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About CIGI

The Centre for International Governance Innovation is an independent, non-partisan think tank on international governance. Led by experienced practitioners and distinguished academics, CIGI supports research, forms networks, advances policy debate and generates ideas for multilateral governance improvements. Conducting an active agenda of research, events and publications, CIGI’s interdisciplinary work includes collaboration with policy, business and academic communities around the world.

CIGI’s current research programs focus on three themes: the global economy; global security & politics; and international law.

CIGI was founded in 2001 by Jim Balsillie, then co-CEO of Research In Motion (BlackBerry), and collaborates with and gratefully acknowledges support from a number of strategic partners, in particular the Government of Canada and the Government of Ontario.

Le CIGI a été fondé en 2001 par Jim Balsillie, qui était alors co-chef de la direction de Research In Motion (BlackBerry). Il collabore avec de nombreux partenaires stratégiques et exprime sa reconnaissance du soutien reçu de ceux-ci, notamment de l’appui reçu du gouvernement du Canada et de celui du gouvernement de l’Ontario.

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About CIGI’s G20 Research

The Group of Twenty (G20) research theme focuses on addressing gaps in global governance; discussing policy issues critical to Canada’s position and role in the global economy; penetrating policy circles internationally; and gaining leverage through strategic partnerships. More broadly, the G20 is a premier forum for Canada to regularly engage with global leaders where it can contribute to its longstanding efforts toward a more equitable governance framework. CIGI’s G20 research cuts across several program themes, due to the wide scope of the G20 itself.

Acknowledged as a central area of CIGI’s expertise, the G20 research stream in its early days is credited for having provided the analytical underpinning for the elevation of the G20 to the leaders’ level. CIGI convened its first G20-focused group in December 2009, when it helped lay the groundwork for the forum to expand from national finance ministers to leaders. Since then, CIGI has proactively engaged with the G20 rotating chairs with the aim to influence their summit agendas through the provision of high-level, policy-relevant advice.
Just as the Korean summit in 2010 was the first time the G20 leaders were hosted by an Asian country, and the 2012 Mexican summit the first time they were hosted by a Latin American nation, this year’s summit in Turkey will be the first held by a Muslim majority country, which reinforces the fact that the greatest opportunity and challenge the G20 faces with its many cultures, religions and political systems is how to make globalization work in a world of differences.

This is the challenge the Turkish government issued when it said that the most pressing need at the present time is for the G20 to ensure “inclusive and robust growth through collective action.”

It is for this reason that the problem the G20 must face is the insidious weakening of the world’s great multilateral institutions, whose fundamental purpose for being is to make that “collective action” as effective as possible.

Now, and over the years to come, the issues the G20 will confront will be as varied as the pebbles on a beach, and while bargaining across countries will inevitably begin on the basis of national self-interest, in the end, success will only be achieved if the member countries grasp the unassailable truth that in today’s interdependent world, the furtherance of a country’s self-interest will depend more and more on the degree to which it furthers the global interest.

The problem is, from the causes and consequences of the 2008 recession through to climate change, from the call for cyber security through to the balkanization of the Internet, the majority of today’s issues show just how unprepared the world’s governments are when faced by a planet whose concerns lie beyond the scope of purely national interests.

There are those who will point out that at the moment, the frontiers of globalization are being rolled back. Indeed, Ukraine, the sectarian conflicts engulfing the Arab world and the rise of European nationalism might suggest that the flip side of globalization — fragmentation — is the strongest force at play today.

However today is not forever, and while the forces of division are real and in turn must be dealt with, ultimately, globalization cannot be pushed back. From increasing economic interdependence to the migration of people, from the spread of disease to threats to food security, for better or for worse, the most pressing realities the world faces are ones no borders can withstand. They are matters that require responses beyond what even the most powerful governments can provide.

In this context, what is the first responsibility of the G20? Quite simply, it begins with the strengthening of the great multilateral institutions whose objective it is to make globalization work on behalf of their universal membership. Indeed, it is upon this that much of the G20’s legitimacy rests.

So, what is the state of the world’s institutions? Let’s look at a thumbnail sketch of some of the most important.

The International Monetary Fund (IMF)

The Fund’s situation could certainly be better. While already weakened by the perception of excessive harshness during the Asian crisis in comparison with its venture into the maelstrom of Greek finances at the behest of the euro zone, the IMF has been badly wounded by the failure of the United States Congress to follow through on its commitment to the IMF’s governance and quota reforms agreed to at the Seoul summit.

The damage from this failure continues to flow. For example, the promises made in Brisbane in November 2014 regarding the G20’s unity of action on the economy are already in jeopardy.

This confirms the view expressed most recently by Turkey, and many times over the years in G20 compliance reports issued by the University of Toronto’s Munk School, that there is an omnipresent need for mutual assessment processes and cross-country monitoring if peer pressure between countries is to work.
Clearly, because of its expertise and reach, and probably as well because of its ability to provide political cover for unpopular but sensible policy changes, the IMF has an essential role to play in this process.

But can it, if the Fund’s impartiality is brought into question when it is held hostage to the whim of its most powerful member? No one wants to find the IMF in the unenviable position of the World Bank, which is now being asked to compete with the nascent Asian Infrastructure Investment Bank (AIIB).

The AIIB was created for many reasons, not the least of which was the United States’ “de facto” veto over the World Bank, an institution that is supposed to serve the interests of all countries. There is no problem with the AIIB. It is a good idea and the World Bank will continue to thrive.

However, there can only be one central anchor of the international monetary system and the pressures weakening it will continue to mount if the US Congress continues to prevent IMF reform.

If the G20 thinks that this is not its problem, it should be reminded that it is not only the credibility of the IMF that is at stake. This is because the inability to reform the IMF violates one of the fundamental tenets underlying the transition from the G7 to the G20 finance ministers 15 years ago, a tenet that argued emerging economies are to take more responsibility for the management of the global economy, while advanced economies will make room in order to provide them with greater voice.

That greater voice starts within the IMF.

Sovereign Debt Restructuring Mechanism (SDRM)

The IMF is not the only matter where the great powers remain frozen in time and where the G20 should act. The issue of sovereign debt vulnerability must also be addressed.

The IMF’s attempt over a decade ago to create an SDRM was frustrated by the opposition of many of the world’s major financial centres. As a consolation prize, and at Canada’s urging, collective action clauses were eventually added to the sovereign debt menu, but one only has to look at Greece and Argentina today to see that the take-up, large as it may have been, was still insufficient.

Even with the improvements agreed to by the IMF and the International Capital Market Association during 2014, the world’s approaches to handling convulsive sovereign debt distress are incomplete and suboptimal.

Most recently, the issue was taken up by the UN General Assembly. A number of countries called for a convention that would provide a predictable and consistent international framework to deal with severe sovereign debt crises. It didn’t pass muster.

This is not sustainable. A statutory framework might not be feasible, but we cannot continue with the status quo, where we lurch from crisis to crisis seeking remedies only when forced to do so by events. The G20, at a minimum, should support the proposal to create a forum that would provide a standing independent venue where creditors and debtors could meet on an ongoing and proactive basis to address sovereign debt problems. It is not up to the G20 to manage sovereign debt resolution, but it can seek to create the vehicle that will ensure the job gets done, much as it did with the Financial Stability Board (FSB).

Financial Action Task Force (FATF)

Similarly, much more forethought must be given to the prevention of terrorist financing. In the aftermath of September 11, 2001, all international meetings were cancelled for security reasons. This lasted three months. It was the G20 finance ministers’ meeting in Ottawa that broke the ice.

That meeting was called because of the urgent need then to deal with terrorist financing. To paraphrase the FATF’s president, ISIS (Islamic State of Iraq and Syria) and Boko Haram speak to that need today, and G20 leaders have called upon the FATF to draft a policy framework on the issue.

This is as it should be. But they must go further than this. Policy is one thing, enforcing it is quite another. To this end, G20 leaders should provide the FATF with the mandate and the resources to allow for more vigorous implementation.
The World Trade Organization (WTO)

The recent Turkish government communique spoke of inclusivity. If there is one body where inclusivity is needed, it is the WTO.

There is no doubt that mega regional trade deals such as the Trans-Pacific Partnership are important and very worthwhile for the countries involved, but hopefully they are only the first step. This is because, in the end, agreements that leave out China and India, and even more to the point, agreements that don’t include most developing countries, must be built upon by the WTO, thus resuscitating the organization.

Nor is this the end of the changes that lie ahead. The suggestion has already been made that the WTO incorporate carbon pricing, where carbon content is equalized at the border in a system centred at the WTO. These issues will likely be raised again a year from now in China — in short, the G20 cannot hide forever.

Financial Stability Board (FSB)

This review of institutions is not meant to imply that the G20 has been a simple observer of the passing scene. Indeed, had it not been for the London summit in 2009, protectionist forces might well have turned the 2008 recession into a depression.

The G20’s endorsement of financial safety nets in Korea, green growth and the role of the Business 20 and Think 20 in Mexico were important, as was the creation of the FSB out of the ashes of the Financial Stability Forum. Indeed, if anything has given hope for sanity in the banking system, it is the FSB.

That being said, this is not the time to relax. When you consider the consequences of what some argue are but small bits of sand in the global banking system — the inability of some of Europe’s largest banks to pass reasonable stress tests, the rapid growth of China’s shadow banking system, the constant pushback from the financial industry — it is clear that the FSB should have full treaty status and true universal membership, giving it the weight it requires to be the fourth pillar of the global economic architecture.

True, this means that the G20 will have to release its hold on its “godchild,” but so be it — children do grow up.

The United Nations

The travails of the UN Security Council are well past their due date, and no solutions appear in sight, but there are other issues where G20 leadership could make a significant difference — particularly in terms of the UN’s humanitarian agencies.

As maritime tragedy after maritime tragedy in the Mediterranean and the Andaman Sea condemns countless refugees to a watery grave, the question is: how much longer will the G20 remain mute?

This is an issue where Turkey’s experience is incontrovertible, because few can speak to the subject better than those countries bordering Syria. In Turkey, there are more than two million refugees, in Lebanon 1.2 million and in Jordan 620,000.

The questions to ask here are quite straightforward. Why is the United Nations High Commissioner for Refugees (UNHCR) not being better supported? Why is it that countries close to a conflict bear so much of the cost of sheltering refugees, especially when, compared to the rest of the world, they are already destabilized by the neighbouring unrest?

And finally, what happens to the generations born in refugee camps, who live in inadequate housing with insufficient health care and minimal opportunity for schooling?

Where is the G20 on these questions? Particularly since the pain of untold numbers of young people who are raised in refugee camps — bearing an understandable grudge against an unfair world — will be paid for by our children and grandchildren as the years go by.

No one is saying the solutions are easy — they are not. But unless the world acts to confront the immediate human tragedy while the longer-term geopolitical answers are worked out in a multitude of fragile and failed states, the cost to countless generations to come will make today’s dilemmas look like a picnic. Surely the time has come for the G20 to seek updated mandates and adequate resources for the UNHCR, and indeed for UNICEF and the International Organization for Migration, as both of these agencies share with the UNHCR the burden of dealing with the world’s displaced peoples and none are adequately equipped to do so.

The second issue in the context of the United Nations and globalization arises out of the inability of the World Health Organization (WHO) to react expeditiously early in the Ebola crisis. How is it that Doctors Without Borders was so much more effective than the global organization set up to deal with crises of this scope, especially since the world was told following the SARS outbreak a decade ago that the WHO had learned its lesson? The truth is, while the WHO may bear some of the responsibility for its convoluted structure within Africa, the biggest obstacle it faces is the gross underfunding of the agency itself. This is the fault of UN members who refuse to provide the financial support required, not to mention the world’s medical labs that have failed to carry out the research needed to develop the vaccines for tropical diseases over the last decade.
In this context, G20 leaders should push for greater UN funding, recognizing that much of it will come from their own pockets. One also hopes the G20 countries and the WHO will rise to the need to implement the “Advanced Market Commitments” for vaccines subsidization.

Turning to the United Nations Framework Convention on Climate Change (UNFCCC), rarely has the opportunity for the G20 to act been as promising as it is now, given the US-China climate change agreement and this November’s G20 summit occurring just before the UNFCCC Conference of the Parties meeting in Paris in December 2015. Surely the stars could not be better aligned for the G20 to provide the United Nations with the momentum required for ultimate success, especially since China will be hosting the next G20 summit less than a year later.

What is also important beyond the reduction of greenhouse gas emissions is that certain issues that have not been given much thought need to be given much greater attention — one such area is the global ocean, which provides 50 percent of the world’s oxygen and as the Earth’s largest carbon sink, is being forced to absorb ever-larger quantities of CO₂. The detrimental effects of this, from ocean acidification to the collapse of ecosystems and fish stocks, are causing irreversible damage.

The importance of a healthy ocean goes without saying, and given its current state, there is no question that it requires much greater oversight by the United Nations than is currently the case and the G20 should reinforce this.

The Internet

The last example among many on the need for stronger institutions arises from the problems facing the Internet, which provides a striking instance of a gap in global governance.

The issues are multi-fold, from privacy and free expression of individuals to protection against systemic risks such as cyber-criminal organizations and unlawful surveillance by businesses and governments.

Concerns about the stability, security and resilience of the Internet ecosystem are addressed by a large number of institutions, including the Internet Corporation for Assigned Names and Numbers, the International Telecommunication Union, the Internet Engineering Task Force and the World Intellectual Property Organization, among many others, but their policy organization is fragmented.

Thus, the primary concern is not an absence of agencies to confront the issues, but rather it is an absence of one agency to coordinate the various organizations.

While it is up to governments to collaborate with key stakeholders — businesses, citizens and civil society, law enforcement and intelligence agencies, and the Internet technical community — to take steps to build public confidence in the Internet, what is also required is a multinational organization that can in turn coordinate and mobilize those governments and their organizations.

The United Nations is well equipped to house such a coordinating agency and the G20 should push it to take a leadership role to that end.

Africa and the G20

While the G20 must play a much greater role in strengthening the multilateral institutions, there is one domain where the G20 should strengthen itself.

Currently, South Africa is the only African nation in the G20. This is because of the civil unrest in Nigeria at the time the G20 finance ministers held their first meeting almost a generation ago. This is the reason the G20 consists of only 19 nations. When it comes to the major issues the world faces, the G20 is at an obvious disadvantage without a stronger African voice. For example, nowhere are the threats of famine and malnutrition more acute than in Africa. Hence, to have a discussion on food security without a consistent pan-African voice at the table makes no sense.

The same applies to illicit financial flows, which are a pressing issue facing African development. While the G20 has repeatedly named anti-corruption as one of its priorities, reducing illicit flows of cash is part and parcel of the battle. But unfortunately, Africa has not been a significant player in those discussions.
Until a second African nation becomes a member of the G20, an interim step must be found — a step that provides Africa with much more play in the G20’s deliberations with Sherpas and other government officials on the one hand, and the outreach organizations on the other.

This is important because one of the less visible but extraordinarily valuable components of a G20 summit is its ability to react to the G20’s ongoing policy research agenda, which constitutes much of the work paving the way for the summit discussions. It is here that pan-African experts must participate much more fully than has hitherto been the case. The Turkish outreach has set an important precedent here; however, it should become standard practice.

Conclusion

This long list of issues demonstrates two things.

First, the parameters of change are not limited to finance and economics. G20 leaders do not have the luxury of dealing only with a self-defined portion of globalization. Thus, any charge of “mission creep” levied against the G20 does not hold up in a world where a failed banking system has grave social consequences and climate change will have a devastating economic fallout.

Second, in a world where there will no longer be only one economic superpower setting the course, but three or four giant economies and a host of wealthy countries at the table, the debate will not simply be what should we do, rather, it will be how will we get it done?

The answer to that question, more often than not, will be through the world’s multilateral institutions, most of which are having difficulty rising unsupported to the challenges they face.

The fact is, institutions count. Anyone who doubts this has only to ask whether the euro zone would be going through the troubles it is, had it built the institutions that are required to make a monetary union work from the beginning.

The G20 cannot act alone without the consensus of a multilateral institution’s members, but it can lead by example and it can set the course.

The G20 was brought into being so that international cooperation would reflect the needs of a changing world. That cooperation begins with the strengthening of the existing institutions created to make globalization work. This should be a G20 priority.

About the Author

The Right Honourable Paul Martin was Prime Minister of Canada from 2003 to 2006 and Minister of Finance from 1993 to 2002.

During his tenure as Minister of Finance, he erased Canada’s deficit, subsequently recording five consecutive budget surpluses while paying down the national debt and setting Canada’s debt-to-GDP ratio on a steady downward track. He was the inaugural chair of the finance ministers’ G20 in 1999. He also introduced the largest tax cuts in Canadian history and the largest increases in the federal government’s support for education, and research and development. In conjunction with his provincial counterparts, he restored the Canada Pension Plan, securing it for future generations. He also strengthened the regulations governing Canada’s financial institutions, with the result that Canada is now viewed as an international model for sound financial regulation.

During his tenure as Prime Minister, Mr. Martin set in place a 10-year, $41 billion plan to improve health care and reduce wait times, signed agreements with the provinces and territories to establish the first national early learning and child care program and created a new financial deal for Canada’s municipalities. Under his leadership the Canadian Government reached an historic deal with Aboriginal people of Canada to eliminate the existing funding gaps in health, education and housing known as the Kelowna Accord.

After leaving politics, Mr. Martin founded the Martin Aboriginal Education Initiative focusing on elementary and secondary education for Aboriginal students and the Capital for Aboriginal Prosperity and Entrepreneurship (CAPE) Fund, an investment fund investing in Aboriginal business.

Internationally, he is chairman of the Congo Basin Forest Fund, a $200 million British-Norwegian-Canadian poverty alleviation and sustainable development fund for the 10-nation Congo Basin Rainforest. He works closely with the Advisory Council of the Coalition for Dialogue on Africa, sponsored by the African Union, the UN Economic Commission for Africa and the African Development Bank. Mr. Martin is also a commissioner for the Global Ocean Commission.

Before entering politics, he had a distinguished career as chairman and chief executive officer of The CSL Group Inc., the largest self-unloading shipping company in the world.
WHERE ARE THE EMPEROR’S CLOTHES?

Thomas A. Bernes

At their 2014 summit in Brisbane, Australia, G20 leaders adopted the Brisbane Action Plan, which was intended to raise potential world growth by two percent over the subsequent five years. Australia’s G20 presidency worked mightily for this result, recognizing that the credibility of the G20 to deliver was being questioned by many who saw the G20 increasingly as little more than a talk shop.

This action plan, we were told, would raise world output by an additional US$2 trillion over what would otherwise be expected, and create tens of millions of new jobs. Some 1,100 measures were put forth by the G20 member governments — ostensibly new policy measures that would be in addition to policy measures previously announced by governments. The International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD) reviewed the proposed measures and announced that they could succeed in raising global growth potential by 2.1 percent “if fully implemented” (G20 Leaders 2014, para. 3).

So, where are we today as we approach the 2015 G20 summit to be held in Antalya, Turkey? We know that within a few short weeks of the Brisbane agreement, both the IMF and the OECD marked down their global growth forecasts. This continued the trend of recent years of overly optimistic forecasts followed by downward revisions to reflect actual outcomes.

This downward revision also suggests that these institutions did not have a great deal of confidence that the actions proposed by governments would be successfully implemented.

The list of specific measures was released as the leaders were departing Brisbane, and therefore they could not be questioned on the measures. We now know that many of the measures did not, in fact, reflect “new” policy measures. Others were simply highly unlikely to be successfully implemented. One commitment made by the United States was immigration reform. Although it is certainly important, no one is holding their breath (or betting their economic future) on credible US immigration reform in the near future. Even the Australian host government has walked away from a number of its commitments as it lacked political support in its Parliament.

G20 finance ministers have met three times since Brisbane and made pronouncements on the global economy. Each time, they have noted that growth has been slower than anticipated, but reaffirmed their commitment to take the necessary actions “to keep the recovery on track” (G20 Finance Ministers and Central Bank Governors 2015). The problem, however, is that the recovery is not on track. Global growth is now projected to be less over the next five years than the earlier projections without the Brisbane Action Plan. The World Trade Organization has released a report noting that global trade growth is running at about half of what it was prior to the 2008 global financial crisis. Growth in the United States and some other countries (for example, Germany, France, Japan and Canada) is weak. Other countries (particularly those in the euro zone) have failed to reach the production levels of 2008. Unemployment remains a huge problem in Europe, where a whole generation is being lost.
The IMF and the OECD were tasked with reporting to the Turkish summit on the progress in implementing the Brisbane Action Plan. We know already that it will be insufficient. How will G20 leaders respond? Platiitudes and exhortations to redouble efforts will simply not be credible.

But the global economy and global growth is the central issue confronting the G20. Some commentators have suggested that the situation is as dire as that confronting the world at the outbreak of the 2008 global financial crisis and calls for an equally strong and energetic response by political leaders. Even Managing Director of the IMF Christine Lagarde (2015) has called for a “policy upgrade” by major economies.

While emerging markets, and notably China, have provided support to global growth since 2009, this is slowing. In China, this is appropriate and consistent with its reform agenda, but many other emerging economies have failed to make use of good years and now face slower growth and heightened risks. Japan is still mired in escaping deflation and Europe faces enormous financial, fiscal and political challenges.

These economic challenges do not even take into account the broader challenges brought about by climate change, the challenges of sustainable development, the refugee crisis and current geopolitical hot spots.

The central question for the Antalya summit is whether G20 leaders and the institutions that support them can articulate a “policy upgrade” that brings more credibility than last year’s Brisbane Action Plan.

Works Cited


About the Author

Thomas A. Bernes is a CIGI distinguished fellow. After a distinguished career in the Canadian public service and at leading international economic institutions, Tom was CIGI’s executive director from 2009 to 2012. He has held high-level positions at the IMF, the World Bank, the Organisation for Economic Co-operation and Development and the Government of Canada. Tom was appointed the executive secretary of the joint IMF-World Bank Development Committee in 2001, where he participated as a member of the Task Force on Reform of the Multilateral Development Banks established by the Development Committee. Prior to joining CIGI, Tom was director of the IMF’s Independent Evaluation Office.
SHOULD CLIMATE FINANCE BE INTEGRATED INTO THE G20 AGENDA?

Olaf Weber

The Governor of the Bank of England Mark Carney recently delivered a well-received speech in London, United Kingdom, to a community of financial sector representatives emphasizing the impact that climate change could have on financial sector stability.

The impact could be threefold. The first type of risk is direct — the increasing frequency of extreme weather events such as floods could have impacts on the insurance sector in particular, which will have to pay for the damage to insured property caused by these events. A second type of risk will be the liability risk for insurance firms from claims made by parties suffering damage due to climate change caused by others. If such claims are successful, they could be passed to insurance firms that would then have to pay.

The third risk is transition risk, which could emerge as a result of the transition to a lower-carbon economy, which will be necessary to avoid the major impacts of climate change. If such a transition occurs, the investments in the fossil fuel sector would become stranded assets — investments made based on the assumption that all fossil fuel resources can be sold and used. If only some of the fossil resources can be sold — the Intergovernmental Panel on Climate Change (IPCC) states about 35 percent of the resources — it would mean a significant decrease in the income of the fossil fuel industry (Field et al. 2014). The consequence would be decreasing share prices and losses for investors. The transition risk could also affect investments in other energy intensive sectors such as the chemical industry, metals and mining, to name just a few. These industries could be affected by carbon pricing, and higher allowance costs for carbon emissions could create risks for investors.

The financial sector, however, is significantly invested in sectors that are affected by the transition to a lower-carbon economy and, consequently, could suffer losses from these investments in so-called stranded assets. Climate change does not only create environmental damages but financial risks as well. A major transition in industries could have significant effects on investment portfolios and on the stability of the financial sector as a whole. The fact that the Financial Stability Board has already discussed the issue is an indication of the importance of climate change in the financial sector.

The integration of climate finance into the G20's agenda is therefore an important first step to manage financial stability risks that could occur due to climate change. The question, however, is what mechanisms are available to address this type of risk?

First, sustainability and environmental regulations such as those on emissions, waste, contaminated soil and others, are in place in many countries; however, enforcement is sometimes weak. Environmental regulations should be strengthened and mechanisms should be implemented to guarantee their enforcement. Strong environmental regulations help the financial industry to operate without major impacts from...
the effects of unexpected risks. In turn, the management of environmental risks can be integrated into general risk management processes.

Second, regulations should focus directly on the financial sector. So far, only a few countries and central banks have integrated sustainability into their financial regulations. It would make sense, however, to implement financial regulations and incentives to channel financial sector capital into investments and loans that are both positive for the environment and manageable with regard to their financial risks. The G20 would have to look into the practices of its members to understand the mechanisms and consequences of such financial sector sustainability regulations.

Third, voluntary codes of conduct have contributed to a move in a more sustainable direction in some cases. For instance, the Forest Stewardship Council is often perceived as having created a change in corporate sustainability in businesses that deal with forestry products. In the financial sector, there are a number of codes of conduct, such as the Equator Principles, the UN Environment Programme Finance Initiative and the UN Principles for Responsible Investment, that have been adopted by more than one thousand financial institutions. What is needed, however, is research and discussion on whether these voluntary “soft laws” create a change in the industry and have a positive impact on both sustainable development and financial sector stability.

The connection between the financial sector and sustainable development is complex and of an indirect nature. Although it is undisputed that the sector can contribute to sustainable development, the question remains: how can we manage the interaction between major environmental challenges such as climate change and financial sector stability? This task should not be exclusively located in administrative and political institutions that focus on the environment. The incorporation of climate finance into the G20 agenda is only the first step to manage financial sector stability and climate change in an integrative way. The next step should be the development of policies and guidelines that help to manage climate change and financial risk in a prudential way.

Work Cited


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About the Author

Olaf Weber joined CIGI as a senior fellow in March 2015. His research with CIGI focuses on sustainability and the banking sector, including sustainability guidelines and regulations for central banks and regulatory bodies. Olaf is associate professor at the School for Environment, Enterprise and Development. His research and teaching interests are in the area of environmental and sustainable finance with a focus on sustainable financial and credit risk management, socially responsible investment, social banking and the link between sustainability and financial performance of enterprises. Before joining the University of Waterloo he was head of the Sustainable Banking Group of the Swiss Federal Institute of Technology, Zurich.
TOWARD A GLOBAL INVESTMENT GOVERNANCE FRAMEWORK
An Opportunity for the Chinese Presidency of the G20

Hongying Wang

Cross-border investment is an increasingly important part of the global economy. In the last two decades, foreign direct investment (FDI) inflow has grown from about 10 percent to 35 percent of the global GDP (see Figure 1). However, the governance of international investment remains highly fragmented and contested. Unlike international trade, which has been governed by a global framework since the end of World War II — first under the General Agreement on Tariffs and Trade (GATT) and then the World Trade Organization (WTO) — FDI has been governed by nearly 3,000 bilateral investment treaties (BITs) and over 300 other international investment agreements.

Figure 1: FDI in the Global Economy


The fragmented nature of FDI governance is problematic. Although many BITs and regional investment agreements share common principles, they differ significantly enough to create legal and regulatory obstacles for investors, especially small- and medium-sized enterprises seeking to make investments abroad. For instance, the European and the American BIT models diverge on whether the national treatment of foreign investors, i.e., equal treatment of foreign investors and local investors in like circumstances, extends to the pre-establishment stage. BITs also vary in how permissive they are toward international arbitration in settling investment disputes. The complexity and incoherence of investment rules increase the transaction costs of international capital flow, weakening an important force for efficiency, competition and global economic growth.

Conversely, for large multinational corporations with sufficient expertise and/or financial resources to handle the complexity and incoherence of investment rules in different parts of the world, the fragmented investment governance framework offers an opportunity for regulatory arbitrage. There have been more than a few cases where powerful companies engage in treaty and forum shopping in order to maximize their chances to win compensation from host state governments for claimed damages to their commercial interests. This is increasingly perceived by some groups as undermining the authority of host state governments, their policy effectiveness and the well-being of the societies involved.

There have been various attempts in the past to create a global framework to govern FDI — most notably, in the 1990s the Organisation for Economic Co-operation and Development drafted a multilateral agreement on investment. Later it abandoned the effort in the face of strong opposition from civil society groups and developing countries. Around the same time, the Uruguay Round of GATT negotiations adopted the Agreement on Trade-Related Investment Measures, Agreement on Trade-Related Aspects of Intellectual Property Rights and General Agreement on Trade in Services as components of the newly created WTO framework. The WTO also set up a working group to tackle trade and investment as part of the so-called “Singapore Issues,” but a lack of consensus among member countries led to the exclusion of this issue from the Doha Round of negotiations that began in 2001.
A major obstacle for the creation of a global investment framework has been the divide between the Global North and the Global South. Until recently, most FDI flowed from developed countries to developing countries (see Figure 2). Northern countries were keen to use international agreements to liberalize the investment environment in southern countries and to protect the rights and interests of their own companies investing abroad. Developing countries found such provisions to be potentially threatening to their sovereignty and policy autonomy, and constraining in their ability to use foreign capital for local economic development. The vastly different positions held by the two sides made it very difficult to reach a global agreement.

Figure 2: FDI by Developed and Developing Countries

![Figure 2: FDI by Developed and Developing Countries](image)


However, the world economy has changed dramatically in the last decade. The rise of China and other emerging economies has meant that the flow of FDI is no longer a one-way street from the North to the South. A number of developing countries have begun to export large sums of FDI. The South as a whole is becoming more important as a source of FDI outflow (see Figure 2). In this new context, countries are changing their perspectives on international investment governance. The clear and stable fault lines of the past are becoming more fluid and crosscutting. This creates an opportunity for developing a more coherent global framework for investment governance.

No country is as favourably positioned as China in fostering this potential governance reform. On the one hand, it continues to be one of the top recipient countries of FDI, a position it has held since the early 1990s. On the other hand, since 2012, China has been the third-largest source country of FDI (after the United States and Japan). As a host country of massive FDI inflow, China is eager to safeguard its domestic economic interests and policy autonomy. At the same time, the rapid expansion of China’s FDI outflow has made it recognize the importance of a transparent, friendly and safe investment environment for Chinese companies operating abroad. A brief review of China’s BITs suggests it has evolved from a firm defendant of host-country interests to a potential bridge between different sides in the debate over how to govern cross-border investment.

Having signed its first investment agreement with Sweden in 1982, China now has the second-largest number of BITs in the world (130 as of 2014), after Germany. The first generation of BITs, signed by China before 1998, offered limited protection for foreign investors while preserving substantial policy discretion for the host government. These BITs seldom granted national treatment to foreign investors and, instead, often granted the less demanding most-favoured-nation (MFN) treatment. They allowed the host government to impose performance requirements on foreign investors with regard to technology transfer, local content and exports. The second generation of BITs, signed by China after 1998, provided much stronger protection for
foreign investors. Many of these BITs granted FDI national treatment. Moreover, China modified its domestic regulation to meet its commitment of national treatment, removing both sub- and supernational treatment of FDI. In this regard, Chinese investment treaties became quite similar to standard European treaties. Since the mid-2000s, China has launched a third generation of BITs, which seek to better balance the protection of foreign investors with safeguarding policy autonomy in the host country. On the one hand, these BITs have introduced absolute treatment standards, such as “fair and equitable” treatment or a minimum standard of treatment according to customary international law. They also often extend MFN treatment to the pre-establishment stage. On the other hand, these BITs allow the host government to restrict investment flows in the event of serious macroeconomic difficulties.

In addition to the treatment of foreign investors, another crucial issue in the governance of FDI is the settlement of investment disputes. In its first generation of BITs, China either did not include provisions about investment-related disputes or required foreign investors to rely primarily on local dispute settlement mechanisms, such as mediation, arbitration and litigation through the domestic judicial system. International arbitration was of limited use and primarily about the amount of compensation in the case of expropriation. China’s second generation of BITs included broader access to international arbitration. Although China became a member of the International Centre for Settlement of Investment Disputes (ICSID) in 1993, it was not until 1998 that China began to fully accept ICSID arbitration in its BITs. Many new BITs and re-negotiated BITs stipulated access to ICSID and other international arbitration mechanisms on a wide range of investment-related issues. The most recent BITs tend to provide more liberal access to international arbitration, but they use a narrower definition of “investment” and a narrower scope of “fair and equitable” treatment, thereby widening the policy space for the host country.

China occupies a special position in the world economy as a developing country and major importer of capital, as well as the second-largest economy and a growing source of capital export. The evolution of China’s approach to FDI governance shows that it is seeking to balance the different interests and concerns of both sides of the equation. It has shown a much more liberal attitude toward the treatment of foreign capital than many other developing countries. Among the so-called BASIC countries (Brazil, South Africa, India and China), China stands out with its enthusiasm toward BITs and international arbitration. It seems to have gone even further than some of the developed countries in accepting the principle of investor-state dispute settlement. Meanwhile, the Chinese government maintains a strong desire to control the country’s economy and protect key domestic industries from foreign capital. As China assumes the presidency of the G20 — the most important platform for economic cooperation among major countries in the North and South — it has a rare opportunity to push for collective new thinking on how to establish a less fragmented and more coherent global framework for investment governance that balances the interests of different stakeholders.

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About the Author
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At CIGI, Hongying is focusing on several projects related to China in the international financial system.
They gathered because they want to be permanent members of the United Nations Security Council. But the show of unity in New York by the leaders of Brazil, Germany, India and Japan in September stood out because it was a rare image of what geopolitical affairs should look like. The meeting of the “Group of Four” (G4) had an equal number of men and women, just as one would expect in a world where the proportion of males and females is roughly equal.

The “family photo” will look much different at the Antalya G20 Summit in November. Brazil’s Dilma Rousseff, Germany’s Angela Merkel, India’s Narendra Modi and Japan’s Shinzo Abe will all be there. However, the gender balance of the G4 will be gone. Only four of 19 heads of state in the G20 are women, and that number goes down to three once Argentinian President Cristina de Kirchner’s successor is sworn in. The lack of women decision makers makes it difficult to win change. The World Bank said in a report published in September 2015 that 155 of 173 economies surveyed had at least one law that impedes women from working outside the home (World Bank Group 2015). The McKinsey Global Institute created a “Gender Parity Score” to study the economic and social divide between women and men (McKinsey & Company 2015). A perfect score is one, implying perfect gender balance. On political representation, the overall result for the more than 90 countries studied was 0.217. That’s a long way from one.

A severe shortage of female politicians explains why so little changes. The gap between the percentage of men and women in the labour forces of G20 economies has changed little for more than a decade; in India, the divide actually has widened in recent years. Canada’s gender gap is in the high single digits. That’s a strong result compared with other countries. Japan and Italy, two other high-income countries, each has a gender gap of more than 20 percentage points. Yet only about 60 percent of Canadian women older than 25 either work or are actively looking for a job. McKinsey estimates that labour-force equality would add more than US$28 trillion to global GDP in 10 years, a 26 percent increase from “business as usual.” Ridiculously ambitious? McKinsey goes on to say that countries could strive to match the best in their regions. That would boost GDP by almost US$12 trillion over the same time period (ibid.).

McKinsey’s work is an important benchmark by which to measure the G20’s real ambition on gender parity. Last year in Australia, the group said it would increase GDP by two percent by 2018. Leaders released the Brisbane Action Plan, a 3,800-word document that outlines the many things governments pledged to do either individually or collectively (G20 Leaders 2014). At the 3,000-word mark they took note that the global economy would be in better shape if more women took part in the creation of wealth. “Promoting greater participation by women in the labour market and improving the quality of their employment will contribute to stronger and more inclusive growth,” the Brisbane commitment stated. Leaders said they would reduce the gap in labour force participation by half over the next decade.
participation rates by 25 percent by 2025, while “taking into account national circumstances.” Success would add more than 100 million women to the labour force and “significantly increase global growth and reduce poverty and inequality.” The leaders said they “recognized the significance of this commitment” and called on international organizations such as the International Labour Organization and the Organisation for Economic Co-operation and Development to hold them accountable.

The organizations should do more than that. They should push the G20 to exceed its modest pledge on gender. The World Bank has done an excellent job of driving behavioural change with its Ease of Doing Business index. India’s Prime Minister Modi is obsessed with cracking the top 50 in the ranking. He even had the World Bank help him conduct a similar ranking of India’s states. Organizations should use peer pressure to narrow the gaps in gender equality. The World Bank’s Women, Business and the Law reports are a good start, but they should be published annually, rather than every two years. The analysis also could be more pointed. The 2016 study catalogues very well the state of affairs. But why not at the same time point out how, say, Brazil’s decision to offer 120 days of paid maternity leave compared with only five days of paid paternity leave encourages gender imbalances?

One wonders if the fact that the G20 effectively is a “boys club” is part of the problem. McKinsey has concluded that gender balance in the workforce is contingent on gender balance in society. The G20 must try harder to inspire that social change. It can do better than one paragraph at the end of a long policy statement. The need for stronger economic growth should be all the incentive it needs.

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About the Author

Kevin Carmichael is a CIGI senior fellow. An acclaimed journalist in Canada, he was previously US business correspondent for The Globe and Mail. At CIGI, Kevin researches and writes on global economic governance summits and on major developments in the global economy.
China has experienced a remarkable transformation since the 1990s. It now boasts the second-largest — some would argue the largest — economy in the world, having evolved from a closed economy into the leading goods-trading nation. China’s economic rise has given it increasing prominence in international monetary and financial governance, but it also exposes China to new risks associated with its integration into the global financial system.

Drawing insights from economics and political science, Enter the Dragon: China in the International Financial System takes a broad conceptual approach and tackles the questions that accompany China’s ascendance in international finance: What are the motivations and consequences of China’s effort to internationalize the renminbi? What is the political logic underlying China’s foreign financial policy? What forces have shaped China’s preferences and capacities in global financial governance?

Enter the Dragon contributes to the ongoing debate over China’s political interests, its agenda for economic and financial cooperation, and the domestic and international implications of its economic rise. Bringing together experts from both inside and outside of China, this volume argues that China’s rise in the international financial system is a highly complex and political process, and can only be understood by incorporating analysis of domestic and international political economy.

Price: CDN$28

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Emerging Perspectives on the New G20

Global Financial Governance Confronts the Rising Powers

Edited by C. Randall Henning and Andrew Walter
Foreword by Barry Eichengreen and Miles Kahler

Emerging market and developing countries have doubled their share of world economic output over the last 20 years, while the collective contribution of G7 countries has, for several years, been a minority share. The new powers are not simply emerging; they have emerged and continue to rise relative to the advanced countries. This historic shift in the structure of the world economy affects the governance of international economic and financial institutions, the coordination of policy among member states and the stability of global financial markets. How exactly global governance responds to the rising powers — whether it accommodates or constrains them — is a leading question, perhaps the leading question, in the policy discourse on governance innovation and the study of international political economy.

This book addresses the challenge that the rising powers pose for global governance, substantively and institutionally, in the domain of financial and macroeconomic cooperation. It examines the issues that are before the G20 that are of particular concern to these newly influential countries and how international financial institutions and financial standard-setting bodies have responded. With authors mainly from the large emerging market countries, the book presents rising power perspectives on financial policies and governance that should be of keen interest to advanced countries, established and evolving institutions, and the G20.

Price: CDN$28
ISBN 978-1-928096-17-7

Coming March 2016
The CIGI Survey of Progress in International Economic Governance, updated annually, tracks the progress made by the Group of Twenty (G20) and other international economic governance institutions in strengthening international cooperation. The survey tracks progress on key governance issue areas to gauge progress or regression in the international economic arena. To do so CIGI asked its scholars to answer the following question:

What progress has been made in improving the international economic governance system over the past year?

Recognizing the difficulty of making objective judgments given the complexity of these issues, the results are offered as a range of subjective opinions from the experts.

The survey is intended to assist policy makers ahead of the annual G20 Leaders Summit by identifying the key economic governance gaps in the current international political and economic climate. By highlighting the areas of the international economic system that warrant focused and sustained attention, CIGI’s experts seek to foster progress toward more effective international economic governance.

Prioritizing International Monetary and Financial Cooperation for the G20: Views from the T20

Domenico Lombardi and Samantha St. Amand
CIGI Policy Brief No. 63

This policy brief is a stock-taking of the proceedings of the Think 20 conference held in Ottawa on May 3–5, 2015, and co-hosted by the Centre for International Governance Innovation and The Economic Policy Research Foundation of Turkey. The meeting involved representatives of think tanks from G20 countries, leading international experts and a number of senior officials. A number of recommendations for the G20 emerged from the discussion. Taking steps to improve cooperation in financial regulatory standards, cross-border macroeconomic policy analysis and implementation, and debt restructuring processes will go a long way in supporting a more prosperous future by strengthening the stability of the global economy and financial system. Most importantly, the G20 should take the lead in establishing environmental sustainability and climate change risks as the biggest threats to the global economy and financial system.