THINK-20
MÉXICO

Participant Notes

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Acronyms

APEC	Asia-Pacific Economic Cooperation
BRICS	Brazil, Russia, India, China and South Africa
ECB	European Central Bank
ECOSOC	Economic and Social Council (UN)
EME	emerging market economies
GDP	gross domestic product
GHG	greenhouse gases
IEA	International Energy Agency
IFIs	international financial institutions
IMF	International Monetary Fund
IPR	intellectual property rights
LICs	low-income countries
MDBs	multilateral development banks
OECD	Organisation for Economic Co-operation and Development
UNFCCC	United Nations Framework Convention on Climate Change
VUP	Vision 2020 Umurenge Program (Rwanda)
WTO	World Trade Organization

How the Mexican G20 Summit Can Promote Sustainable Development

Nancy Alexander, Heinrich Boell Foundation-North America[1]

The G20's legacy will not only depend on its member countries' prosperity, but, quite crucially, on the extent to which they can reduce both the resource-intensity of development and the incidence of poverty and inequality.[2]

Infrastructure

Infrastructure has been the number one priority of the G20 Development Action Plan. What type of infrastructure should the G20 promote? At the G20's request, the G20's High-level Panel on Infrastructure and the MDBs proposed criteria for project selection.[3] The G20 should revise these to emphasize:

- environmental and social sustainability as threshold criteria recognizing that infrastructure operations (for example, water, energy and transport) have profound social implications, including gender-differentiated impacts,[4] and lock in patterns of carbon emissions for generations;
- decentralized infrastructure solutions as a means to address poverty and its gender dimensions; and
- feed-in tariffs to promote renewable energy contribution to electricity grids, not only in G20 member countries, but also for the projects presented to the G20 leaders in Cannes, including West Africa and East Africa Power Pools. [5]

The G20's infrastructure initiative should advance the UN's "Sustainable Energy for All" Initiative, which by 2030, aims to: ensure universal access to energy services; double the rate of improvement in energy efficiency; and double the share of renewable energy in the global energy mix.

Its initiatives to promote sustainability cannot succeed unless the G20 moves boldly to remove fossil fuel subsidies.

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[1] With offices in some 30 countries, including most G20 countries, the Heinrich Boell Foundation — the political foundation associated with the German Green party — promotes just and sustainable development and democratization of global governance. The North American office is located in Washington, DC.

[2] Oxfam has produced inequality and sustainability "report cards" that rate each of the G20 countries on these dimensions of performance. See: Oxfam (2012). *Left behind by the G20? How inequality and environmental degradation threaten to exclude poor people from the benefits of economic growth.* January 19. Available at: www.oxfam.org/en/policy/left-behind-by-g20. On sustainability ratings, Mexico and China achieved the most significant *relative* decoupling of growth and resource intensity. Between 1991 and 2007, Mexico's GDP grew four times faster than its CO_2 emissions. China's grew two and a half times faster. Three countries — Germany, France and the United Kingdom achieved absolute decoupling. Germany's GDP grew by 31 percent while its production-based emissions fell by 20 percent. For more information, see: The Global Footprint Network (www.footprintnetwork.org/en/index.php/GFN/page/footprint_for_nations/).

[3] The G20's High-Level Panel report on infrastructure (October 2011) proposed six project selection criteria: 1) the extent to which projects will promote regional integration; 2) the extent to which they enjoy political support; 3) transformational impact in terms of a) impact on growth, b) effects on a large number of people, and c) sustainability; 4) the maturity of project preparation (the more mature the better); 5) institutional capacity; and 6) attractiveness to the private sector. The MDB "Infrastructure Action Plan" suggested adding an "environmental sustainability" criterion. At the G20's request, the World Bank submitted its updated infrastructure strategy, "Transformation Through Infrastructure. World Bank Group Infrastructure Strategy Update, FY12-15," to the French summit. This strategy emphasizes gender policy at the expense of other social and environmental safeguards.

[4] Environmental and social impact assessments should be required to ensure "free, prior and informed consent" of affected groups; improved equity, including gender equity; and benefits to vulnerable groups, among other things.

[5] In addition to the two Power Pools, the list includes the Inga Dam (Democratic Republic of the Congo); North-South Corridor (East and Southern Africa); Tanzania-Rwanda Railways; Jordan Railways; Desertec (North Africa); Turkmenistan-Afghanistan-Pakistan and India (TAPI) Natural Gas Pipeline; ASEAN Infrastructure Fund; Biomass Energy in the Mekong Subregion (GMS); Pacific Corridor roads between Mexico and Panama.

Food Security[6]

Limit the expansion of crops and lands for biofuel production. The G20 finance ministers commissioned research on price volatility,[7] which concluded that “the diversion of food crops for use as fuel represents a permanent re-structuring of the food economy, which will exert continuing pressure on food prices in ways that will adversely affect vulnerable consumers.” Despite some resistance,[8] the G20 should heed this study’s recommendation to eliminate government mandates and subsidies for biofuels.

Cultivation of biofuels and financial speculation drive the alarming scale and pace of “land grabs,” which jeopardize food security and human rights. The Principles for Responsible Investment in Agriculture should halt “land grabs.”[9]

Reduce speculation on commodity markets; address hunger. There is enough evidence that excessive financial speculation contributes to the volatility of food prices to warrant precautionary regulations of the type mentioned by the aforementioned G20-commissioned research. In addition, the expansion of publicly held food reserves creates a win-win situation — reducing speculation while also providing buffer supplies for vulnerable communities.

Shift from industrial production to agroecology. Through means, such as the MDB Food and Water Action Plan, the G20 should scale up agroecology, particularly by the majority of smallholders, who are women, to fight global warming and advance equal rights for women farmers.

Investment in Sustainable Development

To arrest global recessionary trends, the G20 needs to encourage investment in priorities — decent, green jobs; green infrastructure; new technology; and social protection programs — in fiscally responsible ways. Worldwide, such investments can be facilitated if the G20 approves “innovative finance” proposals (for example, financial transactions, shipping and aviation taxes)[10] and curbs tax evasion and illicit financial flows.

At the same time, the G20 should honour the principle of “common but differentiated responsibilities and respective capabilities” in reducing carbon emissions in line with international agreements and in meeting developed countries' financing obligations for climate action in the form of new and additional, predictable and adequate support, including for a quick capitalization of the new Green Climate Fund. [11]

G20 and Global Governance

The G20 would enhance its legitimacy by:

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[6] T. Wise and S. Murphy (2012). “Resolving the Food Crisis: Assessing Global Policy Reforms since 2007.” IATP, GDAE. January. Available at: http://ase.tufts.edu/gdae/policy_research/resolving_food_crisis.html.

[7] See “Price Volatility in Global Food and Agriculture Markets: Policy Responses” (http://www.oecd.org/dataoecd/40/34/48152638.pdf).

[8] See: The Agriculture Ministers’ Action Plan on Food Price Volatility and Agriculture.

[9] See: the principles (www.unctad.org/en/docs/ciicrp3_en.pdf) and a critique (http://www.fian.at/assets/RemarksDeSchutter26April2010.pdf).

[10] See reports to the G20: World Bank et al., G20 Climate Finance report and www.thegatesnotes.com/Topics/Development/G20-Report-Innovation-with-Impact.

[11] For approaches to this goal, see L. Schalatek, “A Matter of Principle(s): A Normative Framework for a Global Compact on Public Climate Finance,” Heinrich Boell Foundation, 2011: http://www.boell.org/web/140-684.html

- supporting the democratic character of international organizations by providing their governance bodies with recommendations rather than mandates, and by relying more heavily on more democratic bodies (for example, the United Nation) for systematic input to its decision making; and
- enhancing its transparency and participation. Specifically, the G20 working and expert groups — as well as bodies commissioned by the G20 — should disclose draft and final documents (for example, MDB food and water action plan) — and invite consultation by civil society, affected communities, the private sector and elected officials, particularly in those countries affected by the work undertaken.

G20 Troika or L'Agencia?

Thomas A. Bernes, Executive Director, CIGI

> Since the early 1990s, the need for effective multicountry collaboration has soared, but at the same time multilateral talks have inevitably failed; deadlines have been missed; financial commitments and promises have not been honored; execution has stalled; and international collective action has fallen far short of what was offered and, more importantly, needed. These failures represent…a flawed obsession with multilateralism as the panacea for all the world's ills.[12]
>
> Sherpas discussed ways to improve the internal functioning of the G20, and to make best use of its position in the global governance structure, in line with the agreement reached at the last Leaders' summit in Cannes, France, that the Troika of the preceding, current and following G20 Presidencies should be made more formal.[13]

The preparatory process for summits is a challenging, Sisyphean task. The burden of substantive preparation on G20 Sherpas with their teams, and ministers of finance and their deputies and supporting officials is enormous. The increased number of participants in G20 summits complicates the logistics of a process that was designed for a meeting of eight countries, not today's 20 plus five additional guests. As the agenda expands to include a more diverse range of issues, the host Sherpa will be responsible for coordinating ever more ministers, officials and sources of information. The challenge is to manage and organize the G20 summit to ensure continuity, institutional memory and the implementation of plans and promises. Several countries are opposed to a permanent secretariat to provide the requisite institutional memory and follow-up of leaders' instructions and commitments — the process must be driven by capitals. UK Prime Minister David Cameron hoped that the requisite leadership and spreading of the administrative burden would be realized by the creation of a true "troika." [14]

Despite Prime Minister Cameron's recommendation and the agreement at Cannes[15] to formalize the troika, there appears to be lack of progress, if not resistance. There are very few examples of the actualization of the troika. True, in May 2011, there was a joint statement by France and Korea.[16] There are some instances of a successful troika. For example, the structure of the G20 Financial Inclusion Experts Group (2009-2010) and the resulting Global Partnership for Financial Inclusion maintain the G20 troika countries as the overall co-chairs.[17]

But the French and Russians are conspicuous by their absence in leading the preparations for Los Cabos. The Greek crisis is giving the term "troika" (referring to the EU, the ECB and IMF) an unfortunate pejorative connotation — given the lack of success of the current bailout efforts to resolve the crisis. In any case, it may be unrealistic to expect progress on preparing for decisions on

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[12] Moises Naim (2009). "Minilateralism: The magic number to get real international action." *Foreign Policy*. July/August. Available at: http://www.foreignpolicy.com/articles/2009/06/18/minilateralism.

[13] G20 Mexico (2011). "The first G20 Sherpas' meeting of the Mexican Presidency concludes successfully." December 15. Available at: http://www.g20.org/en/news-room/press-releases/163-concluye-la-primera-reunion-de-sherpas-del-g20

[14] Number 10 (2011). "PM launches global governance report." November 4. Available at: http://www.number10.gov.uk/news/pm-launches-global-governance-report/.

[15] To "bolster our ability to deliver our agenda and work program effectively. We decide to formalise the Troika, made of past, present and future Presidencies to steer the work of the G20 in consultation with its members. We ask our Sherpas to develop working practices for the G20 under the Mexican Presidency." G20 Information Centre (2011). Cannes Summit Final Declaration. Available at: http://www.g20.utoronto.ca/2011/2011-cannes-declaration-111104-en.html (para. 92).

[16] See http://www.g20-g8.com/g8-g20/g20/english/for-the-press/news-releases/joint-statement-on-the-g20-by-the-president-of-the.1151.html.

[17] See www.gpfi.org/about-gpfi/sub-groups-and-co-chairs.

complex, contentious issues without the full engagement of both China and the United States. Perhaps it is time to stop beating a dead horse and instead look for an alternative to the G20 troika.
So what is to be done? Rather than getting 20 countries to agree to be led by the best efforts of a rotating presidency with partners reluctant to participate in a troika, the most promising construct to substitute is an "executive committee." The idea is most highly developed among the intergovernmental groups of officials who meet at the OECD. The leadership group, in essence an executive committee, is called the "Bureau." A number of delegates are designated annually to serve as officers (for two or three years) for a committee of all the members. The Bureau provides more detailed direction to the OECD Secretariat on issues of management and the planning of the Programme of Work. Bureau members participate in a planning meeting prior to each committee meeting and provide ongoing consultation by telephone and through email and written exchanges. The Bureau meetings are open to all committee members who may attend and participate if they wish.[18]

At Cannes, the G20 asked their Sherpas "to develop working practices for the G20 under the Mexican presidency." Imagine if the Sherpas recommended to President Caldéron that future G20 agendas should be prepared by an executive committee of leaders' representatives. The presidency of this "G20 Bureau" would be the Sherpa of the host country — Mexico until November 2012, followed by Russia in 2013, Australia in 2014 and Turkey in 2015. Presidencies in subsequent years would follow the G20 "bucket system."[19] The other members of the G20 Bureau would be designated by the leaders, with *realpolitik* resulting in China and the United States always being members. To avoid being sidelined by the "not invented here" syndrome, the future success of any significant proposal will require the support of the United States and China. (Of course, Mexico would have to arrange for Chinese and American support for the bureau idea.) The logic is clear — a "bureau" is the only effective way to share the heavy burden of seeking substantive input from G20 non-members and civil society who insist on real consultation and apportion the onerous travel requirements of communicating the outcomes from the G20 proceedings.

[18] See http://www.oecd.org/document/20/0,3746,en_2649_34141_49409236_1_1_1_1,00.html.
[19] See http://www.cigionline.org/publications/2010/11/future-g20-process.

Mexico Think-20: Recommendations in Response to Five Questions

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The global economy faces three crises simultaneously: a crisis of confidence in markets; a crisis of trust in leadership; and a crisis of faith in institutions.

The five questions relate to each other in that the credibility of leadership depends on the deliverability of specific actions by leaders that visibly address urgent public concerns. Leaders need to lead not just by what they say in communiqués, but what they do and how they communicate (message) what they are doing. How they work together, whether they are seen to be working together rather than in conflict, and what they do are indeed integrally related in terms of the impact on markets, consumers, investors and institutions.

I. Most Productive Format: The most important changes in format would be to have G20 leaders meet at G20 summits for two days instead one, and to have more "leaders only" meetings in which they thrash issues out among themselves with fewer other officials in the room. Designated groups of four to five leaders should lead issue sessions and provide press briefings together, immediately upon their conclusion. The G20 summit would then become a sequence of press conferences visibly demonstrating leaders leading together, a crucial ingredient in creating credible summitry.

II. "A Realistic Contribution": Actions speak louder than words. A realistic contribution would be to make specific progress on IMF resources and reform, by immediately increasing IMF resources to US$1 trillion, separating voting power issues from this specific resource provisioning, while simultaneously negotiating a Quota Formula Reform, which would enhance the consistency between quota shares and economic weight in the world economy, significantly moving 10 percentage points of voting shares from over-represented to under-represented countries since 2006. No less important is for the G20 to continue to strengthen, through additional resources and reforms, the Financial Stability Board (FSB), which it created in April of 2009. See the Report by the High-Level Panel on the Governance of the Financial Stability Board for specific recommendations (http://www.brookings.edu/papers/2011/0923_financial_stability_board_lombardi.aspx).

Action: Since these IMF reforms require parliamentary actions, involve the Parliamentary Network on the World Bank and IMF (PNoWB) in the G20 development of these specific IMF proposals.

III. "Green" the G20 Agenda: The presence of emerging market economies (EMEs) in the G20 is its defining characteristic. Consistent with the dynamic EME experience, *the central priority of the G20 is economic growth*; growth is the centrepiece of the eoul Development Consensus; "green growth" should be the G20's priority contribution to Rio+20; and growth is the thematic priority that the G20 brings to the global debate about the euro crisis. The G20 has a credible voice in providing an economic profile and priority to "green growth," by emphasizing investment-led growth rather than consumption-led growth in advanced industrialized countries (AICs), or export-led growth in developing countries.

Action: Make growth the theme of the Los Cabos G20 Summit, relating G20 actions on the Europe crisis, development and "green growth to this larger human priority.

IV. Initiatives/Deliverables: The Mexico G20 could make these commitments concrete by putting real resource commitments and increasing priority on the G20 Infrastructure Action Plan as a central pillar of the G20 contribution to Green Growth, to the G20 Framework for Strong, Sustainable and Balanced Growth, and to the integration of the developing countries into the G20 Framework for Growth. The G20 should urge governments participating in Rio+20 to commit to increasing the percentage of public and private investment in infrastructure, as well as provide international resources through the multilateral development banks for a significant increase in worldwide investment in infrastructure for green growth, following the example of Korea.

Action: Request that the Parliamentary Network on the World Bank and IMF (PNoWB) convene a PNoWB working group on the G20 Intfastructure Action Plan and work closely with the G20 in the further development and scaling-up of this initiative. See: http://www.pnowb.org/.

V. G20 Credibility in Leading and Action: If the euro crisis is still underway at the time of the Los Cabos G20 Summit, it will be *absolutely essential* that G20 leaders deal directly with it. It is hard to anticipate the way that the European crisis will manifest itself by then, but consultations presumably are underway among G20 finance ministers and central bank governors on the euro crisis. Specific preparations need to be made for an appropriate role for G20 leaders in the European crisis at Los Cabos in mid-June, to enable their deliberations and actions there to manifest significant global leadership.

Action: Create a team of G20 deputies specifically assigned to prepare this issue for G20 leaders at Los Cabos.

Conclusion: Restoring trust in leaders through credible actions is a handmaiden for restoring confidence to markets. Actions on IMF and FSB resources and reform; prioritizing growth in the European context, which has emphasized austerity; and leading on the issue of the gradual transition from consumption and export-led growth to investment-led growth in the non-surplus countries of the world would be contributions to "building credibility for the G20 as a vital hub of leadership and action."

Proposal for Future Research: The debate in Europe, and especially in Germany, regarding whether or not to provide the European Central Bank with lender-of-last-resort authority is central, and will probably not be resolved easily. The reluctance of central banks to move beyond their mandate to prioritize price stability and embrace the broader and riskier agenda of financial stability is clear. (See reference below.)

This is a topic that could benefit from Think-20 collaborative research on the role of central banks in various G20 countries and on their mandates and responsibilities and, especially in reserve currency countries, on the importance of the central banks in Japan, the United Kingdom and the United States in relation to their role as stewards of reserve currencies and the relative importance of lender of last resort functions within that stewardship.

See: "Rethinking Central Banking," a report and discussion by finance ministers, central bankers and academics, Global Economy and Development, the Brookings Institution, September 14, 2011, available at: http://www.brookings.edu/events/2011/0914_central_banking.aspx.

Note to the Mexican Presidency: A G20 "Plan B" to Save the Climate?

Barry Carin, Senior Fellow, CIGI

The recent UNFCCC Durban agreement is riddled with loopholes and delays. Its "Plan A" focuses on legally binding emission targets and an annual $100 billion Green Climate Fund. Political difficulties prevent agreement on emission reduction targets. Fiscal realities plague raising revenue for the climate fund. Prudence suggests preparation of a "Plan B" for insurance (which will build support for an eventual Plan A).

A G20 Plan B would devise a package of initiatives congruent with the selfish interests of the G20 countries, identify synergies with indirectly related initiatives and accept the political reality of the need for subtle gradual change. A Plan B would issue invitations to G20 portfolio ministers and international organizations to undertake specific actions, form G20 working groups, create entirely new organizations; and request leaders to present recommendations at a future G20 meeting.
Plan B elements would be consistent with everyone's selfish interests, contribute to priorities — fiscal consolidation, and environmental and economic growth — be phased at politically feasible rates and be characterized as a "Green Growth" initiative.
Conventional elements:

- catalyze "no regrets" investments;
- remove inefficient fossil fuel subsidies;
- promote stringent process standards;
- establish a new international R&D collaborative; and
- champion a global liquefied natural gas (LNG) market.

"Outside the box" elements:

- global full-court press on girls' secondary education (to reduce fertility rates);
- public health campaign to reduce obesity; and
- commitment to deploy women negotiators.

1. The G20 asks ministers of finance and energy to report on best practices on incentives and innovative financing mechanisms to promote "no regrets" investments, such as state-of-the-art insulation, fuel-efficient vehicles, and water heating and lighting systems. There is extensive scope for "selfish" investments, profitable in themselves, which deliver large emissions reductions.

2. The IEA, OECD and World Bank are invited to jointly report annually on best practices to cut inefficient subsidies, with special attention to protect targeted support to the poorest. The G20 directs energy and finance ministers to report on progress at the 2013 G20 summit. An IEA-OECD-World Bank report to the Seoul G20 estimated annual direct fossil fuel subsidies of $300 billion. There are further indirect subsidies — tax expenditures, underpriced access to government-controlled resources and concessional loans and guarantees. Global energy demand could be cut by five percent and oil demand reduced by 4.7 million barrels per day, cutting CO_2 emissions by two gigatonnes a year. Phasing out fossil fuel subsidies would enhance energy security, reduce greenhouse gas emissions and provide immediate economic gains, especially to beleaguered national treasuries.

3. The G20 instructs G20 energy, science and finance ministers to establish an international decentralized institution to collaborate on energy R&D and open source technology. The G20 requests a leader (perhaps the Australian prime minister) to prepare a plan for establishing a new international R&D organization to collaborate on open source technologies. Models of international R&D cooperation include the International Space Station, ITER, the China Greentech Initiative and the Asia-Pacific Partnership on Clean Development and Climate. One option is to build on the Major Economies Forum's Energy and Climate agreement to explore joint ventures in 10 technologies. This approach finesses fiscal and political constraints since G20 financial contributions can be spent in their own country.

4. The G20 invites two leaders (perhaps Presidents Obama and Hu Jintao) to recommend a process to gradually institute stringent G20-wide standards, to be backstopped by border tax adjustments. Imagine the impact if China and the US agree on a schedule of 2020 product and process (for example, cement and aluminum) standards for selected high-carbon-content traded goods, enforced, over time, by border tax adjustments on goods "below standards."

5. The G20 presidency invite a leader (perhaps the Turkish president) to propose recommendations to reinvent the International Energy Agency, to promote investments in global LNG infrastructure to connect regional markets, and recommend feed-in tariff policies to promote investment in renewable energy projects. Natural gas, (which is half of coal's carbon intensity) offers great potential for near-term emissions reduction. The projected consumption of gas is expected to outstrip indigenous supplies. Delivering gas from the reserves in Trinidad, Nigeria, Qatar, Algeria, Australia, Indonesia, Russia and Venezuela will require a major expansion of inter-regional, cross-border gas transport infrastructures. The leaders' report could detail best practices from the 50 countries that have feed-in tariff policies to connect renewable projects to the grid.

6. The G20 directs its ministers of education and finance to prepare a plan to promote secondary education for girls. The least costly means to avoiding global warming is limiting population growth. Any emission target will be easier to achieve with lower population growth. The most effective means to lower fertility rates is female secondary education, empowering women with many positive economic consequences.

7. The G20 invites their ministers of health and finance to devise a campaign to prevent obesity. A healthy lifestyles campaign would pay indirect dividends to climate change. Excess weight accounts for substantial health care spending (nine percent in the US). Adverse economic effects include absenteeism, lower productivity, and food and clothing costs. A "fatter" population needs 19 percent more energy — production of extra food requires machinery and transport systems that emit greenhouse gases. People too obese to walk are more dependent on greenhouse gas-emitting cars to help move around. Each "fat" person is responsible for one extra tonne of CO_2 emissions per year.

8. The G20 invites a leader (perhaps the French president) to prepare a plan to increase the proportion of women negotiators. A 2010 MIT study found that group intelligence depends on the proportion of women in the group. Only 10 percent of the heads of delegations at Copenhagen were women. Margaret Thatcher said, "If you want to have something said, ask a man. If you want something done, ask a woman." G20 leaders can effectively attack the climate change problem, by sending women to do the job.

Think-20 Participant Note

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I agree with Mexico's intention to go "back to basics" and place more emphasis on implementing previous G20 commitments. The world is watching developments in the G20 closely. The hope is that the G20 will play its role in encouraging growth and stability in the global economy. The G20 must engage non-members, the UN and international organizations (IOs) in pursuing the objective of better standards of living in all countries, through sustainable development, inclusive growth and food security.

The G20 should, therefore, focus on the following outcomes in 2012:

- restoring confidence to the global economy;
- ensuring adequate safety nets to prevent financial contagion;
- sending a strong message on anti-protectionism;
- promoting sustainable development and infrastructure; and
- strengthening global governance.

Global Economy

I believe that the top priority of the G20 should be the global economy. The global economic outlook remains uncertain. There is an increased risk of contagion arising from the euro zone financial crisis. Many advanced economies are struggling to return to pre-crisis levels of output. Private demand remains sluggish and a prolonged period of subpar growth appears likely. The risk of a systemic shock remains, and if such a shock occurs, it would have dangerous repercussions on the whole global economy.

Emerging market economies are growing, and can provide some buffer, but they are hardly immune to global problems. Asia is projected to grow by 6.7 percent this year. Many Asian economies enjoy stronger fundamentals, due in part to reforms undertaken after the 1997 Asian financial crisis. Asia's ongoing efforts to foster regional integration and tap the demand from its growing middle class will contribute to global rebalancing. However, Asia is still vulnerable to developments in the advanced economies, which account for up to 60 percent of the final demand for Asia's goods and services, remain our largest investors and are key sources of trade and project financing. Asia itself also faces risks. Several Asian economies are experiencing double-digit real credit growth, which could affect financial stability. Any sudden capital withdrawal could destabilize asset markets, especially in sectors such as real estate.

With most economies being highly interconnected, it is therefore imperative for the G20, comprising about 85 percent of the world's GDP, to work together towards stimulating the global economy. Operating in silos will not be optimal in ensuring the expansion of international trade and investment. Only through such an expansion can governments attain their macroeconomic goals of job creation, competitive wages and acceptable standards of living, without creating larger fiscal deficits in stimulating the economy.

The global economy is at a critical juncture. Policy missteps could lead to a global recession. The current emphasis on fiscal contraction and deleveraging is necessary to shore up the weak fiscal positions of deficit countries. But these actions must not cripple the prospects for economic growth. The G20 must agree on collective actions to kick-start a positive cycle of growth and restore confidence and optimism.

Financial Safety Nets

The G20 should also work to strengthen the global financial safety net. This will ensure that there are adequate resources to meet the financing needs of other economies should the situation worsen, and reassure markets that there is no need to panic. We need to strengthen firewalls in the euro zone to prevent problems in one country causing contagion throughout the euro zone. We need to provide the IMF with more resources, so that, in case of a crisis, it will have enough firepower to maintain the stability of the overall global system and protect its entire membership. Credible safety nets can boost confidence and crowd-in private sector capital, which in turn, reduces the likelihood of using these resources in the first place.

Against Protectionism

As trade is the lifeblood of the global economy, the G20 needs to ensure that the multilateral trading system continues to support global trade and guard against protectionism. The WTO provides a predictable and rules-based multilateral trading system that facilitates cross-border movement of goods and services. We should, therefore, strengthen the WTO system in its work of monitoring, surveillance, notifications, implementing WTO agreements and dispute settlement. We should also explore fresh and credible approaches to conclude the Doha Development Agenda, as this will benefit people all over the world. If a conclusion of the negotiations is unlikely, we should return to the original purpose of the regular ministerial conferences: a rolling built-in agenda, agreements and decisions at ministerial conferences, the conclusion of plurilateral agreements, and the avoidance of "negotiating rounds." We should also strengthen the WTO's response to emerging trade issues such as energy security, food security and climate change. These issues are relevant to people's livelihoods and require urgent dialogue and creative solutions.

Sustainable Development and Infrastructure

Infrastructure is an important engine of global growth and development — it stimulates demand, creates jobs and increases future production capacity. In line with the Seoul Development Consensus and the work of the French presidency, we support Mexico's focus on sustainable infrastructure development, green growth and food security for the development agenda. About US$1.1 trillion in green investments are needed annually to meet the rapidly rising energy and food demands of developing countries — an amount close to Africa's collective GDP.[20] Public finances and official development assistance would not be sufficient to address such immense development demands. It would be crucial for the G20 to increase efforts in unlocking private sector potential to support the global development agenda.

An extensive repertoire of development experience and knowledge resides within the G20. Building on the work of the High-level Panel and the MDBs, the G20 could continue to work closely with MDBs and private sector players in developing strategies for sustainable infrastructure development. On green growth, high cost remains the key obstacle for green technology to be accessible to the market. The G20 could work closely with MDBs and IOs to identify core gaps and best practices, and develop strategies to unlock private sector financing to support green growth and green industry development.

The G20 can explore methods for "green" infrastructure by assisting LICs in building well-connected cities that provide good living standards in terms of air quality, drinkable water, adequate shelter and sanitation, and energy efficiency. Such goals can be achieved through effective coordination

[20] Source: UN Economic Commission for Africa (2011). World Economic and Social Survey.

among domestic agencies, proper regulatory standards for construction, the creative rehabilitation of aging infrastructure and disaster risk reduction.

Global Governance

The G20 is the premier and key multilateral platform for major economies to discuss and coordinate international economic and financial policies, which includes identifying priorities for international financial institutions to work on. However, the G20 can become a more effective hub of leadership and action if it can engage and galvanize the non-G20 members, who make up 90 percent of the world's countries, and 90 percent of the votes in the UN and other IOs. As the UN is the only global body with universal participation and unquestioned legitimacy, the G20's engagement of the UN and its member states through predictable and regular channels will show that the G20 is more consultative, inclusive and transparent. In this regard, the Global Governance Group (3G) was formed to bolster the framework of engagement between the G20 and non-G20 members, and encourage G20 processes to complement and strengthen the UN. To this end, the 3G has proven itself to be a credible and effective mechanism for the G20 to engage the broader UN membership. Members of the 3G applaud Mexico's efforts in engaging non-G20 countries in discussions on various specialized issues and in working groups. A concrete modality on engaging non-G20 countries could be a key outcome of the Mexico G20 chairmanship.

Another angle to pursue is how the G20 could provide political support and momentum for the work of the IOs, especially the IFIs that are closely related to the G20's key mandate on global economic and financial matters, for example, the IMF and FSB. There are good opportunities for collaboration between the G20 and the IMF under the international financial architecture working group in the finance track. A successful partnership would give credibility to future collaboration between the G20 and IFIs.

Conclusion

These challenges are too big for any single country to solve on its own. All of us have a collective stake in ensuring global stability, and hence must work together in a spirit of solidarity and compromise.

Like other participants in this round table, I support Mexico's priorities as the G20 chair of encouraging growth and stability in the global economy. This is a timely and important focus.

Making Rio+20 a Success: How the G20 Can Gain in Reputation and Legitimacy

Thomas Fues, German Development Institute

The world experiences an unprecedented period of economic growth, but this process is neither ecologically sustainable nor socially inclusive. The overuse of natural resources and natural sink capacities results in local, regional and, ultimately, global threats, including potentially dangerous tipping points of the earth climate system and the degradation of critical life-supporting ecosystems at regional or local levels. At the same time, poverty continues to be pervasive in many developing countries, and some LICs are altogether excluded from growth. The scale of the ecological challenge and the remaining time frame for action demand radical changes in terms of economic governance, consumption patterns, energy systems, urbanization processes, and land and water use patterns, while not undermining development opportunities for LICs and the disadvantaged strata of world society (the "bottom billion").

The right to development needs to be spelled out differently today than in 1992, when awareness of planetary boundaries was much lower. There is now the need for a socio-economic and technological paradigm change comparable to the First and Second Industrial Revolutions in order to achieve sustainable development for all. The protection of natural life support systems for the benefit of future generations is as much an ethical imperative as the abolition of slavery and the condemnation of colonialism.

The particular challenge of a sustainability-oriented transformation lies in the fact that it does not suffice to optimize strategies with respect to one particular objective (such as decarbonization), but that the objectives of low-carbon development, ecological sustainability, climate resilience and inclusive growth are closely interrelated and, at least partly, competing. There is an urgent need to explore how these relationships and trade-offs play out for different types of developing and industrialized countries and what a promising sequencing of transformative steps could look like.

Domestic transformation trajectories need enabling frameworks at regional and global levels that facilitate mutual learning, exchange of experiences, capacity development, technology transfer, financial support and policy coordination. In addition, international regulatory regimes are required that define binding standards of acceptable practices, and take charge of monitoring, verification and compliance enforcement.

Meeting just days before the Rio+20 summit, G20 leaders can exert decisive influence on its outcome. If they throw their collective political weight behind certain proposals and back this up with credible commitments on domestic policies, the international community will be ready to accept ground-breaking agreements on critical sustainability challenges. The reputation and legitimacy of the G20 would receive a considerable boost by such a forceful demonstration of global leadership, reflecting not only the enlightened self-interest of powerful nations, but also demonstrating their moral responsibility for the provision of global public goods.

Building on the progress of climate negotiations in Cancún and Durban, and in support of Brazil's preparatory efforts, the Mexican presidency could promote a well-timed**,** unified approach of the G20 towards Rio+20 by focusing on the following issues:

- **Climate change:** The G20 should reaffirm its commitment undertaken at Durban to develop a new international legal framework for reducing GHG emissions by 2015. In doing this, the G20 should come to an agreement on the ethical foundation of a global climate regime. Sharing the vision set out by German Chancellor Angela Merkel and Indian Prime Minister Dr. Manmohan Singh, leaders should support equity in per-capita emissions as basis for the allocation of national emissions budgets. The principle of equal per-capita rights could then be extended to other global environmental commons.

- **Green economy road map:** The G20 should prepare, specifically for Rio+20, a global policy framework that contains a shared vision and common objectives, as well as concrete targets for a green world economy with a time horizon of, say, 20 years. Such global sustainable development goals need implementation plans adapted to specific national conditions, as well as differentiated responsibilities and solutions for each country, that is to say, national road maps for a green economy. In order to guide such policy making, the G20 should support efforts to introduce indicators complementing GDP that integrate economic, social and environmental dimensions in a balanced manner.

- **Institutional framework:** The G20 should throw its full weight behind the call for a double upgrade that would establish, as a package deal, a UN Sustainable Development Council alongside a new specialized agency, the UN Environmental Organization (UNEO), with an expanded mandate and strengthened financial resources in comparison to the UNEP. While membership of the council could be decided by competitive vote in the General Assembly, UNEO would operate on the basis of universal membership. In addition, a UN High Commissioner for Global Sustainability could represent the interests of future generations and oversee a peer review mechanism of all member states.

- **Greening development**: The G20 should, with a sense of urgency, follow up on the recommendations of the inter-agency report "Promoting Standards for Responsible Investment in Value Chains," presented last September to its Development Working Group. As part of this effort, the G20 should design a comprehensive strategy to incorporate CSR standards into the international investment architecture. In addition, the G20 should introduce explicit sustainability criteria for all projects considered by its High-level Panel on Infrastructure, particularly with regard to carbon footprint and ecosystem impact.

- **Knowledge creation:** Acting in unison with ECOSOC or another UN body, the G20 should establish a high-level panel of scholars and practitioners on systemic risks, as suggested in the 2009 report of the Stiglitz Commission. Modelled after the successful Intergovernmental Panel on Climate Change, the panel would be charged with systematically compiling and assessing the existing body of knowledge and policy advice ("report of reports"). In addition, all G20 member states should participate in the expert group from OECD and non-OECD countries which, since 2008, has worked on multilateral cooperation in science, technology and innovation in the context of global challenges (food and energy security, green growth). Through this network, the G20 could support new modes of joint knowledge creation and strengthen research capacities in developing countries.

Leveraging the G20 Potential

Giovanni Grevi, Head of Brussels Office, Senior Researcher and Research Coordinator, FRIDE

Mexico takes over the chairmanship of the G20 at a critical juncture for the forum. As the global financial and economic crisis entered a new acute phase in 2011, triggered by the euro zone debt crisis, the G20 failed to mobilize and convey a shared sense of purpose in the run-up to the Cannes summit. Leaders adopted another ambitious action plan focused on growth and jobs, and took useful piecemeal action on financial, commodity and institutional issues. Yet, the summit arguably marked an identity crisis of the G20, which performed as neither an effective crisis management body nor a viable steering board to rebalance the global economy and pave the way out of the crisis. There is a sense that the G20 has lost some traction.

Managing expectations over the difficult year ahead is going to be of utmost importance. Momentum built up when the G20 harnessed the combined impact of broadly converging national stimulus packages three years ago. Since then, the core challenge has been to narrow the differences between surplus and deficit countries, or between the partisans of fiscal austerity and the advocates of monetary easing. The G20 has much less to claim for on that score, let alone on providing new momentum for multilateral trade and climate change negotiations. Such a sobering picture raises the question of the ultimate added value of the group at a time when global growth is slowing down, recession hits Europe and political margins of manoeuvre shrink accordingly.

The G20 can become the lynchpin of a new system of global economic governance, which is laboriously in the making. The impact of specific governance reforms and of peer review processes can only be assessed in the medium term, and positive steps have been taken. It would be unwise, however, to neglect the danger of creeping “routinization” of the G20 and the reputational risk that goes with it. Alongside its important efforts to achieve progress on substantial issues, the Mexican G20 presidency should take a step back and look forward at what will make this format distinctive and sustainable.

The viability of the G20 will depend on its ability to leverage its comparative advantages and to do so in ways that fit the new world politics, well beyond inter-state relations. First, the G20 is not, and has no vocation to become, a rule-making body. Second, as a leader’s summit, the G20 is not about details, but about big issues, politics and perceptions. Third, much of its agenda is about “forestic” issues, cutting across foreign and domestic affairs. Progress within the G20 depends as much on political space at home as on a meeting of minds at the international level.

The G20 is a unique place for building trust and consensus among leaders and for linking up connected issues, actors and institutions through integrated agendas. In other words, the G20 must invest in its unique quality as both a “club” and a “hub.” Both dimensions need strengthening.
Summits with well over 30 participants, including invited countries and heads of international organizations, undermine the intimacy of the club atmosphere. *Tours de table* and formal statements replace informal exchanges. The G20 performs as the hub of a variety of ministerial meetings and working groups, connects with formal institutions such as the IMF, the World Bank and the OECD, and reaches out to selected countries and platforms of non-state actors including business and civil society. Multiple levels of coordination and disparate outreach exercises are, however, increasingly cumbersome to manage or, in some cases, rather ad hoc, such as the meetings of business and civil society preceding the summits.

While there is no quick fix to any of these problems, some innovations could be envisaged:

- If the presence of the G20 leaders is seriously valued as a unique asset, then they should have the time to informally exchange views on those issues that require urgent addressing and better mutual understanding. Summits should last half a day longer, with such brainstorming-like sessions preceding formal proceedings. The scope of these exchanges should not be constrained by the formal G20 agenda. For example, leaders would benefit from frank, confidential debates on the geopolitical turmoil affecting their economic security, including crises such as Iran, political turning points such as the uprisings in the Arab world, or the impact of major natural disasters. They may also want to address emerging issues and governance challenges, such as the security of material and notably virtual flows, which are critical for growth and prosperity.

- The G20 is a light, twenty-first century format for global governance. As such, it should plug in the “shapers” of interdependence in a more systemic way. A connected G20 would strengthen the fabric of global governance and act as a pathfinder for productive global deals. G20 members should make a modest investment in setting up the G20 House for Global Public Goods. This platform, based in one of the G20 member states and with a small permanent staff, would engage governmental and non-governmental constituencies from G20 and non-G20 countries and public-private partnerships, as well as international institutions, as relevant. As noted above, much of the G20 agenda concerns domestic policies. Hence, for example, the importance of involving national legislators and officials from sub-national authorities, like cities, when addressing income disparity or welfare issues, energy efficiency or health issues, infrastructure or illegal traffics. The G20 house would carry out five basic functions, namely informal consultation, sustained outreach, confidence-building, knowledge-and-best-practice sharing and training. This would become a sort of “track II,” inclusive G20 process to build trust and deliver solutions, from the bottom up. The G20 Sherpas should adopt an annual work program, which, however, should be kept relatively flexible so as to absorb external inputs as well.

- G20 members have committed to take a number of measures at the national level to sustain growth or redress global economic imbalances. They have launched a variety of initiatives on a diverse range of issues, such as development, food security and the fight against corruption. Keeping track of these action plans and of their implementation has become challenging for insiders, let alone for all others. But doing so is also critical for the accountability of the G20 process vis-à-vis citizens and the international community at large. On top of the ongoing, technical review or monitoring tasks entrusted to specialized institutions, the G20 should set up an accountability process along the lines of that launched within the G8 framework, including accessible progress reports and impact assessments. Where relevant, the G20 may also innovate by commissioning reports on the economic, social and environmental costs for the international community of shortcomings in implementing collective commitments. Establishing an official G20 web site carrying all the basic documents and action plans, as well as successive progress and assessment reports, would greatly enhance transparency and improve institutional memory beyond the rotation of presidencies and troikas.

In short, the G20 should become, at the same time, more of a club and more of a hub. This two-pronged approach would enhance the sense of ownership of the process by national leaders, provide flexibility to the agenda without necessarily expanding it on a permanent basis, and establish an important reservoir of expertise, legitimacy and influence for the G20. Neither move can, per se, deliver success in striking conclusive agreements on as difficult issues as economic imbalances or financial safety nets, where progress is likely to remain incremental. Both moves, however, would set the G20 on firmer grounds to withstand political or economic shocks and sustain over time the coordination of national policies and the reform of global governance.

Proposals for Discussion at Think-20 Working Meeting

Vladislav Inozemtsev, Presidium Member, Russian Council for International Relations; Director, Centre for Post-Industrial Studies (Moscow, Russian Federation)

Mexico, which assumed the G20 presidency in December 2011, is unique in this capacity in several ways. It is the first developing nation to lead the G20, the first country considered a "commodity economy" to host a G20 meeting and the first nation able to speak on behalf of Latin America, a region of profound economic change in recent years. In some ways — as a developing industrial nation and resource-producing country — it somewhat resembles Russia, host of the next G20 summit in 2013.

Taking all this into account, I propose the development of a multidimensional agenda for the Mexican presidency that is focused on issues of sustainable development, but not entirely directed on the promotion of a "green" economy, which today seems not to be the primary goal for developing nations.

When considering topics related to an environmentally sustainable economy, I propose concentrating mainly on two problems:

1. Both Mexico and Russia are major energy producers and exporters, but their economies are not very effective in terms of using energy resources. If, for example, Russia consumed the same amount of energy for every dollar of its GDP as Poland does, it would be able to export twice the amount of natural gas it exports today and 20 percent more oil. The same problem can be seen in all oil-exporting countries. Therefore, the G20 should develop a comprehensive program oriented on improving the energy effectiveness of oil- and gas-exporting countries. It would not deal with the reduction of CO_2 emissions, but rather with the overall progress of the economies of these countries. The oil and gas that would be saved through such measures could be bought by a special G20 trading agency at even higher prices, thereby encouraging the "greening" of developing countries' economies. I believe that this may be more effective than emission quotas trading.

2. Another major problem concerns the development of nuclear energy. While some developed countries, such as Germany and France, want to reduce their reliance on nuclear power, Russia and China seek to construct even more new reactors. Since this problem is socially (after the Fukushima disaster) and politically (because of Iranian controversy) sensitive, and while G20 nations (all EU nations included) now account for 425 out of 441 of all commercially operated nuclear reactors in the world and for 96.4 percent of nuclear energy produced, they may propose tighter controls over the use of nuclear energy on a global scale. To make this happen, a special body may be created under the G20 auspices that could finance and construct new nuclear facilities in the countries that need them most, on the condition that it has full operational and security control over such objects. That may give a huge boost for development, as well as for deep international cooperation in the field of energy production and security architecture. If established, such a body would also have the prerogative to determine price policy for energy produced and, therefore, may become very effective in fighting monopolistic surcharges on energy prices, which are quite common in many developing nations.

Going further, to the global economic imbalances that have led to the current crisis, I propose looking at them from a different angle than the one that prevails today, and lifting some charges from the developed countries. This would allow the establishment of an agenda that differs from the existing one.

The global economic growth that progressed from the early 1990s until 2008 was, in great part, caused by a free trade policy introduced by the Western countries, especially the United States. The economic surge in China, Mexico, Brazil and even Russia, was facilitated by ever-growing demand from the United States and Europe for the goods produced in these countries. The investment flows from the developed world into the developing one were also enormous. So today, I believe, the financial crisis in the most developed G20 countries must be resolved — at least partially — at the cost of newly industrialized nations. From my point of view, something like a new Plaza Accord is needed, which would result in the depreciation of the US and European currencies vis-à-vis the renminbi, peso, rouble, rupiya, and so on. A new kind of solidarity between developed and industrializing nations is needed, and the G20 may be the best place to declare such a move.

Another major initiative that may be launched to improve the economic and political situation in the world and for which the G20 may provide an appropriate framework, is the global reduction in military spending. G20 nations account for 82 percent of all military allocations in the world, and these hit an all-time high in 2011, peaking at $1.69 trillion. It seems likely that a comprehensive negotiation may start within the G20 in order to decrease this spending by at least 15 percent by 2015, which may bring more than $200 billion to meeting the needs of development assistance and promoting environmental sustainability. I should stress that this may become a realistic goal since, as a bloc of nations, the G20 cannot be threatened and even effectively challenged militarily by any nation remaining outside it.

In this part of the discussion, the crucial question of global inequality must also be raised — and it seems to me that here the existing attitudes are to be rethought. The aid that was channelled into the least developed countries (LDCs) in the last decades proved to be highly ineffective, so the G20 countries must seek new models of development assistance — even those that may include some restrictions on the state sovereignty of those countries that are falling apart or stagnating in their economic development. Just as the EU has attempted to impose its power on Greece and limit its right to undertake its own financial decisions, the same may be proposed vis-à-vis those LDCs where people are willing to exchange some part of their sovereignty for effective economic assistance. Considering the situation in the majority of extremely pure countries for years, I believe that such an exchange seems possible. Why not speculate on this while discussing sustainability issues?

Finally, in the list of crucial topics that I suggest should be raised in the G20 meeting is the issue of corruption. It seems quite “natural” that this particular problem will be set up by one of the Latin American countries, where corruption is believed to be widespread. Russia may also become a relevant partner here, since very little is done to fight corruption in my country, while more and more people see it as the main social problem that emerged in post-Communist years. The G20 may become the best institutional framework for dealing with corruption, since among the members of the club there are many states that fought it quite successfully, as well as many others that declared the struggle with corruption as their perspective goal. Cooperation in this particular field might be much more effective than using the UN framework — especially since the money belonging to corrupt officials is usually parked in the most respected G20 members’ banks and financial institutions.

Going a bit further, some sensitive problems of a predominantly political nature, some of which may come on the table because of popular movements that emerged in the world in 2011, could also be raised.

First is the right of people to determine their political future can be addressed. What was witnessed in North African countries and Syria may be recognized as another wave of the self-determination movement, aimed at an overthrow of authoritarian rulers who came in place of former colonial powers. If the fact that these developments may broaden (the situation in post-Soviet states, for example, is far from stable) is taken into account, the G20 may set up a working panel on humanitarian interventions. This may seem very encouraging, since humanitarian interference is not yet codified in international law, and never will be due to the position of authoritarian regimes in the world's periphery. This is why it may become very important to develop a concise strategy vis-à-vis the rogue regimes oppressing their people, using the power and authority of all of the G20 nations.

The next — and very important — topic that affects all of the G20 nations is the problem of migration. The time for consideration of this topic has definitely come; the once popular doctrine of multiculturalism should be revaluated and new approaches to managing migration that don't threaten the way of life of recipient people, while fully respecting basic human rights, should be proposed. Here, the Russian experts may enrich the discussion, both because of historical peculiarities of the Russian Federation as a multinational state and also because of the findings of the Global Policy Forum held last year in the Russian city of Yaroslavl and dedicated entirely to this particular problem. (I was chosen to chair last year's Forum's Executive Directorate.)

I believe this is not a complete list of the topics that may be considered important to make the Mexican G20 presidency more impressive. After holding consultations with respected Russian experts on international relations, I expect I will be able to provide an even longer list of proposals.

A Way Forward: The Streamlined G20 and Green Growth

Shinichi Kitajima, Senior Adjunct Fellow, The Japan Institute of International Affairs

Where is the G20 headed? This is an inevitable question facing the G20 today. Since its launch in 2008 to deal with challenges to the world economy, the G20 has come a long way. After being relatively successful in responding to the crisis and being recognized as "the premier forum for our international economic cooperation," the G20 is entering a new phase, where past success and legacy start to overburden the presidency, and might undermine the G20 process.

This memorandum addresses four points:

- Streamlining the G20 agenda and process is the best possible way to make the G20 not only effective, but also credible.
- Preparing for risks by natural disasters could be a promising area for the G20.
- The G20 has a role to play to lead international "environmental cooperation," in order to promote green growth at the global level.
- Simplifying the G20 process contributes to ultimately "greening" the G20.

Streamlining the G20 Agenda and Process

Three years after its inception, the G20 has dramatically been transformed into a forum covering a wide range of issues, from the global economy to development, trade, global governance, agriculture and energy. Its preparatory process was also expanded with the creation of several ministerial meetings. These developments may have been necessary for the G20 to respond to the pressing issues of the time. Given its limited resources, however, the G20 needs to retain its focus and avoid overreach. The G20 is today facing two challenges to maintaining its effectiveness and credibility:

- How can it focus and sharpen its message? The G20 should be careful not to overburden its agenda, since doing so will only further decrease its effectiveness. A message from the G20 leaders should be focused in order for it to be strong and credible. Having a wide agenda and increasing the number of ministerial meetings hampers the achievement of this goal. Streamlining the G20 agenda and process is necessary to make it effective and credible.

- How can it maintain and deliver on its past commitments? The G20 should focus on implementing the agreements from past meetings to maintain its credibility. For example, regarding trade, the G20 has agreed to avoid protectionism, and efforts should be made to maintain the standstill commitments and to roll back any new protectionist measures. Since these commitments by the leaders are not necessarily kept by those in charge of trade policy, the G20 leaders bear the responsibility to make them abide by the rules set in the past summits and the leaders' agreements.

Focusing on Management of Natural Disasters

Natural disasters that took place last year, including the Great East Japan Earthquake and flooding in Thailand, have made clear how a disaster in one country can have a damaging effect on the global supply chain and also on the global economy as a whole. Disaster risk management is one particular area where the G20 can work together.

- Emergency preparedness: The G20 should consider what measures it can take collectively to prepare for natural disasters. For instance, last year, APEC agreed to share best practices of the responses to natural disasters, in order to reduce disaster risk and strengthen the resiliency of communities. Because natural disasters affect the global economy through the global supply chain, the G20 can also work on preparing for disasters at the global level by building upon the experience of APEC.

- Promotion of "green recovery": Recovering from natural disasters offers a chance to promote green growth. By employing green technology that is environmentally friendly in the recovery process, it contributes to strengthening the G20's efforts to encourage green growth globally. Collecting best practices on "green recovery" and sharing them among the G20 members can contribute to fostering green growth, even after natural disaster strikes.

Promoting International "Environmental Cooperation"

To solve the climate change issue, it is essential to achieve low-carbon growth, which enables both emissions reductions and economic expansion by establishing a system through public-private cooperation to spread developed countries' low-carbon technologies and products quickly among developing countries, where CO_2 emissions tend to increase as those countries' economies grow. To encourage international cooperation, collecting best practices on the bilateral and regional assistance that each G20 member is providing to achieve green growth could be beneficial, enabling the G20 to reflect on further steps to take.

In this regard, specific attention could be given to natural resources that are only available in small amounts, but are indispensable for current low-carbon technologies. While the exploitation of such resources sometimes causes environmental damages, a stable supply of these scarce resources is essential for promoting green growth. Environmental cooperation in this area is necessary. The G20 should promote an international environmental initiative to develop less-polluting technology to exploit the resources and find alternative materials that can be used in place of scarce resources.

Considering the points mentioned above, introducing a kind of "energy consumption footprint indicator" could help simplify the G20 process and contribute to the "greening" of the G20 by measuring the amount of energy used during the preparatory process and making the G20 presidency announce the amount of energy consumption each year. Organizations with expertise in this area can carry out the calculation, which would include energy expended from the travel to and from the preparatory meetings. Doing so will make the futile work in the preparatory process evident, putting pressure on the G20 to streamline the process. Through this effort, some greening of the G20 agenda can be achieved without adding new topics to the discussions.

Focus on Crisis Management and Prevention

Wonhyuk Lim, Director of Development Research, KDI

Since the creation of the G20 at the leadership level in 2008, minimal and maximal visions for the G20 have framed the debate on its identity. The minimal vision regards the G20 as a crisis management forum, whose mission is to deal with the global financial crisis through macroeconomic policy coordination; whereas the maximal vision looks at the G20 as the world's premier "minilateral" forum, whose mission is to make globalization work through international cooperation, beyond the global financial crisis that created it, reflecting sea changes in international relations. At Pittsburgh in September 2009, G20 leaders went for a middle ground between these two visions, calling the G20 the premier forum for international *economic* cooperation, with the central objective of promoting *strong, sustainable and balanced growth*. Even today, however, what this means in practice is very much a work in progress.

The G7/8's attempt to add second-class members through outreach (the Heiligendamm process) is no longer operational, and advanced and emerging economies were present at the creation of the G20 at the leadership level as equal co-founders. However, the G20's attempt to expand the agenda and supplant the G7/8 at this stage would be premature. The G20 should instead build legitimacy by strengthening its responsiveness and effectiveness in areas where it has a comparative advantage. Toward this end, Mexico should maintain a laser-like focus on the gravest threat to the global economy: the ongoing euro zone crisis. The perceived legitimacy of the G20 for the foreseeable future will largely depend on the effectiveness with which it helps to resolve the euro zone crisis and prevent similar crises down the road.

To overcome an international financial crisis of a significant scale, four interrelated challenges must be met: securing access to a reserve currency to deal with the "original sin" of issuing debt in a currency not under one's own control; shoring up aggregate demand in response to a deleveraging shock; debt restructuring to resolve nonperforming loans and mitigate moral hazard; and structural reform and adjustment to improve efficiency and realign prices and productivity levels.

In 2008 and 2009, the G20 successfully coordinated macroeconomic responses to the initial deleveraging shock and launched the mutual assessment process to resolve global imbalances. In 2010, however, the G20 adopted the idea of "expansionary contraction" even in the face of continued deleveraging on the part of the overly indebted private sector. Moreover, the euro zone failed to agree on debt restructuring, as creditors and debtors were engaged in a tug-of-war on burden sharing. Creditors claimed that fiscal irresponsibility in Greece, Ireland, Portugal, Spain and Italy was the root cause of the euro zone crisis and prescribed austerity; whereas debtors pointed to the increasing current account imbalances since the launch of the euro and called for debt restructuring and symmetric adjustments. The impasse between creditors and debtors aggravated the crisis by perpetuating uncertainty about the magnitude of potential investment losses. The more recent talk about building a firewall is much ado about nothing in the absence of a credible stress test for residual risks and a sufficiently large counter-contagion mechanism.

The euro zone countries should change their disastrous policies and mobilize their resources to meet the four interrelated challenges. Financial contributions from the IMF and outside the euro zone should be supplementary, so as not to give the impression that the euro zone countries are trying to use other people's money to save the euro without risking their own money and changing their policies. The euro zone must deal with the "original sin" of borrowing in someone else's currency by making the ECB the lender of last resort for all euro zone countries, in return for imposing macroeconomic discipline on these countries. The ECB made a clever move in this direction near the end of last year. The euro zone should scrap the idea of "expansionary contraction." It would be helpful if macroeconomic expansion can be combined with investment and structural reform to improve productivity. The focus on shovel-ready projects is misguided given the nature of the crisis. Also, instead of making matters worse by continuing to perpetuate uncertainty about the magnitude of potential losses on the stock of nonperforming loans, the euro zone must agree on a clear debt restructuring strategy with a credible stress test for residual risks and a measure to mitigate moral hazard. For the flow dimension of the problem, the euro zone countries must rebalance by reducing price-productivity disparities, while maintaining the single currency. This international, intra-euro-zone rebalancing would be easier if creditor countries adopt expansionary policies while debtor countries try to consolidate, rather than forcing debtor countries to assume the entire burden of adjustment through austerity and deflation.

Mexico should lead the G20 to reach an agreement on the resolution of the euro zone crisis in the directions outlined above. While the primary responsibility for resolving the crisis belongs to the euro zone countries, the G20, under Mexico's leadership, can contribute a great deal by calling for a combination of policies to meet the four interrelated challenges.

How to Make the G20 More Productive

Rakesh Mohan, Professor in the Practice of International Economics and Finance & Senior Fellow of the Jackson Institute for Global Affairs at Yale University

Background

The G20 was founded after the Asian Crisis in the late 1990s to deal mainly with global economic and financial issues. Its membership, consisting of the respective finance ministries and central banks, reflected this concern. Annual meetings consisted of two deputies' meetings a year and one at the ministerial level. Additional meetings were convened every year at the expert level, depending on the work agenda decided on by the chair for the year. The first meeting held at the leaders' level took place in late 2008, in the aftermath of the Lehman Brothers crisis. As a result of this meeting, the G20 succeeded in mounting very successful coordinated actions among all its members to contain the fallout of the North Atlantic Financial Crisis (NAFC). The threat of an impending Great Depression was successfully averted by the massive fiscal and monetary stimuli that were implemented by all members in a timely fashion. The G20 also took the lead in initiating discussion on the various regulatory and other reforms related to the international financial architecture that needed to be put in motion. This was done through the instrumentality of the four working groups appointed by the leaders after the 2008 summit. One immediate consequence was the formation of the Financial Stability Board (FSB) to succeed the erstwhile Financial Stability Forum. The recommendations contained in the reports of the four working groups are still being debated in the relevant fora such as the FSB, the Basel Committee for Banking Supervision (BCBS), and the like.

The G20, therefore, demonstrated its effectiveness through these actions in the wake of the NAFC breaking out in 2008. To a great extent, the quick and largely effective cooperative actions that were taken in 2008-2009 could take place because of the familiarity and trust built up among the many officials, central bank governors and finance ministers who had participated regularly in G20 meetings in previous years.

The perceived success of these actions was evident in the incipient economic recovery that seemed underway in 2010, along with recovery of financial markets and financial institutions. It appears that in light of these developments, the G20 was emboldened to broaden its sphere of activities far beyond its original intentions: this is evident in the very broad work agendas of 2010 and 2011, and the proliferation of G20 meetings on a host of different issues. Consequently, the G20 has had very little to contribute to ameliorating the ongoing European crisis, which could well have much longer lasting effects on the world economy, including the EMEs.

My main suggestion, therefore, to the Mexican presidency is to bring the G20 back to its focus on economic and financial issues, which is where its core competence lies. It should rein in the various fissiparous tendencies that have emerged, which will otherwise make the G20 completely ineffective. It should be conscious that different global organizations exist to take care of the many global issues that need to be tackled: the G20 should resist the temptation to be a mini United Nations.

The aftermath of the NAFC is still unfolding. My recommendation to the Mexican presidency is to concentrate on analyzing and understanding the potential medium-term effects of the NAFC on the world economy, particularly on the EMEs, and then to initiate programs and actions that help in reviving the world economy in the medium term, in a sustainable fashion.

I provide below an illustrative list of issues that the G20 should concentrate on.

Key Issues for Discussion

1. *Containing the European Crisis*: It would appear that there is general agreement that the euro zone crisis has to be dealt with by the Europeans themselves, but with the help of the IMF. If this is correct and the G20 does have a minimal role in the resolution of the crisis itself, the main role of the G20 should be to ensure that the fallout of the euro zone crisis is contained within Europe, as far as is possible. What firewalls can be constructed around Europe so that the rest of the world is protected from any emerging sovereign debt defaults or near defaults? This would involve gaining an understanding of the impact of potential European defaults on European financial institutions, on global financial markets and on cross-border capital flows. Programs would then need to be devised to minimize these impacts on the rest of the world.

2. *Sustaining Medium-term Growth in EMEs:* With the slowdown in North Atlantic economies, there will be inevitable impact on the medium-term growth of EMEs. The optimism of 2010 has proved to be short lived, and the financial crisis of 2009 has now turned into a fiscal crisis for most of the North Atlantic economies. It is now clear that fiscal consolidation will take longer than originally expected. There is now much less room for either a monetary or fiscal stimulus in these economies relative to the situation in 2008. Hence, recovery will be much more protracted than what was expected. The G20 needs to focus on the medium-term effects on global trade and financial flows and on what measure can be taken to ameliorate these effects. What should be the potential role of international institutions like the IMF and World Bank in this situation?

3. *Global Capital Flows:* The NAFC that started in 2008 has been an epoch- changing one in many respects. Among its consequences is the attention that the IMF is paying to issues related to cross-border capital flows and the need for capital account management (CAM) — what it calls capital flow management. Their conclusion, broadly stated, is that capital flow management measures can be considered in certain circumstances, but only after exhausting traditional policy avenues of tighter fiscal policy, accommodative monetary policy and exchange rate flexibility that allows appreciation in the face of large capital flows. The experience of EMEs over the last couple of decades has been one of rising and volatile capital flows, and the negative effects of such volatility on macroeconomic management and exchange rates. CAM should, therefore, form part of the normal toolkit of overall macroeconomic management, and should not be seen as an extreme measure only to be used in specific special circumstances. Since this issue is very important from the viewpoint of EMEs, particularly in view of the potential of global capital market disruptions in coming years, the G20 should take the lead on forging consensus on the way forward on capital account management in EMEs.

4. *Developments in Financial Regulation:* The FSB, BCBS and so on, are now in the final stages of their recommendations for the overhaul of financial regulation and supervision frameworks. The G20 should set up a working group to evaluate the adequacy of these recommendations to make the financial world a safer place, and to follow up their implementation in national regulatory systems.

5. *Strengthening of Multilateral Development Institutions:* As global capital markets face contraction or potential disruption, EMEs are likely to face difficulty in accessing long-term capital for infrastructure development. This is an opportune time for the G20 to examine this issue and recommend a possible expanded role for institutions such as the World Bank, Asian Development Bank, Inter-American Development Bank, African Development Bank

and so on for funding infrastructure and other needs. This may require expansion of their capital base, which would need consensus building in the G20.

A G20 Plan to Achieve Global Food Security

Antonia Mutoro, Executive Director, Institute of Policy Analysis and Research, Rwanda

1. Sub-Saharan Africa and the Global Economic Crisis

Developing nation economies have a direct interest in the euro zone crisis being resolved and in the G20 making progress on ensuring wider global economic stability and growth. While some are predicting continued strong growth in Africa (McKinsey, 2010), there is clearly a risk that fiscal consolidation and falling demand from developed world countries will impact African exports and growth. This memo does not address the global economic crisis directly. Instead, the focus is on food security. However, one key proposal that is suggested — improvements in developing world social protection systems — has the benefit of both improving food security and also providing an economic stimulus in developing country economies.

2. Food Security: an Opportunity for the Mexican G20

Nearly 1.6 billion people live in countries that are highly vulnerable to climate-related food insecurity (Action Aid, 2011). Few of these countries are well prepared and many face risks created by climate change; pressure on resources, such as land; and increases in food prices. Under Mexican leadership, the G20 could, in 2012, be the first global group to face up to the magnitude of this challenge.

The legacy from the French presidency was progress, but no comprehensive strategy. France introduced food security to the G20 agenda in 2011, and outcomes included:

- establishment of an Agricultural Market Information System to improve market transparency to provide information for farmers;
- creation of a "Rapid Response Forum" to improve coordination of policies and responses in times of food security crisis;
- piloting of a regional emergency food reserve scheme in West Africa; and
- the “Action Plan on Food Price Volatility and Agriculture” to boost agricultural growth, with specific attention to smallholders, especially women.

Not only must these achievements be fully introduced, but the Mexican G20 should also go further and agree on a comprehensive plan to achieve food security.

3. Learning from the Rwandan Experience

There are lessons to be learned from the Rwandan experience. Research shows Rwanda to be one of the countries that is best prepared to confront the risk of food insecurity. It is: undertaking a countrywide restoration of its degraded soil, water, land and forest resources over 25 years; has increased its spending on agriculture to 6 percent of spending through the agriculture ministry and more than 10 percent including other budgets; has a “national climate adaptation plan,” which includes projects to protect ecosystems and water resources; and is introducing a nationwide social protection system — Vision 2020 Umurenge Program (VUP).

The rolling out of the VUP will help increase the protection poor Rwandans have against food insecurity. It will, however, also increase levels of economic activity, because poor people spend most of any cash transfers they receive in the local economy. Mexico’s own social protection program, the *Oportunidades* social transfer programme, is associated with having an impact on local economies by improving consumption, asset accumulation and employment broadly within communities (OECD, 2009).

4. A Potential Comprehensive G20 Agreement on Food Security

The G20's global leadership credibility could be built by a clear recognition of the impact of the current economic crisis on developing countries. Restoring order and growth in Europe and other developed economies is crucial, but just as important are policies and programs that support LICSs to protect their populations from economic downturn, high and volatile food prices, and poverty. A comprehensive agreement on food security could include:

- Donor support for developing world countries to invest in social protection systems to protect the vulnerable from food price shocks. This could be achieved through existing instruments such as the "Rapid Social Response Trust Fund," managed by the World Bank (to which a few G20 countries contributed to in 2008/09).
- Developing countries committing to develop comprehensive food security strategies. There are some lessons from the Rwandan experience to draw on here. In addition, national schemes could include a particular focus on empowering women "for example, protecting women with insecure or customary tenure.
- Building up food reserves by expanding the existing West African pilots.

Advancing Sustainable Development, Bolstering Fragile States

Stewart Patrick, Senior Fellow and Director of the International Institutions and Global Governance Program, Council on Foreign Relations

The G20 summit in Los Cabos (June 18-19) comes at a propitious time, on the eve of the Rio+20 summit in Rio de Janeiro (June 20–22) and on the heels of last November's successful Busan summit on aid effectiveness. At Rio, the United Nations Conference on Sustainable Development (UNCSD) will seek to reinvigorate flagging global efforts to integrate the economic, social and environmental aspects of development. Meanwhile, the international community is struggling to develop concrete initiatives to advance the Busan agenda, particularly the "New Deal" for fragile states. As hosts of the G20, the Mexican government has an opportunity to forge major-power consensus on the definition of "green growth" and sustainable development. Mexico should also expand the development agenda launched at Seoul by engaging G20 members in common principles for engaging the world's 40-odd fragile states, home to the world's bottom billion and, in the words of World Bank President Robert Zoellick, the "hard core" of the global development challenge.

Linking the G20 to the Rio+20 Summit

In selecting "green growth" as a crosscutting theme of the Los Cabos summit, Mexico has injected the G20 into global debates over "sustainable development" — in short, whether and how the world can achieve steady, shared economic growth without compromising the environment or the health of future generations. The Mexican government must begin by defining "green growth." The concept remains nebulous and subject to varying interpretations. Despite OECD efforts to flesh out this concept (See "Towards Green Growth: A Summary for Policy Makers, May 2011), the phrase still encompasses any initiative with a putative ecological dimension. Mexico must specify what this phrase actually means — and what it does not.

More broadly, Mexico should press its G20 partners to pledge concrete actions and make tangible commitments to ensure the success of the Rio+20 conference. The Rio agenda is massive, and expectations are so great, that the UNCSD risks degenerating into a cacophonous failure, with mutual recriminations among governments and NGOs. With the planet under unprecedented environmental stress, delegations will assess the world's uneven progress towards the ambitious commitments of the 1992 Earth Summit — and follow up pledges from the 2002 Johannesburg World Summit on Sustainable Development. But they will also grapple with a huge range of new challenges, such as the global food and energy crises, mass migration, and desertification.

Additionally, the Rio+20 agenda envisions reaching agreement on "principles for a green economy" to both deliver sustainable development and eradicate poverty. Given the unclear meaning of "green economy" and variety of conference participants — including multilateral agencies, civil society groups, corporations and NGOs — a welter of ideas could obscure sensible ones.

- ***Avoid tackling climate change head on:*** Given the membership overlap between the G20 and the Major Economies Forum (MEF), it seems reasonable that the G20 will someday subsume the MEF. The complexities of global climate change negotiations, however, which are already occurring in parallel UNFCCC and MEF processes, make this a long-term, rather than immediate, goal. Mexico should not seek to break current climate change deadlocks in Los Cabos, but instead focus on other critical items on the Rio agenda.
- ***Add fisheries management to the G20 food security agenda*:** Globally, a billion people depend on fish as their primary source of protein. But more than 70 percent of commercial fisheries are fully exploited or overexploited, or have collapsed. It is clear that international

regimes to regulate fishing have failed. Mexico, both a victim of overfishing and a pioneer in marine resource management, can play a critical role in pushing G20 nations toward greater consensus on ocean resource management, including establishing new norms and rules governing management of coastal ecosystems, straddling fish stocks, fishing technologies, aquaculture standards, the establishment of marine reserves, and the creation of multinational quota schemes for critically endangered species. Fisheries would be a natural addition to the Mexican G20 presidency's focus on food security, affirming the importance of fishing to the global economy.

• ***Support sensible consolidation of global environmental bodies:*** Rio's most controversial agenda item may be the aspiration to reform "the system of global governance for sustainable development." Reform proposals range from the incremental — upgrading the UNEP or strengthening the Commission on Sustainable Development — to the grandiose — like establishing a World Environmental Organization, something France has previously championed. As G20 host, Mexico should advocate sensible consolidation of international environmental agencies, but reject unrealistic calls for a single global environmental body.

Spurring G20 Leadership on the Fragile States Agenda

Mexico can play a catalytic role in directing G20 attention and resources to the world's fragile states. The rationale for G20 engagement is clear: Such countries are furthest from the MDGs and are the likeliest settings for human rights abuses and humanitarian disasters. And in certain circumstances, they can generate transnational spillovers — from warfare to crime to terrorism — that threaten regional stability and even international security.

Any effective global response to state fragility will require a common approach among G20 nations, particularly given the rise of non-traditional donors like China, India, Brazil, Saudi Arabia and others. Mexico, as a relatively recent entrant into the OECD (and a country that, while far from a fragile state, has experienced its share of governance challenges), is ideally placed to liaise between advanced market democracies and major emerging economies — and to help guide the G20 toward common principles of donor engagement in fragile states.

• ***Seek explicit G20 endorsement of the "New Deal for Engagement in Fragile States"*** endorsed at the fourth High-level Forum on Aid Effectiveness (November 29 to December 1, 2011) in Busan, South Korea. That promising initiative, which 19 fragile and conflict-affected states designed, establishes new principles for engagement between donors and fragile states. These principles include: a common fragility assessment in affected countries; formulating country-led and owned strategies for emerging from fragility; mutual accountability between aid donors and recipients; transparent revenue management by fragile states; multi-stakeholder dialogue on development priorities in fragile states; and monitoring and evaluation of progress toward agreed peace-building and state-building goals (PSGs). Beyond endorsing the broad contours of the "New Deal," the G20 should commit to work with the OECD and fragile states to develop indicators to gauge progress towards the relevant PSGs.

• ***Promote tangible G20 financial commitments*** to valuable international instruments like the World Bank's Fragile and Conflict-Affected Countries Trust Fund, as well as the UN Peacebuilding Fund, to address priority needs, including the funding of recurrent expenditures, in states emerging from conflict.

• ***Promote universal G20 endorsement of — and membership in — regimes to foster good economic governance in fragile states,*** notably the Extractive Industries Transparency Initiative; the OECD Code on Bribery; the "Publish What You Pay" and "Publish What You Lend" campaigns; and the World Bank's Stolen Asset Recovery (StAR) Initiative.

Fostering Unity and Enhancing Growth

Liwei Qian, Associate Research Fellow, China Institutes of Contemporary International Relations

After the G20 summit in Cannes last November, political leaders seem to be more divergent than cooperative on world economic and trade issues, in my observation. The European debt crisis is deepening rather than lessening; the United States is bashing China on violation of trade rules in President Obama's latest State of the Union address. The world economy is losing momentum and is expected to encounter a slight recession in the euro zone, modest growth in United States and a significant slowdown in the Emerging Market Economies (EME). On the other hand, financial regulations being made by the governments and international institutions cast more uncertainty and suspicions over the private sector that, in turn, is worrying about the cost, efficiency and availability of more investment, which is vital to economic growth and employment. Their rational expectation asks for a more stable, transparent and predictable environment for sustainable investment.

2012 will not only be a year of economic uncertainty and sluggishness, but also a year full of domestic variables in major powers. The United States, China, France and Russia are facing political elections or power transitions, not to mention the updated geopolitical factors, such as the Iran nuclear issue and the Arab Spring, which are both currently heating up and will probably lead to a more volatile world energy price, along with the highly intensified speculation in the international financial market. Political leaders will, on the one hand, focus on strong economic growth and full employment when faced with mounting domestic political pressure, putting aside any "green" agenda and leaving behind the commitment of more balanced and sustainable growth; on the other hand, external economic uncertainty and fast-changing geopolitical factors to a larger degree may interrupt or at least delay their political agendas, making them keep more domestic promises, rather than international commitments, which will reduce the credibility and prominence of the G20.

Although Mexico is neither a member of the G7/8 nor a member of BRICs, it will take a unique position to bridge the gap between the two blocs. As this will be the first time the G20 summit to will be held in Latin America, Mexico has an opportunity to further explore the development topic and progress of poverty alleviation in cooperation with regional partners. The timing of this summit is more important than ever, with the exception of the first summit in Washington, DC, and that means Mexico should play a different role from the preceding host countries.

Considering the above-mentioned current economic, geopolitical backdrop and forthcoming political transitions in major powers, I would like to suggest to the Mexican presidency of the G20 summit in Los Cabos the following:

- **Enhancing growth and promoting balance.** As the world economy is losing momentum and showing only global modest growth, with predictions of a possible recession in some developed economies in 2012, strong growth, let alone more sustainable or balanced growth, is facing unprecedented risks. Economic restructuring, which is and will be long-term, painstaking experiences, should not be at the expense of basic growth, especially in the medium and small developing economies. And in major developed economies, debt reduction and deleveraging should not be as fast and broad, taking the private sector sluggishness in investment into account.

- **Fostering consensus and rebuilding unity.** Compared with the G20 summit held in Washington, DC, this summit is as important as that summit. Political leaders should show their persistent will and stick to the commitments they made and put them into action as soon as possible. The euro zone must solve its debt problem, largely by itself, but the IMF should also play a more important role by enlarging its funding pool to provide support, but not specifically to the euro zone. Most importantly, this summit should send a strong signal to the rest of world that G20 leaders are confident in continuing their cooperation in the face of political turmoil and economic slowdown.

- **Reducing risk and stabilizing energy price.** The geopolitical situation may pose additional challenges to the fragile economic growth by pushing up energy prices and distorting economic expectations. Therefore, government and international institutional regulations should be on alert. And unified actions are vital to stabilizing the energy price and prevent high speculation. Given the escalation of the Iran nuclear issue and the continuing turbulence of the Arab Spring, the G20 summit should commit to seeking a peaceful resolution to these problems if it possibly can, and also to protecting the steady supply of oil from the Middle East, to ensure that it is not interrupted, given how vital it is and continues to be to the interests of the international community.

- **Focusing on the new "imbalance" and preventing it from getting worse.** There is greater domestic and international disparity. We all recognize the budget, trade and environmental deficits in individual countries. However, both government and private sectors are lacking the resources to reduce the gap between poor and rich people, and developed and developing nations, especially after the financial and economic tsunami. The Occupy movement in the United States and around the world and the Arab Spring are reflecting the restless moods and leading to a broad social campaign. It is not just economic fairness, but also the moral obligations that should be included in the social aspect of "imbalance," and put on the agenda of the G20 summit. All three dimensions of imbalance — economic, ecological and social — should be given the same weight of attention from the international community.

Think-20 Participant Note

Güven Sak, Managing Director of the Economic Policy Research Foundation of Turkey (TEPAV) and vice-president of the TOBB University of Economics and Technology

What are specific proposals that the Mexican presidency could push forward to "green" the G20 agenda without adding new topics to the discussions?

Instead of focusing on "grand design" schemes, which are good for lip service but have only limited impact, we propose the Mexican presidency promote concrete steps. Greening the agenda is one such challenge. One possible agenda item may include focusing on "green special economic zones," designating certain production zones, and, maybe, mid-size cities as green cities, and coordinating across the G20 to finance the required investments. In such an endeavour, the Mexican presidency would act as an active "donor coordinator," and maybe a "matchmaker," to identify the projects and possible financiers and match them accordingly.

Considering the enormous workload inherited from France, and the current economic climate, what is a realistic Mexican presidency contribution to the G20?

- Representing and coordinating the voice of developing countries for the design of more effective global governance architecture could be a substantial contribution. For instance, pushing for more developing country representation in the IMF would be one critical step.
- Establishing a private sector platform around the G20, with more substantial agenda items and avoiding lip service.
- Establishing a think-tanks platform with a view to produce new content regarding challenges facing the G20. The Mexican presidency could support joint projects coming from this platform.

Which concrete initiatives are likely to produce deliverables?

- Connectivity: reviewing the connectivity levels between the G20 members.
- Skills: complementing the efforts of the OECD, with a more developing country perspective to focus on qualitative aspects of education policies.
- Gender equality: designing a policy agenda to promote gender equality among the G20 members and non-members.
- Review of smart policies: starting an experience-sharing mechanism for the G20 members in tackling the adverse effects of the global crisis.

How can the G20 build greater credibility as vital hub of leadership and action?

Broader contribution from academics and other policy institutions in the G20 would be useful, especially in developing countries where government may not always attract the best talent and creativity. Leaders could be encouraged to drum up excitement in their countries about the G20 summit. If, for example, Turkey's politicians would give the event some airtime, there could be more of a competition among universities and think tanks to contribute. (On the other hand, this email proves that there is already a push in this direction.)

The G8 is vilified by many, and it is also facing opposition from groups such as the Occupy movement. More PR with an emphasis on development and grassroots projects could alleviate some of that.

How to make the G20 summit meeting format most productive?

Instead of having the G20 summit as a sterile platform, a measure to include states, private sector and think tank communities all around the same table would lead to a more productive and lively discussion. A multi-actor and inter-disciplinary approach carries the potential to yield more effective results, of course, if managed and moderated well.

Greening the G20 Agenda: A Way Forward

Parthasarathi Shome, Director and Chief Executive, Indian Council for Research on International Economic Relations (ICRIER), New Delhi, India

The setting up of the G20 has resulted in 20[21] of the most powerful economies of the globe coming together to discuss and address issues that supersede exclusively national interests. Despite the fact that the group was primarily set up for cooperation on matters related to the international financial system and its stability, energy and environmental issues have become important components of the G20 agenda over time. In fact, the "transnational" nature of various environmental issues has made the G20 an important forum for cooperation on potential energy and climate change action.
Many of the existing constituents of the G20 "green" agenda were meant to support initiatives undertaken in other multilateral platforms — such as climate change finance (CCF) and clean energy and energy efficiency (C3E). Many initiatives, however, were novel, and placed on these platforms of high repute for the first time. These initiatives included issues of fossil fuel subsidy reform and global marine environment protection and a database for mapping oil price volatility.

Existing Discussions under the G20

Rationalization of fossil fuel subsidies is one of the most important priority items within the broad theme of energy and climate change. Under this item, all G20 member countries were each asked to report the fossil fuel subsidies they had given under different headings, and submit a timeline for reform. In each summit following the 2009 Pittsburgh summit, countries' progress was monitored with respect to this program. As noted above, this was the first time that top world economies had tackled the tricky issue of fossil fuel subsidies head-on. This issue, while discussed in other multilateral forums such as the UNFCCC and different academic circles, had always been relegated to the background due to its political and national sovereignty implications.

Another field in which the G20 member countries monitored performance was C3E initiatives. In this field, however, G20 discussions simply supported negotiations held elsewhere, that is to say, the UNFCCC's Ad-hoc Working Group on Long-Term Cooperative Action. Even more specifically, the aforementioned issues come under the head of domestic mitigation action and its assessment. Nevertheless, the initiative is important since countries monitored their clean energy deployments and the policy progress made.

The mandate of the G20 climate change finance working group was also to provide a supporting role to the UNFCCC's discussion on climate finance. It sought to explore aspects of scaling up climate finance for mitigation and adaptation in developing countries. In fact, it aimed at building upon the work done by the UN Secretary-General's High-level Advisory Group on Climate Finance.

The "new" initiatives of global marine environment protection (GMEP) and oil price volatility aim to close information gaps. The GMEP initiative shares the best practices to protect marine environment with the final aim of preventing accidents related to offshore exploration and development and marine transport. On a similar note, the oil price volatility initiative tries to close gaps in crude oil (and now natural gas) data reporting and promote greater transparency. It attempts to standardize the reporting process and ensure timeliness to improve predictability of markets and facilitate project planning.

[21] Nineteen countries plus the European Union, accounting for over 80 percent of global GDP.

Under the Mexican presidency, two new items have been included in the energy and environment agenda, namely green economy and sustainable development,[22] and infrastructure. The United Nations Environment Program defines a green economy as one that results in improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities. In other words, while the existing G20 agenda items (mentioned above) denote important but small pieces of a larger puzzle, the newly incorporated issues of green economy and sustainable development are all-encompassing.

Suggestions for a Way Forward

The G20 needs to recognize that energy and environmental issues are inter-related and, thus, working groups need to be more cognizance of the work done in other working groups and incorporate the lessons learned. To illustrate, fossil fuel subsidies reform has been mentioned as one of the most promising options for generating CCF that could then be diverted to fund climate action[23]. These ends or climate action on which the green funds would be spent is discussed in the C3E working group. Thus, looking at the broader picture and fitting the existing pieces together provides clues to the missing bits of the picture and these are, thus, the aspects that need to be incorporated to make the G20 agenda "greener."

Following from the above, it can be noted that an important aspect that has not been included on the agenda is the issue of adaptation. It is true that the inclusion of the new item "sustainable development and infrastructure" under the Mexico summit would address this issue to some extent, but more pointed attention needs to be focused here. This agenda item therefore needs to be broadened to focus upon economic infrastructure, not just in the general sense of roads, bridges, ports, and so on, but also hospitals, coastal embankments, water storage facilities and water-saving irrigation facilities, and rainwater harvesting, all of which improve people's coping capacities to climate change.

Another important missing piece is the issue of knowledge and technology dissemination, so that countries can initiate national-level projects. This issue has been highlighted and discussed within the G20, albeit for a small component of GMEP. This issue needs to be scaled up to cover other issues of environmental services and climate technologies (for both mitigation and adaptation).
As innovation powerhouses, the G20 could discuss the ways and means of supplementing the work done in the UNFCCC's Subsidiary Body for Scientific and Technological Advice. The group could discuss the ways and means for making climate-friendly technologies more accessible, surmount IPR issues and make technology transfers easier. This issue can be covered by the G20 by broadening the scope of the "knowledge sharing" working group (under the item of development) initiated under the French presidency.

With regard to environmental services, two significant issues relate to land management and forestry. The combination of the issues of land use, land use change and forestry (LULUCF) could provide the answer to problems of air and water pollution as well as land degradation within countries. Under the item "commodity markets and food security," the G20 has already discussed issues of land management. These can thus be broadened to incorporate the environmental ramifications of agricultural practices as well.

[22] The Brundtland Commission defines sustainable development as development that "meets the needs of the present without compromising the ability of future generations to meet their own needs."
[23] One idea that should also be revived is financing through a global carbon tax. The idea is described in some detail in Shome, P. (1996). "A 21st Century Global Carbon Tax." *Bulletin.* International Bureau of Fiscal Documentation, November/December Issue, pp. 481–489.

There are two other aspects that fit well into the existing structure of G20 agenda items: green jobs and energy trade. With an intensified move towards sustainable patterns of development, green jobs in renewable energy and infrastructure would account for a progressively larger share of total job creation. This aspect could thus be investigated in greater detail in the “job creation” item under the agenda item of development.

Energy trade is another important area that needs to be highlighted in the G20 forum. This issue is already being tackled loosely under the items of oil price volatility and C3E. It is also expected that the item “green economy” would discuss this issue. In view of the high and rising import dependency, and the often predicted “scramble for resources,” this issue assumes great importance. To conclude, plugging the gaps in the broader picture provides the steps that the G20 could take forward to make its agenda “greener.” As a first step, aspects of financing through a global carbon tax framework, adaptation, technology sharing and transfer, LULUCF, green jobs and energy trade seem promising.

Think-20: Ideas for the Mexican Sherpa Team

David Shorr, The Stanley Foundation

Considering the economic climate, what is a realistic Mexican contribution?

Given how long the euro zone crisis has been simmering unresolved, we could easily be lulled into thinking the sense of threat has been exaggerated, and everything is going to be fine. It's strange to imagine a second summit consumed by the Southern European sovereign debt, but it is equally strange to think of the G20 avoiding the issue that represents the greatest jeopardy for the global economy. Here's how Blake Hounshell (the main blogger for ForeignPolicy.com's Passport blog) encapsulated the situation in less than 140 characters:

> The German political establishment seems willing to destroy Europe to avoid telling German voters the truth about how stupid it has been.

Given the disastrous economic performance in the United Kingdom after more than 18 months of austerity, it is perplexing why the anti-Keynsian voices of fiscal rectitude still have any credibility. We have this problem in the United States' own political debate, but we also have a government that has been trying to shift back to the employment agenda and injecting as much stimulus as it can, even if this must take the form of tax cuts. It is very hard to know what to do about this, but I at least wanted to be forthright about the nature and stakes of the issue.

Of course, the Mexican chairmanship could also perform a valuable service by ushering the macroeconomic rebalancing agenda to a next phase. This is also a very difficult, sensitive and complex problem, but it is, after all, the signature issue for the G20. Now that the diagnoses of the major out-of-balance economies are being compiled — and setting aside unrealistic notions that technocratic mechanisms could impel major shifts in macroeconomic policy — what sort of G20 process/agenda would keep up the pressure? The G20 was able to devise a process for the assessment to be done; the next phase needs similar frameworks. We outside advocates can continue to urge patience and highlight difficulty, but there needs to be incremental progress of some kind.

Which concrete initiatives are likely to produce deliverables?

Having pressed some very difficult issues in response to the first question, let me say what I consider to be one step lower. It would be impressive, for instance, to reach agreement on one of the longstanding items on the financial regulatory agenda (say, derivatives) or the financial safety net. Or could a new agenda/timeline for IFI governance reform be undertaken?

The Cannes statement on the Doha Round also begs follow-up. With the encouragement of think tank experts, the G20 refused to issue the usual boilerplate language about concluding the Doha Round. For the leaders in Cannes to say the fate of the trade talks is contingent on a fresh approach was bold indeed, but of course it begs the question of what the new approach will be.

How can the G20 build greater credibility as a vital hub of leadership and action?

In broad terms, the G20 will prove its value by showing forward movement on the issues on its agenda: stronger norms, wider adherence to norms, frameworks for the discussion of newly ripe issues, follow-through on issues that have hitherto been bogged down. This is why I emphasize the Anti-Corruption Working Group — it can claim real accomplishment on ratification of the United

Nations Convention against Corruption, domestic foreign bribery legislation and best practices for whistleblower protection (validated by a tough advocate like Transparency International, no less). Actually, the background paper for our Think-20 conference has an excellent listing of the different sorts of "decisions" that have been typical in the G20, and it is useful to bear this toolbox in mind when considering the question of credibility and effectiveness.

As indicated above, the Cannes statement on Doha was helpful for G20 credibility, facing up to the problem caused when you keep promising yet never deliver. And I think there has been a constructive effort to make summit declarations as substantive as possible. Optimally, the text should be restricted to matters of real diplomatic or policy salience, resisting the kind of sprawl that says something (no matter how bland) about every issue. The leaders' communiqués should focus on those questions that demanded significant time and attention — the issues warranting media coverage. At Cannes, separate statements were issued for many agenda items, which seems like a good way to report progress at the more detailed level.

How can Mexico "green" the agenda without adding new topics?

One clear energy issue already on the G20 agenda is the phase-out of fossil fuel subsidies. And, perhaps, there are fruitful issues relating to the investment, lending and trade issues associated with green technology.

How to make the G20 summit meeting format most productive?

Echoing the sentiment expressed by many at CIGI '11, I would urge a push on the scheduled duration of the summit meetings themselves. Maximizing the amount of time allotted to the G20 summits serves multiple aims:

- alleviating time pressures that can create a frenzied atmosphere;
- giving the leaders more opportunity to become personally familiar;
- taking better advantage of the travel time involved in getting to and from the summit; and
- opening up time to reach greater consensus and/or tackle more issues.

Crafting an actionable recommendation is not hard: the standard length of a G20 summit should, eventually, be at least three full days and, meanwhile, should exceed 48 hours by as much as possible. The summit participants are some of the busiest people on the planet, and their time is under constant demand. On the other hand, the G20 has quite a compelling claim. And contrary to the usual assumptions about domestic politics, publics throughout the world are acutely aware of how interconnected our globalized world is — and, consequently, how we are all affected by the questions on the G20 agenda.

The Case for a More Functional Financial System

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Institutional and Political Context

There is now an emerging acceptance that the way the financial system is shaped is a crucial determinant of economic development, although there is not a consensus regarding the requirements needed by a financial system to operate in a functional way. Roughly speaking, the argument that unifies the different approaches to this relationship involves two basic premises: the investment is central to the process of economic development, whether as a determinant of aggregate demand or supply; and the financing conditions play an important role in allowing these investments to materialize.

The role that investment and its financing conditions play on the dynamic of economic development, in the short or long run, is easily and intuitively understandable, but the process of economic development has some specificities that should be emphasized. Economic development is well recognized as a complex phenomenon that involves not only economic growth (increase of aggregated output in a purely quantitative sense), but also, and mainly, the so-called "structural changes." The latter includes many changes, which may, in many combinations with each other, accompany the process of economic growth in the long run, such as: changes in the productive structure of the country due to the implementation or consolidation of new sectors and, therefore, of new goods and services; changes in the productive processes due to technological innovations in production functions of established sectors, usually followed by (or seeking the) growth in the factor's productivity; changes in social structure resulting from changes in the profile of wealth distribution, consumption habits or, indirectly, the degree of people's access to certain goods and services (for example, transport, sanitation, health, education, urban services and financial services); institutional changes arising from the creation of development institutions and/or from institutions that regulate markets or specific sectors, among others.

Whatever the characteristics of the process of economic development in progress, it materializes through the implementation, either spontaneous or driven by government policies, of a series of investment projects in a new productive capacity. These investments add new physical or human capital to existing productive capacity, which generates changes in production functions. As long as it involves a number of productive investments and some degree of innovation (broadly speaking) of productive, social and institutional structures of the economy, economic development is an evolution that takes a long time to be fully observed.

For some firms, the problem is finding the appropriate combination of its own capital and third-party resources, in its various forms, in order to balance the maturity and size of its liabilities to the expected return of its assets (long-term investment), also taking into account the amount of its financial needs to fund the required investment. In this case, the greater obstacle lies in the fact that the future is unknown (uncertain), both for the firm that seeks financing and to the lenders, and, as a consequence, the success of the transaction depends on the confirmation of the expectations behind it.

At the macroeconomic level, the problem is slightly different. The capital requirements and uncertainty involved in the process are broadly extended when it comes to financing a heterogeneous set of investments — simultaneous or staggered in a relatively short period of time, as occurs in each round of the process of economic development. The difficulties are even greater if we consider two other typical aspects of the development process: First, there is no way to promote a perfect coordination among the various individual investment expenditures in order to avoid an overload of the financial market given by prolonged periods of excess demand. Second, an important part of this investment expenditure goes to new sectors — production or production processes of the economy that do not have a previous history of accumulated profits. This absence of historical performance entangles the combination of own capital and third-party resources of innovative firms since the access to the third-party resources become more expensive and more scarce.

Finally, it is worth noting that, when considering the financing of a particular company (from the perspective of the investor) it is assumed, implicitly or explicitly, that a diversified financial infrastructure exists that enables the firm to assess a vast array of financing possibilities and decide on the most adequate one. In practice, however, this condition is not guaranteed, either to a firm in isolation or, even less likely, for the whole economy.

Therefore, in a long-term aggregated perspective, solving the problem of financing economic development requires much more than entrepreneurial "expertise" in choosing the best capital structure. It is necessary to establish and maintain an environment conducive to the formation of a diversified system of institutions (private, public and regulatory) and financial instruments able to offer alternative financing sources for the "deficit units," as well as instruments for risk protection to the "surplus units" (which includes the final savers, in the form of individuals, and financial institutions, that manage third-party resources).

The experience of the so-called developed countries demonstrates that there is no ideal model of a financial system to support economic development. As Zysman[24] shows, in a historical perspective, both financial systems based on capital markets and financial systems based on bank credit have been successful in this issue. On other hand, Zysman also shows that few countries have simultaneously combined financial and economic development. Among the G7, for example, only the United Kingdom, United States and Germany have done it — the first two with systems based on capital markets, and the latter with a system based on bank credit, composed by multiple (universal) banks. The rest of today's industrialized countries and all developing countries, whose industrialization evolved in the post-World War II period, supported this process with government-credit-based financial systems, in charge of large public banks and/or development agencies, in partnership with major private bank.

The predominance of public credit systems at key stages of economic development in various countries in the postwar era is not a coincidence. From the Keynesian-Schumpeterian perspective, the conditions inherent to the process of economic development and the typical mode of operation of financial markets help to explain this pattern. As already noted, the process of economic development is marked by great uncertainty and high capital costs, although it may also involve high private, macroeconomic and social rates of return. However, it is natural (due to the rational behaviour of the agents) that the potential suppliers of financing presumably (though not necessarily) refuse to take high risks, especially in scenarios with a high degree of uncertainty. This behaviour is explained by two things: on the one hand, a high degree of uncertainty makes predicting and assessing (or even preventing) the risks involved difficult; on the other hand, the inclusion of high risks to the required rates of return of financial assets can raise costs substantially for potential borrowers, inhibiting their demand for funds.

[24] Zysman, J. (1983). *Governments, Markets and Growth*. London: Cornell University Press.

The combination of these elements makes the financing of development a difficult task, even in countries where an advanced stage of economic and financial development was achieved. In sum, the usual conditions of operation in the assets market contribute to making the financial market (and financial system) "incomplete" and dysfunctional, with respect to the financial needs of the economic development process. In this respect, investments in innovations (considering all its stages) tend to be particularly penalized, since in these cases, the uncertainties regarding the results of the business tend to be higher for both the creditor and the debtor of the operation.

The lack of functionality of the financial system with regards to the needs of economic development (or even economic growth) may have unfavourable impacts on the dynamics of the economy that go beyond the delay of the development itself. Indeed, in periods marked by pessimistic long-term expectations, as suggested by Keynes,[25] any progress in the economic development process tends to be prevented because, on the one hand, the spontaneous investment is limited and, on the other hand, incentive policies to invest not followed by adequate provision of public financing (especially credit) will be doomed to failure, because of a total lack of other available financing sources.

In periods of optimistic expectations, given the scarcity of sources most appropriate for financing, the planned investments may be financed by some combination of equity, short-term credit and foreign credit — the latter available only if the economy operates with a reasonable degree of financial openness and the expectations of foreign investors about the country in question are also optimistic. In this case, the (inadequate) structure for financing investment is characterized by high mismatch of periods and currencies, and, therefore, for high risk conditions.

In short, in the absence of a financial system able (or willing) to meet the needs of the agents in the process of economic development, each cycle of expansion of investment will be accompanied by increased financial and/or external fragility, which increases the risk of this cycle being interrupted due to banking and/or exchange crises. The concept of functionality of the financial system, formulated by Studart,[26] synthesizes the idea: “Functionality is defined as follows: a financial system is functional to the process of economic development when it expands the use of existing resources in the process of economic development with the minimum possible increase in financial fragility and other imbalances, that may halt the process of growth for purely financial reasons.”

Thus, the functionality of the financial system is not a detail that if present can "boost" the results of each round of economic development, but a fundamental condition for development in the long run.

Financial System, Financing of Innovation and Financing of Development

Under such circumstances, the fundamental question is: which model of financial system is more functional to encourage investments in general and investments in R&D, given the important role played by innovation in the development process, as suggested by Schumpeter?[27] It is difficult to assess, empirically, the functionality of a type of financial structure for economic development or a financial structure that is more functional in supporting economic development. Both the market-based and the credit-based financial system had successful experiences in giving support to economic development, as in the United States and United Kingdom in the first case, and Germany and Japan in the second.

[25] Keynes, J.M. (1936). *The General Theory of Employment, Interest and Money*. London: Macmillan
[26] Studart, R. (1995). *Investment Finance in Economic Development*. London and New York: Routledge.
[27] Schumpeter, J.A. (1911). *The Theory of Economic Development*. Cambridge: Harvard University Press.

For developing countries, particularly with poorly developed financial systems, the solution to the financing of investment and of innovative activity is not a spontaneous result of the market forces. Quite the contrary, it requires the existence of public financial instruments to support R&D. This is because such countries often have a reduced ability to raise capital and the corporate culture is less willing to spend retained earnings in innovation. Thus, these countries tend to focus initially not on the development of advanced technologies, but on the acquisition of knowledge of mature technologies, and, in a second step, when they are able to perform a successful learning process, on phases of incremental innovation. As a consequence, the establishment of national innovation systems, as well as the development of financial structures/instruments/institutions helps the developing countries to reach higher phases of the technological cycle, where they can generate their own technology. Discussing ways to make the financial systems of (mainly) developing countries more functional is one of the contributions of the G20.

Another important aspect of the function of the financial system has to do with the role played by the development banks. The principal characteristic of these institutions is the mission of providing long-term loans to finance investment in companies. This mission is justified by the fact that many economies do not have long-term financing channels for productive investment, as well as by the reluctance of private financial institutions to provide financing for investments that can generate positive externalities for the economy or for activities in which the presence of significant economies of scale requires that investments be made on a large scale. Thus, the main risks involved in the operation of these institutions are credit and operational risks. On the credit risk, it mainly opens questions related to the appropriateness of the implementation of Basel-type (Basel II and Basel III) rules to these institutions. It is important to notice that their operational logic is not the same as the private financial sector, even when the question of systemic risk is not taken into consideration — which is not the case in practically all situations, since these types of institutions, given their nature, are not in the centre of the payment systems of the economy. In almost all historical experiences, their creation is due to the incapacity of the private financial sector to provide the same services. Consequently, the limits that apply to their activities cannot be the same as those applicable to ordinary commercial banks. On the other hand, their nature as state bodies suggests that events that can compromise their capacity to properly exercise the functions for which they were designed can be more important than risks that threaten the bankruptcy of the institutions. These typical characteristics of development banks — especially banks in emerging countries — point to the inappropriateness of the application of the Basel Accord to these institutions. Discussing how development banks should operate and to what degree Basel rules (Basel II and Basel III) should (or if) be applied to development banks is another contribution of the G20.

Note to the Mexican Presidency: Consolidating and Deepening the G20 Commitment to Global Food Security

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Since the 2009 G20 summit in L'Aquila, Italy, global food security has had a place on the G20 agenda. Last year, the French presidency put together an impressive array of technical meetings, with the goal of mobilizing international organizations and G20 member states to strengthen food security. By the time of the Cannes G20 Summit, however, and its final declaration, G20 action had largely underachieved. Unable to push an integrated and far-reaching set of policy recommendations that would bolster food security, the Cannes communiqué instead settled for scattershot initiatives and half-measures. Although President Calderón pledged to continue to push the G20 for solutions to long-term global food security, two inherent tensions within the G20 limit its effectiveness in this endeavour. This memo suggests an approach that the Mexican presidency can take that could yield much more promising results.

At first glance, global food security should be an obvious candidate for G20 action. A billion people are hungry on a daily basis, sporadic outbreaks of famine kill tens of thousands, and food price volatility causes political unrest and threatens the vulnerable. Add long-term concerns about the future ramifications of population growth, resource shortages and climate-induced stress to the ability of future generations to feed themselves, and it is easy to see why few issues are more critical to human security. Despite its importance, the overall international governance architecture for addressing global food security is weak. In its absence, governments pursue food security on a national basis, and treat global food security largely as a humanitarian afterthought. Such a compartmentalization of the issue brings its own irony: in an interdependent world, the national pursuit of food security can have negative externalities that exacerbate food insecurity elsewhere, which is then treated as an issue of charity for those less fortunate.

The problem, however, with the G20 as an advocate for global food security is that many of the members of the G20 pursue national food policies that have major negative repercussions on the food security of others. Agricultural subsidies, food export bans and wrong-headed supports for biofuels are among the culprits. In a morally pure world, the individual G20 members would agree among themselves to each stop their policies that weaken the food security of others, but I'm not going to hold my breath waiting for the food and agricultural equivalent of unilateral disarmament. This is directly related to the legitimacy question that has dogged the G20 from the start and is unavoidable: any solution to global food insecurity pursued by these 20 countries will be incomplete and perceived to be largely self-serving. The G173 will be right to be skeptical of steps taken by the G20 to strengthen the G173's food security. Whatever the G20 decides to do, the G173's attention will be riveted on what the individual member states of the G20 *refuse* to do: end subsidies, end food export bans and end large land grabs that have little or no protection for local populations. The G20 is also an imperfect vessel on food security for the simple reason that it will take more than G20 action to end global food insecurity. Food security, like economic development and poverty alleviation, resides in the basket of problems that require national governments to implement good policies. International institutions can help create an enabling environment for good national policies to succeed, but the burden is on national governments to choose good policies. Therefore, any solution to global food insecurity will depend on the G20 and G173.

And herein lies the reason why the G20 should choose a different strategy. It should pursue a bargain among the G20 and the G173 that explicitly states what is expected of food insecure nations in terms of agricultural, food and rural development policy, and ties that to explicit G20 commitments on trade, aid and food governance. Such an approach could ultimately provide more food security for the G-173 *and* the G20. A world where most nations actually pursue smart agricultural development policies is a world where big, powerful countries are less likely to need to ban food exports or acquire vast arable land holdings on other continents, to name but two of the policies that individual G20 member states currently pursue to protect their own national food security.

The Mexican presidency can be a game-changer on this issue by being honest about the limitations of the G20 approach to global food insecurity; by proposing a global approach to food security reminiscent of what the Monterey Conference achieved in financing for development nearly a decade ago; and by working to forge a common front among the G20 in terms of what it would be prepared to do in terms of trade, aid, agricultural research and governance if the G173 were to commit to hold up their end of a grand bargain concerning global food security.

Think-20: Briefing Note to the Mexican G20 Presidency

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Building Credibility

There is little doubt that the G20 lost credibility over the course of 2011, and as a consequence, also lost ground to the G7. This is a worrying trend, and it is welcome that the Mexican presidency is committed to getting the G20 back on track.

At Pittsburgh, leaders self-designated the G20 as the "premier forum for our international cooperation." Ultimately, G20 credibility must therefore stand or fall on its performance of this role. It follows that the G20 must stick to its core competencies, avoid being distracted by the constant temptation to add new areas of responsibility and deliver on existing commitments.

In particular, G20 leaders have repeatedly and publicly committed to delivering "strong, sustainable and balanced growth" for the world economy. Yet, as the latest set of global forecasts from the IMF and World Bank point out in the bluntest of language, we are currently a dangerously long way from that target. Rebuilding G20 credibility requires moving the world economy back towards a safer trajectory.

Until the current crisis is resolved, this means that any and all proposals for G20 action could helpfully be assessed against the metric: *how will this move the world economy closer to strong, sustainable and balanced growth?*

Given that G20 leaders have now received repeated and explicit warnings about the current risks facing the world economy, a visible failure to respond effectively would risk inflicting severe damage on G20 credibility in the event that those risks subsequently materialized. Adding new items to the agenda, no matter how worthy, would do little to inoculate leaders or the G20 itself against such a public failure.

A Realistic Contribution from Mexico/Deliverables

It follows that the Mexican presidency needs to be about ensuring that the G20 makes a positive contribution to the management of the current euro zone crisis — which is itself a continuation, in many respects, of the 2007–2009 crisis. That means both maintaining an appropriate degree of international pressure on the Europeans to do the right thing, including, in particular, over the size and resilience of a euro zone "firewall,", while also ensuring that the IMF has adequate resources available to deal with any adverse spillover consequences for the rest of the world economy.
Brokering a deal on "funding the Fund," especially given the stated reluctance of several key countries to make further contributions, would be a particularly important achievement in this regard and, as such, represents a potentially critical "deliverable."

Suggestions on Format/Agenda

The Mexican presidency should:

- Avoid running with a long list of varied items that will result in insufficient discussion on any one issue and, instead, produce a tight, focused agenda that concentrates on what the G20 can do to respond to the current risks facing the world economy.

- Demonstrate a willingness to step back from the current bureaucratization/standardization of the format of G20 meetings in order to target the discussion on the immediate policy challenges.

Greening the Agenda

Bearing in mind the above suggestions regarding limiting the agenda and avoiding the needless addition of new items, the G20 should (again) concentrate on meeting existing commitments. One obvious area would be continued progress on the Pittsburgh commitment to “rationalize and phase out, over the medium term, inefficient fossil fuel subsidies that encourage wasteful consumption” as re-affirmed at Toronto and Seoul.

**Heading for the Mexican G20 Summit 2012:
Prioritizing Social Protection and Resilience in the Midst of Great Recession**

Maria Monica Wihardja, Consultant for ASEAN and G20 Global Financial Stability Group at Bank Indonesia

A Changed Global Landscape

This year's G20 summit has to be different from the previous years. No one can deny that the global geopolitical, economic and social landscape has changed rapidly.

The dust has yet to settle in the euro zone and the United States, which have endured prolonged economic turbulences that have spilled to the rest of the world. There has also been the “triple” disaster in Japan, the Arab Spring in the Middle East and North Africa, rising tension in the South China Sea, the North Korean leadership succession, the Western condemnation on the Iranian nuclear power program, the shift of the US military strategy to the Asia Pacific with its new Darwin-based military build-up, and so on.

Meanwhile, we have seen national leaders from Europe (including Italy, Greece, Portugal, Ireland and Spain) and the Middle East and North Africa (Libya, Tunisia and Egypt) toppled or removed after protests for economic betterment and democracy. Tensions have risen between the old-power nations (the G7) and the rising-power nations (the BRICS) over currency and trade (China and the United States), South China Sea (with the United States supporting the non-Chinese claimants), and Iran's oil import sanction (the United States and European Union vs. Russia, China and India). Many countries resorted to rising protectionism as a “tit-for-tat” strategy, while the WTO Doha Round remained stalled. Food and energy sectors became more competitive, rather than cooperative, battlefields.

This year will also see a possible change in leadership in the United States (and a change in China) that adds to the global uncertainty (but less so for China). All these issues will not be over by the time the G20 Mexico summit takes place in June, let alone the year(s) after.

With so little space to move and so little time to spare, what can this year’s G20 do *differently*?

Concrete Deliverables and Realistic Contribution

The agenda must be continuous, implementable and focused in order to have concrete deliverables. There is a lack of "collective memory" in regards to previous summits. Last year, G20 leaders formalized the troika, made up of past, present and future presidencies. This is an improvement, although there is no guarantee that there will be a continuation in the G20 agenda. Given the short gap (seven months) between the Cannes summit and the Mexico summit, this continuity factor becomes even more important.

A continuation of the agenda must also be supported by a clear implementation plan. Some G20 leaders committed to actions as a win-win strategy for the international community, but without clear evidence and study of the benefit of such a commitment, nor a clear implementation plan.

Lastly, we still need a laser-like focus on some crucial issues, without being too “interrupted” with other issues that are duplications of issues already discussed in other fora.

With so much social unrest and so many people trying to make ends meet throughout the world (which is likely to increase, especially with expected recessions in the euro zone), as well as austere fiscal policy measures and a worsening trade sector in emerging countries, Social Protection Floor, an initiative that was endorsed by G20 leaders last year, must become central to the upcoming G20 summit. Other social safety net programs and programs that improve social resilience should also be prioritized. Meanwhile, the Multi-Year Action Plan on Development (2010) and the G20 Task Force on Employment must also be consistently enforced.

From the deputy finance ministers and central bank governors' meeting in January, there are four key issues that dominate the agenda: IMF quota and voting reforms; financial sector reforms; commodity and derivative markets; and disaster recovery management. These issues are discussed below:

1. With IMF quota and voting reforms, emerging market and under-represented countries get higher shares. With the emerging countries' share of the global economy rising, IMF quota and voting reforms will better represent a new global economic landscape. Hence, these reforms should be on schedule.

2. Financial regulatory reforms include the progress on the implementation of Basel III. Basel III is an example of an area that leaders from emerging countries have committed to, but without a strong position. Skepticism around it continues to exist. Hence, during the coming informal meeting among G20 emerging countries, emerging countries have to come up with a strong position on financial regulatory reforms, and not continue to see the financial reforms as measures designed for industrialized economies with well-developed financial markets.

Moreover, it is important to discuss how to better connect financial and real sectors. Otherwise, such a disconnect may increase skepticism over capitalism, globalization, financial greed and inequality, and trigger more social unrest.

3. The Commodity and Derivatives Markets Working Group is co-chaired by Indonesia and the United Kingdom. As an emerging economy, whose derivative market is still underdeveloped but whose commodity prices are volatile, partly because of derivative trading on commodities, Indonesia can balance the position of the United Kingdom, for example, to push for regulated commodity and derivative markets. This is the sort of “balancing” agenda we want to see resolved at the G20 level. It strikes a balance between developed and developing countries.

4. Disaster recovery management is an area where many of the G20 countries (for example, Japan, Indonesia, Australia and the United States) will see the benefits, since they are located in disaster-prone areas. There is room to align with regional initiatives. APEC, of which nine G20 countries are members, initiated the APEC High-level Policy Dialogue on Disaster Resiliency (2011) and APEC Trade Recovery Guidelines. The East Asia Summit, of which seven G20 countries are members, initiated the Practical Approach to Enhance Regional Cooperation on Disaster Rapid Response (2011), which addressed bottlenecks in visa, customs and quarantine issues, and other bureaucratic issues in disaster relief efforts. Most importantly, local resilience is the best weapon for disaster relief, while government and international NGO's aid tend to be hindered by bureaucratic issues.