

# STRENGTHENING THE MULTILATERAL INSTITUTIONS A G20 PRIORITY

The Right Honourable Paul Martin

This article is based on a speech delivered by the Right Honourable Paul Martin on May 4, 2015, at the Think 20 (T20) conference held in Ottawa from May 3 to 5, 2015. Jointly hosted by The Economic Policy Research Foundation of Turkey (TEPAV) and the Centre for International Governance Innovation (CIGI), the conference focuses on Turkey's G20 agenda, with the aim to summarize the T20's contributions in the area of monetary and financial cooperation ahead of the G20 summit in Antalya, Turkey in November 2015.

To begin, let me congratulate TEPAV and CIGI for their initiative in holding this meeting — its significance is marked by the fact that the Turkish summit in November will be a welcome first in G20 history. 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 was the first time they were hosted by a Latin American nation, this year's summit will be the first held by a Muslim majority country, which reinforces the fact that the greatest 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 a challenge the conference has clearly recognized in the depth and range of this meeting's program, a 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” (G20 2015).

It is for this reason that the topic I will be addressing here 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.

I raise this because now, and over the years to come, the issues the G20 will confront will be as varied as there are pebbles on the 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 issues today 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 could suggest that the flip side of globalization — fragmentation — is the strongest force at play today.

But, today is not forever.

While the forces of division are real, 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 multilateral institutions whose objective is to make globalization work. Indeed, it is upon this that much of the G20's legitimacy rests — legitimacy that stems from what must be its goal of bringing the full weight of its members, 19 of the world's most significant regional and global economies, to bear in support of the great multilateral institutions and their universal membership.

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 Fund'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 may already be 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 tenants underlying the transition from the G7 to the G20 finance ministers 15 years ago, a tenant 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 with 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 put forward by CIGI researchers 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.

This would at least provide a continuous research and reform process on sovereign debt issues so that improvement of the current system is not allowed to go dormant again, as it did between 2003 and 2010.

## 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 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.

## The World Trade Organization (WTO)

The recent Turkish government communiqué 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. And 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.

In short, the G20 cannot hide forever, pleading that the time for a new trade round is not right. I suspect we will hear more about this a year from now in China.

## Financial Stability Board (FSB)

As I review this list of institutions, I don't mean to imply that the G20 has been a simple observer of the passing scene.

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 T20 in Mexico were important, as was (without any shadow of a doubt) 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.” So be it — children do grow up.

## The United Nations

Space will not permit dealing with the travails of the UN Security Council, which are well past their due date, but there are issues I would raise where G20 leadership could make a significant difference — particularly in terms of the UN's humanitarian agencies.

### *The Office of the UN High Commissioner for Refugees (UNHCR)*

As Mediterranean after Mediterranean maritime tragedy condemns countless African refugees to a watery grave, and the European Union begins to show signs of stirring from its lethargy, 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 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 says 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. Will Turkey raise this issue? Who better to do so?

## *The World Health Organization (WHO)*

The second issue I would raise in the context of the United Nations and globalization arises out of the inability of the 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 refused to provide the financial support required, not to mention the world's medical labs that failed to carry out the research needed to develop the vaccines for tropical diseases over the last decade.

In this context, one hopes the G20 countries and the WHO will rise to the need to implement the “Advanced Market Commitments” for vaccines subsidization.

## *Climate Change and the United Nations*

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 United Nations Framework Convention on Climate Change Conference of the Parties meeting that will take place 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.

Obviously, the most important objective is a binding agreement to reduce greenhouse gas emissions. What is also important, however, is that certain issues that have not been given much thought be given greater attention — one such area is the global ocean, which provides 50 percent of the world's oxygen.

As the Earth's largest carbon sink, the global ocean is being forced to absorb ever-larger quantities of CO<sub>2</sub>. 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 attention by the United Nations than is currently the case. This is not an issue from which the G20 should remain aloof.

## *Africa and the G20*

So far, I've raised the importance of the G20 in strengthening the great multilateral institutions. Before closing, allow me to raise a domain where the G20 should strengthen itself. There is one continent that lacks sufficient representation.

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 also 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.

This was made very clear in a paper presented at the last T20 meeting co-hosted in Turkey by TEPAV and CIGI. The paper was authored by Rahel Kassahun from the Coalition for a Dialogue on Africa (CoDA) — the think tank spawned by the African Union, the UN Economic Commission for Africa and the African Development Bank. I congratulate TEPAV and CIGI for inviting CoDA to take part. In doing so, they have established an important precedent on which to build.

I say this because 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 government Sherpas and other officials on one hand, and the outreach organizations such as the T20 on the other.

Why is this important?

It is 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. It is here that pan-African experts must participate much more fully, as this is where the work paving the way for the G20 summit discussions takes place.

And while I am sure China will follow Turkey's lead on this, I hope it becomes standard practice.

In conclusion I have raised a long list of issues, but have done so in order to demonstrate one thing. In a world where there will no longer be only one economic superpower setting a 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, as discussed above, 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 its troubles had it built the institutions that are required to make a monetary union work.

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 institutions created to make globalization work. This should be a G20 priority.

## Work Cited

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## 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.

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