines the key objective of the Seoul consensus of closing the development gap. A key objective of the G20 development agenda is to close the development gap which hinges on the ability of the poor countries to transform economically.

Economic transformation is needed for the type of growth that leads to poverty reduction. It leads to growth that generates income across the income distribution, is robust against price shocks and price cycles, and increases the opportunities and options for future economic growth. Focusing on economic transformation involves understanding the determinants of growth and productivity at the micro/firm and macro level, including how resources shift to higher-value uses and diversification of a country's productive capabilities, including its exports (Mcmillan, Page and te Velde, 2015).

G20 development agenda

The G20's development agenda constitutes the Seoul Development Consensus of 2010 that includes the Multi-Year Action Plan



19. <http://www.g20.utoronto.ca/2010/g20seoul-development.html>

(MYAPs), which had nine pillars and sixteen actions. ¹⁹The nine pillars were: infrastructure, human resources development, trade, private investment and job creation, food security, growth with resilience, financial inclusion, domestic resource mobilisation and knowledge. They are the essential ingredients for focusing the international development debate around a growth oriented policy towards economic transformation. The challenge is to put in place the means of implementation (financial as well as non-financial, domestic as well as international) for economic transformation, an agenda that will be discussed during the Financing for Development conference at Addis Ababa in July 2015. The G20 can follow up with a unique contribution at global level and China can spearhead such an initiative.

China's contribution to the G20 development agenda

China's economic transformation path adheres to the Seoul Development Consensus and has taken concrete steps in ensuring some of the pillars are executed through concrete policies. It would serve development well if it shared its experiences to other parts of the world through knowledge sharing and building special economic zones. Apart from providing personnel to leadership positions within international organisations, two concrete recent policy proposals so far have been the BRICS Development Bank and the Asian Infrastructure Investment Bank, which both aim to fulfil the infrastructure financing gap in developing countries. (Hou 2013 and 2015)

a. Contributing to global governance via leading UNIDO

A former Chinese Vice Finance Minister, Mr Li Yong was elected to the Director-General post of the United Nations Industrial Development Organisation (UNIDO) on 25th June 2013, becoming the first ever person from mainland China to head an UN agency (Pu, 2013). This was made significant by Chinese Minister of Foreign Affairs Wang Yi's remarks shortly after Mr Li's elevation that the Chinese government intends to 'provide a Chinese solution to global governance by making a meaningful contribution to global public goods provision in order to tackle the common challenges faced by humanity in the 21st century' (China's Ministry of Foreign Affairs, 2013). Such statements underlines a remarkable policy departure from the previous 'inward-looking' policy perception outlined by Wang and Rosenau (2009) that China is still a developing country that is preoccupied by its own domestic development agenda.

To a large extent, Chinese government is correct in supporting an UN organisation such as UNIDO. China is arguably the most qualified country to lead UNIDO because it brings its late industrialising experience and impressive poverty reduction record over the last thirty years to this UN specialised organisation that promotes industrial development for poverty reduction. Policies such as industrialisation plays a key role in achieving job creation, inclusive economic growth and diversification to achieve economic transformation in the long run.

b. BRICS Development Bank

The BRICS Development Bank or the New Development Bank was announced at the BRICS Summit in Durban in spring 2013 to provide extra infrastructure financing for emerging economies – a key pledge by G20's Seoul Development Consensus. The Bank is designed to have a US\$ 50 billion initial subscribed capital base with each of five BRICS countries contributing 10 billion USD each. The bank will be headquartered in Shanghai, although other BRICS countries would rotate to run the bank too – for example, its first President will come from India; Brazil will head its board of directors; Russia will chair the board of governors; and a regional centre will be set up in South Africa. This shared responsibility arrangement has weakened fears that China would dominate the bank. On the contrary, the BRICS countries deliberately made sure every country has equal share of the vote and equal share of initial subscribed capital, despite the fact that such arrangement has significantly limited the capital base of the bank due to smaller members of the BRICS (Humphrey, 2015).

As the largest economy among the BRICS, China could use its G20 Presidency in 2016 as an opportunity to formally announce the beginning of operations of the BRICS Development Bank. By then, the Bank will be likely to have designed its lending model that distinguishes itself from the World Bank or other Multilateral Development Banks. It would also be likely to have made infrastructure and supporting economic transformation high on its agenda.

c. Asian Infrastructure Investment Bank

China has taken a rather different approach on establishing the Asian Infrastructure Investment Bank (AIIB), which is another initiative by China to fulfil its pledge towards the Seoul Development Consensus by providing infrastructure finance to help developing countries in Asia to achieve inclusive growth, job creation and economic transformation. With AIIB, instead of ring-fencing it as a private club good like the BRICS Bank, China energetically lobbied other countries to join and succeed in bringing 57 countries to sign its memorandum of understanding. The AIIB has a much more open system where any countries can join as members. Even though China is contributing at least 50% of its initial subscribed capital, it has given the signal that it wishes to forgo veto power, making it a significant departure from the governance model of the World Bank and the Asian Development Bank, where the United States and Japan enjoy a veto respectively.

Crucially, as the AIIB managed to absorb 16 of 20 largest economies as shareholders, it will easily obtain an AAA bond rating, which would allow it to borrow more cheaply and therefore give it a larger portfolio. Humphrey (2015)'s research suggests that the AIIB could have a loan portfolio of US\$ 90-100 billion with ten years' time and argues that it would make the AIIB one of the largest multilateral development banks in the world, although it is still perhaps a drop in the ocean when compared to the US\$8 trillion infrastructure financing gap in developing Asia between 2014 and 2020.

d. Combining finance and policies to implement a transformative post-2015 agenda.

China can contribute more than finance; indeed it can combine finance and policies to promote economic transformation. The recently launched 2015 European Report on Development argues that the world needs a completely new approach towards finance for development. We should learn the lessons from the implementation of the Millennium Development Goals (MDGs), the changes in the Financing for Development (FFD) landscape and practical analyses of key enablers of transformative development which involves economic transformation.

For example, there have been considerable changes in the FFD landscape since the 2002 Monterrey Consensus. The implementation of the MDGs came to focus largely on the role of Official Development Assistance (ODA) and paid insufficient attention to the importance of increasing domestic tax revenue and encouraging private finance. This calls for adopting a more comprehensive view of FFD that takes fully into account the crucial role of public finance and private finance, both domestic and international. This will set the scene for international public finance (including finance from emerging markets) to be a valuable complement and catalyst of other flows of FFD. China can push for the G20 to play such as catalytic role.

However, finance alone will not be sufficient to promote and achieve a transformative post-2015 development agenda. Policies also matter. Indeed, they are fundamental. Appropriate and coherent policies will ensure

that finance is used effectively to achieve results and that it is not wasted or underused. Good policies will also help to ensure that more finance is mobilised as success breeds further success. There are many examples of governments that are making effective policy choices in mobilising and using finance for major enablers of transformative development, including local governance, infrastructure, green energy technology, biodiversity, human capital and trade. Many of these are global in nature (global rules on climate, tax, trade, finance etc) and hence the G20 plays a crucial role. This too requires China's attention in 2016.

Given the challenges encountered in the follow-up of the Monterrey Conference, it is also crucial to develop an appropriate system of monitoring and accountability that covers as many flows of finance as possible and that stimulates the right actions, nationally and internationally, in the finance and policy framework. This accountability system must cover both the Sustainable Development Goals (SDGs) and their targets and the finance and policies required to achieve them. It can then guide implementation of the post-2015 agenda in a way that covers finance, policies and partnerships. Thus the G20 can put in place a global monitoring system for global policy contributions to the post-2015 agenda. The G20 in 2016 is due an update of the St Petersburg Accountability Report and China could ensure that it includes not just narrowly-defined development actions but also the development dimensions of the core commitments of the G20 (Hou and te Velde, 2013).

Conclusion

China has already begun to provide leadership in some international organisations. But more significantly, it has also set up its own versions of multilateral development finance institutions such as the BRICS Development Bank, Asian Infrastructure Investment Bank, New Silk Road Infrastructure Fund, and so on. The 'One Road, One Belt' strategy recently set out by the Chinese leadership is a domestic development strategy that aims to connect with development strategies of other countries.

With the Bretton Woods institutions stuck in the past (if not 1947) and Washington blocking meaningful reform in governance, these Chinese-sponsored institutions are likely to continue to gather pace. If western governments do not want to actively respond to these initiatives, participating in or working with these new organisations, their institutions (the Bank and the Fund, but also most of the regional development banks) will wither away.

Chinese-sponsored institutions have genuine 21st century potential. They hold a strong appeal not just for Africa, but across Asia and elsewhere. The challenge is to make them democratic and inclusive and, as China often advocates publicly, to work with recipient countries to ensure a host country-driven approach to development.

Perhaps it is time for China to work together with and try to reform the traditional donors too. Its successful experience in poverty eradication based on rapid GDP growth has already swung the development debate towards a more growth-based approach, compared to the approach of the Millennium

Development Goals. With a crucial opportunity for China to chair the G20 Summit in 2016 and help shape its development agenda, we believe it is now time for the international development policy community to work with China to seize that opportunity.

Finally, China could incentivise the G20 to join up finance and policies for implementing a transformative post-2015 agenda which includes economic transformation. As a first step, it could include an assessment of the contribution of a range of core G20 commitments to economic transformation in the poorest economies in the next G20 accountability report.

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