

Rebalancing Global Economic Governance

— Opportunities for China and the G20 beyond 2015

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

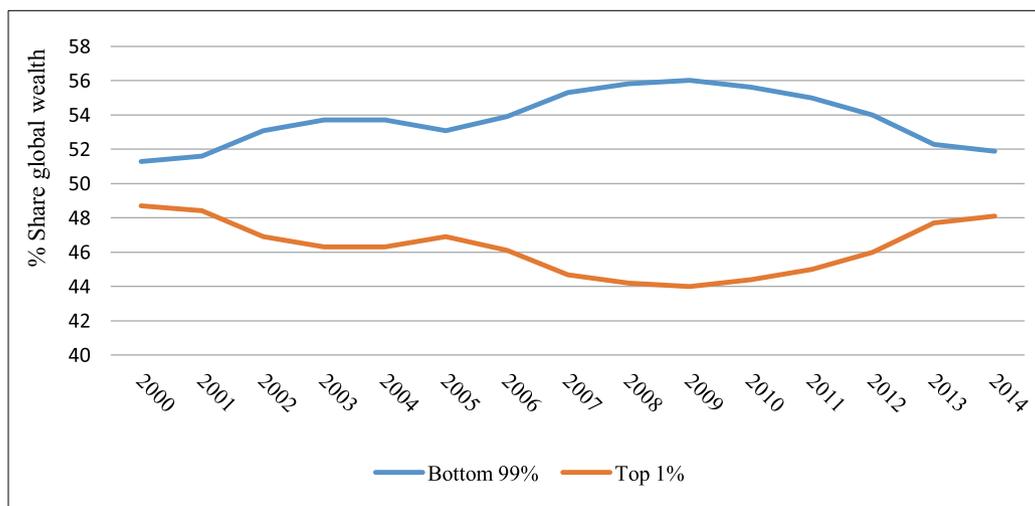
The report is divided into two main sections; each section containing two chapters. Concluding recommendations are provided at the end of every chapter.

What demands does global economic governance need to address?

Increasing global imbalances

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

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



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

A global call for sustainable development

As a result, a global call for sustainable development has emerged. This requires the international community to step up to provide answers and solutions to global challenges. Indeed, 2015 represents a key breaking point; as it is the year that the MDGs were planned to be achieved and the year that a new set of global goals will be introduced. The 17 Sustainable Development Goals (SDGs) now under discussion try to pave the way towards a sustainable development path that tries to address development in its three dimensions, social, economic and environmental. In parallel with the adoption of the post-2015 agenda this September, the UN global agenda is working to achieve two other main priorities that, though being trialed separately, will strongly impact the effectiveness of the others. One refers to the third International Conference for Financing for Development to be held in Addis Ababa in July that will try to reach agreement on the modus operandi for mobilizing resources to support the Post-2015 agenda. The other will discuss a global agreement on climate change at the United Nations Framework Climate Change Convention (UNFCCC), to be held in Paris in December.

Figure II. Six core elements proposed by the Secretary General's Report



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

While these shifts and needs are explored, we conclude with a number of specific points regarding how the success of the MDGs should be taken forward to underpin the Post-2015 Agenda. The report firstly suggests that each country responsible for implementing the SDGs should prioritise their respective goals. Secondly, given the world's current imbalances, this report calls for the international community to rethink the global economic governance structure and to reconsider the macroeconomic policies currently in place towards a shift that favors stability and development.

Thirdly, in order to build inclusive and sustainable economies, metrics to evaluate economic performance must become broader, deeper and more precise. Therefore, enhanced data

availability is now crucial for pursuing an evidence-based course towards sustainable development. This will help to overcome two main global challenges, namely invisibility and inequality.

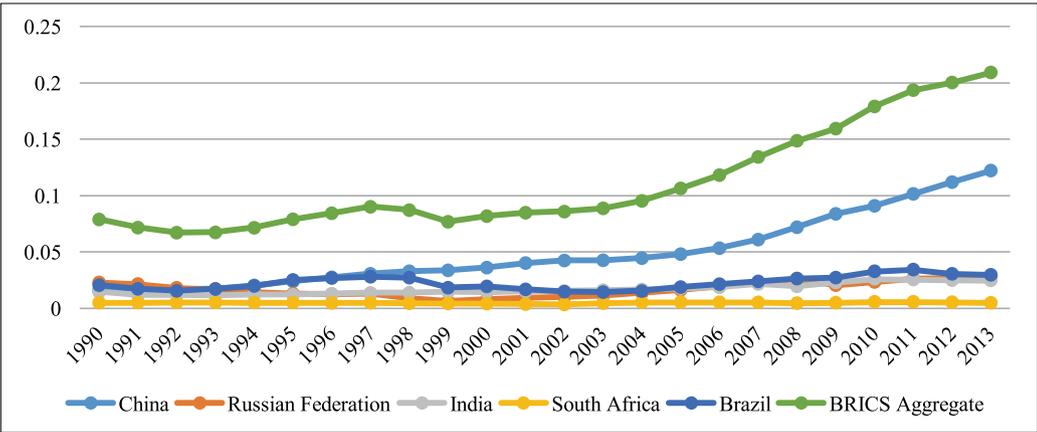
Confronting challenges towards the delivery of the Post-2015 Agenda

A fragmented global order

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

One of the main reasons behind these recent developments is the fact that the current system is built on a dual-structure of economic rules that differentiates developed and developing countries. This pattern does not match the current triple-structure of global power characterised by the advent of the ‘emerging economies’; a group that has risen in-between developed and developing countries.

Figure III. Share of GDP among BRICS countries



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

Strengthening the means of implementation

At the same time, through the work on the Post-2015 Agenda draws near there has been a renewed call for strengthening multilateralism, alongside open discussions on ways to reform the UN to better deliver this agenda. While clear, universal goals will define what future

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



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

Defining a global response

The above analysis paves the way for the second section of the report where the focus moves to identifying possible global responses to sustainable development. Specifically, since the Forum took place – and the report was written – in China, the third chapter considers China's significance as the largest developing country in the world. The report investigates the role that China can play in delivering the public goods and global economic governance shifts identified in the previous chapters.

China as a bridge-builder

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

important. Given China’s position as a G20 nation, its backing of voting reforms that are currently taking place within the Bretton Wood Institutions, its assistance with the establishment of new institutions such as the BRICS New Development Bank (NDB) and the Asian Infrastructure Investment Bank (AIIB), China is expected to further influence the international economic architecture in years to come.

Figure IV. The Belt and Road initiative



Source: Xinhua Finance Agency (2015).

These outstanding results should be understood within the context of China’s unique experience and future challenges. China has risen, but its rise has also been incomplete. China is on track to continue to lift millions more people out of poverty, but also has major economic reforms to continue, and massive environmental degradation to reverse. These changes are required at the same time as China is making significant advances in the area of global governance. While the dilemma of China’s rise defines its position in the global market, its domestic needs strongly influence its international progress. The complexity of China’s international position makes its role in global economic governance conditional, a ‘work in progress’ characterised by the intricate coexistence of both strength and weakness. What is certainly true is that China’s development experience, both past and present, is profoundly valuable for the international community as a whole. Further, China’s experience might also provide a solid foundation on which it can build itself a more proactive position in the future, especially if future steps focus on the following three strategies. Firstly, China may focus on integrating the domestic agenda into the global agenda, whilst strengthening mutually beneficial (or “win-win”) cooperation on a global scale. Secondly, China could embrace new institutions and enhance coordination among new and existing institutions to ensure they complement one-another, create synergies and build new solutions to global problems. Thirdly, China could maximise alliances with other countries, both developed and developing, especially in areas such as poverty alleviation, growth and development. A great opportunity to align these strategies might arise with China’s G20 presidency in 2016 and with the implementation of the post-2015 development agenda.

development this year, this could provide impetus and momentum for the implementation of the United Nations post-2015 global development agenda.

Overall, our top message through the report is that prioritising development – in all its initiatives but particularly the 2016 G20 presidency – could offer a useful way for China to strengthen its political and economic role at the international level. China could do so by focusing on one or more specific priorities both at the Leader’s Summit and the DWG. For instance, these priorities could be:

a) Boost economy while investing in infrastructure and sustainable business

By building on the negotiations in Turkey within the newly created G20 Investment and Infrastructure Working Group, China could further drive the agenda and promote a specific list of investments in physical and social infrastructure projects and commercial activities, with a particular focus on developing countries and least developed countries (LDCs).

b) Enhance green growth

Based on the G20 Principles on Energy Collaboration and G20 Energy Efficiency Action Plan reached in 2014, China could encourage new commitments to energy efficiency, clean energy and investment in R&D to boost technology, or an agreement to reduce tariffs on and prices of environmental goods.

c) Foster innovation

China could create synergies with other G20 members and strongly drive support towards the promotion of innovation. In doing so, China could push for major investments in research and development with focus on several key areas that favours sustainable development. Further, a special attention could be given to practical issues related to technology transfer to accommodate the needs of LDCs and low-income countries (LICs).

d) Enhance balanced and inclusive growth

China could help address inequality globally by encouraging further action by G20 countries on domestic taxation, the development of social protection measures to reduce gaps in certain areas such as nutrition, health and education, or other types of policies. Further, China should continue in the efforts towards gender equality following and further strengthening the work done up to now by the newly established Women 20. Specific funds for implementation of the SDGs related to social issues could even be created by the G20.

e) Translate the SDGs to a national level

The Post-2015 Agenda has become a special priority in the G-20 agenda, particularly due to the Turkish presidency. In its presidency, China could take this forward by encouraging all G20 countries to show leadership by explicitly shaping or publishing their national strategies to align

with the SDGs, with regard to both the universal goals and also to the means of implementation.

f) Strengthen the international tax system

Building upon the attention to domestic resource mobilisation raised at the Korean, Australian and particularly Turkish summits, China can push to build consensus on the broader implementation of BEPS measures and transparency mechanisms in the international tax environment, with a particular attention to protecting the interest of LDCs against illicit financial flows. A more specific proposal could be designed to support LDCs in strengthening their tax administration capacity and implementation.

g) Spur a data revolution

China could encourage the G20 to engage with and lead on the development of big data techniques in supporting the Post-2015 Agenda, potentially by providing finance for the use of big data. This could support improved productivity in the public sector, provide a better understanding of socioeconomic development trends, improve poverty mapping and allow for more sophisticated urban transport planning, among other uses.

h) Harmonize IFIs towards the financing of the Post-2015 Agenda

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

i) Strengthen inclusive institutions

China could use its G20 leadership to continue the push for reform to the international economic system and financial architecture, in partnership with the other emerging economies. China could itself do more to enhance the visibility of other developing countries that are not in the group, building on the G20 5th anniversary vision statement from the Russia Summit. China could for instance create a formal mechanism for meeting with the G77+China.

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

Reflections on Global Economic Governance

As a way to continue the discussion of the second Global Governance Forum, the report dedicates the last part to the reflections of our participants and experts. Though each part promotes a different perspective, we have endeavoured to follow a logical rationale and to promote recommendations that can serve as food for thought. 2015 is a year of big challenges, but also a year of change and great expectations towards which all of us can contribute and make the desired progress happen.

1. Enduring barriers in global economic governance

Randall GERMAIN

2. Economic security - Key challenge of the 21st century

Andras INOTAI

3. Facing global economic governance gaps - The international monetary and sovereign debt restructuring regimes

Aldo CALIARI

4. Global public interest - The key to establish a new order of global governance

CHEN Wenling

5. Africa's dream for global governance - How can China help realise it?

Fantu CHERU

6. An unfinished agenda - The rise of China in a Gaussian framework

FU Jun

7. China's opportunities for global governance

SU Changhe

8. China in the G20 - From membership to leadership?

REN Xiao

9. China and the 2016 G20 - Likely themes and initiatives

LI David Daokui

10. China's G20 presidency in 2016 - An opportunity to refocus the G20's development agenda towards economic transformation

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