

Second High-level Policy Forum on Global Governance

Beijing, China

22 October 2014

Scoping Papers

Disclaimer: The views expressed herein are those of the author(s) and do not necessarily reflect the views of, and should not be attributed to, the United Nations Development Programme.

Table of Contents

SCOPING PAPER I

Global Economic Governance and the Role of International Institutions	2
Executive Summary	2
1. Current Situation: From Multilateral Moment to a Fragmented Global “Disorder”	4
2. Key Issues and Challenges within the New Global Context	6
3. The Way Forward: Creating New Drivers	6
Selected References	14
Appendices	16

SCOPING PAPER II

Sustainable Financing for Development in the Post-2015 Context	23
Executive Summary	23
1. Introduction: The Debate on Sustainable Financing for Development in the Post-2015 Context	24
2. Financing trends, financing needs and challenges beyond 2015	25
3. Challenges in public finance	29
4. Challenges in private finance	31
5. The Way Forward	32
References	34

SCOPING PAPER III

The Role of Developing Countries in Global Economic Governance with a Special Analysis on China’s Role	36
Executive Summary	36
1. Introduction	37
2. Developing countries and global economic governance	37
3. China and GEG	43
4. The Way Forward	46

Global Economic Governance and the Role of International Institutions

Colin I. Bradford, Brookings Institution

Executive Summary

The challenge is how to move the global economy, global governance and the global system of international institutions forward in the context of a fragmented and fractious global order.

Themes:

- The world is now in a different force field than immediately following the global financial crisis in 2008 when there was a possibility to achieve reforms in both global governance and the international institutions.
- The current context is one in which *contradictory forces coexist simultaneously*: competition and cooperation; alignment on some issues and adversarial relations on others; partnership and conflict.
- *No major breakthroughs, new grand strategies, and quantum leaps forward are possible at the moment*; the nature of the fragmented global order has to be accepted and worked within rather than resisted; innovative soft power norms and behaviors may reap greater results than formal, hard power institutional reforms.
- The financial crisis of 2008 had widespread, tangible impacts on the lives of people throughout the world. People lost their jobs, incomes, pensions, houses and sense of security. An angry public fed increasing politicization of policy debates and increasing polarization in politics. Public trust in government and other institutions plummeted and remains low in many countries. . *The challenge of restoring public trust in leadership and institutions is the fundamental challenge of the current context and the underlying issue* that needs to be addressed *in order to* strengthen global economic governance and the international system.

Issues and Possible Actions:

- The Post-2015 sustainable development goals (SDG) agenda presents an opportunity to address palpable issues of consequence to the lives and livelihoods of people : education, gender equality, health, food security, water and sanitation, energy, jobs and equitable growth, sustainable resource management, governance, personal security, an enabling global context , and last but not least, poverty reduction. (HLP) *This discourse of the Post-2015 agenda has the opportunity to connect with the hopes, aspirations and practical everyday needs of people* and the potential to restore trust in leaders and institutions as a result, which differentiates this global effort from the arcane, technical, exclusionary economic discourse of the G20 and the international financial institutions (IFIs).
- The year 2015 is an important year for global governance and institutions in that it is both the culmination of the Millennium Development Goals (MDGs) and the articulation and agreement on the Post-2015 agenda at the UN General Assembly in September. In addition, there will be a parallel track on financing for development (FFD) which will feed into Post-2015 UNGA and a culminating summit of the United Nations Framework Convention on Climate Change (UNFCCC) in Paris in December 2015. The experience of the international community with the MDGs, as well as with the International Development Goals (IDGs) and the Millennium Declaration that preceded them, is that *the strategic vision contained in the global goal setting process is a powerful mobilizing force for the implementation of the goals*. Therefore, 2015 is a pivotal year in not only setting the goals for sustainable development for the post-2015 agenda but also for linking them to the processes of operationalizing the new goals within countries, mobilizing resources and policies for them and ultimately implementing them.
- The core principle that elevates the global goal process to the level of strategic leadership is that the elements of each of the three sets of global goals (MDGs, IDGs and SDGs) are inextricably linked to each other *generating synergies between them and multiplier effects which result in higher yield outcomes* than silo-driven goals separated by different discourses, debates and decision making.
- These new realities require an inclusive mobilizing effort in defining and implementing the Post-2015 goals which vitally includes private sector business and financial leaders, civil society organizations and other

stakeholders in the key issue areas. Public support and private sector participation are vital to achieving the forthcoming set of SDGs. Government and private sector financing are both necessary.

- The strategic vision of the global goals is an essential but not sufficient galvanizing device for their implementation. Coordination mechanisms are necessary to achieve “coherent pluralism”. The fragmented global context require that networks for global coordination be more diversified, decentralized and fluid to accommodate the increasing complexity and diversity of the international system. Greater ordering of coordinating mechanisms seeking to maximize complementarities and divisions of labor among actors while being nimble and flexible will help advance the implementation process in a realistic manner.
- *The tension between representativeness legitimacy and effectiveness legitimacy needs to be embraced rather than deflected.* The United Nations and the G20, the premier universal membership organization and the grouping of the major economies, can also be simultaneously competitive and complementary since each can fulfill a vital function the other cannot. Their working relationship could be crucial to the Post-2015, FFD and UNFCCC decision-making processes.
- *The possibility that China might chair the G20* poses an opportunity for China to step forward to reinvigorate the G20 leaders-level summits in part by providing leadership in the G20 troika during the goal setting phase next year and by bridging the transition from consensus formation to implementation during the China presidency of the G20 in 2016. This would provide China with an excellent platform for demonstrating *domestic* leadership for the people of China’s interest in the content of the Post -2015 sustainable development agenda, *international* leadership on behalf of developing nations with a special stake in this agenda, and *global* leadership on the global economy in which advanced, emerging market and developing economies all have a vital interest.
- Finally, recent research and public opinion surveys in *the United States and China* reveal that there is a mutual understanding among U.S. and Chinese elites that the relationships between their two countries is one of “strategic mistrust.” U.S. – China prioritization of human concerns and sustainability challenges could be a means of increasing public trust in leaders and institutions globally while also increasing “strategic trust” between the U.S. and China. This proposal is not meant to privilege US-China relations in their foreign policies or bilateral relationships, each of which are complex, but rather to simply find a significant area of human concern on which their collaboration could make a substantial contribution to the world, to global governance and to the international system, with positive domestic repercussions within both countries.

1. Current Situation: From Multilateral Moment to a Fragmented Global “Disorder”

Multilateral Reform Moment: There was an opportunity to make a qualitative shift in the global system of international institutions and global economic governance at the onset of the global financial crisis in 2008. The establishment of the G20 leaders-level summits as the primary mechanism for managing the crisis was a promising shift from the era of the G7/G8 in terms of responding to the shifts in the global structure of output, income and trade in which non-western emerging market economies have greater weight. Significant efforts were undertaken to shift representational voting shares in the international financial institutions (the IMF and the World Bank). A promising agreement increasing voting shares for under-represented emerging market economies was finally reached on IMF reform at the Seoul G20 Summit in November of 2010. A substantial push forward on UN reform had been undertaken by UN Secretary General Kofi Annan in 2005 and was supported by many governments and outside experts in the next half dozen years. (Heinbecker and Goff 2005).

Despite considerable concerted efforts by multiple stakeholders and actors, the international reform effort has failed to achieve sufficient systemic reform of global economic governance and the international institutions. (Woods, 2012) The waning of the crisis in recent years has generated the public perception that the G20 Summits have failed to produce results even though there are many examples of success. (ANNEX I for recent G20 progress on global tax standards.) Many observers have come to feel that G20 leaders are not working together to advance the *public interest* in addressing global challenges and certainly it is the case that they are not seen to be doing so (CIGI, NPGL, 2009-2012).

Loss of public faith in international negotiations was increased by the inability to reach agreement on global climate change at the Copenhagen Conference in 2009 and the lack of meaningful progress in trade reforms of the WTO. Parliaments have not followed through on initiatives, in part because by nature they are more attuned to internal than external issues, and are often obstacles to international reforms, such as in the case of the IMF reforms foundering in the United States Congress. “Insisting on the importance of domestic institutions and policies does not mean adopting a closed or insular attitude” (UNCTAD 2014).

The IMF reforms are still stymied by the U.S. Congress as of this writing. The Seoul reforms and the 15th IMF quota increase, which would double IMF resources, have the support of 146 and 163 member countries respectively. Only 113 voting members are required for approval, but 85 percent of the weighted voting *shares* are needed for enactment. Those countries already supporting these two measures represent only 77.07 percent of the IMF voting shares for the governance reforms and 79.64 percent of the voting shares for the quota increase, well short of the 85 percent threshold required for implementation. (ANNEX II on the IMF.) The absence of U.S. support, which holds 16.75 percent of the voting shares, accounts for the shortfalls preventing the advance of both initiatives. Political polarization in the U.S. Congress, which in part originates from the public impact of the global financial crisis on ordinary Americans, paradoxically stymies the IMF reforms and resources necessary to prevent the next crisis.

Role of Parliaments: This critical shortfall at the interface between global reforms and imperatives and domestic politics and interests highlights a more general challenge in all nations of how to manage the crucial role of parliaments in determining key domestic policies and critical international commitments. Failures, like the IMF reforms in the US Congress, are indicative of *a broader systemic problem of gaps between national commitments to global agreements and domestic implementation that occur in many nations*. Communications, leadership and public understanding become central drivers in addressing the role of parliaments and other public bodies in addressing global issues.

Geopolitical Competition: More recently, there have been a plethora of moves by major powers that have ushered in a new era of geopolitical competition and even conflict, creating fissures and frictions in the global system. A strong resurgence in geopolitical maneuvering, predatory military ambitions, first-mover energy initiatives, and nationalism in domestic politics has shifted the global context from an era of multilateral cooperation to one of increasing geopolitical competition,

Regionalism in the Global System: The growing importance of regional political and economic institutions and regionalism as a strategic focal point and organizing framework add complexities to the global system. (UNDP-

CCIEE 2013.) New groupings, like the BRICS, and new institutions, like the Asia Infrastructure Investment Bank, the New Development Bank, Sub-Regional Development Banks (SRDBs) and swap arrangements within regions, create a *more pluralistic system* of mechanisms, institutions and relationships within the global context which needs to be managed in new, flexible and innovative ways. The current context manifests simultaneously increased depth and strength in regional arrangements and vivid examples where regional principles and agreements are breached. (France failed to meet EU fiscal deficit limit of 3 percent of GDP, to cite a very recent example.) Regional actors are now a reality; they are part of the complexity and cross-currents of the global context in which there are multiple layers and overlapping mandates. The key is to devise complementary relationships and clear divisions of labor. (Linn 2013; 2014)

Result: Fragmented Global Disorder: This evolution creates a new era in global politics and economics. The root causes of fragmentation of global order are (i) the democratization of “voice” through social media, which helped give visibility to “We the People”, and the pulverization of communications due to new technologies, with multiple sources and channels scrambling messages and making it hard for decision-makers to discern the public will, (ii) the proliferation of stakeholders on all issues, (iii) the popular backlash and distrust among publics deeply affected by the global financial crisis (iv) the rise of nationalism as a policy response to the public backlash and to polarized politics, (v) assertive geopolitical positioning undertaken by major powers, and (vi) the new systemic diversity of the multipolar structure of the global economy.

The fragmented global order is more complex, characterized by contradictory forces and cross-currents which crucially shape future initiatives, responses and prospects. Global governance, the international institutions and other actors have to navigate this force field, *finding areas where multilateral cooperation can occur, complementary relationships can be forged, divisions of labor can be established and multilayered initiatives can be made compatible.*

Central Overarching Issue is Public Trust: The current moment is unique in recent history in the degree to which publics around the world distrust their political leaders, their parliamentary bodies, business executives, financial institutions, markets and banks, and international organizations. The challenge of restoring public trust in leadership and institutions is *the fundamental challenge of the current context and the underlying issue* that needs to be addressed *in order to* strengthen global economic governance and the international system.

The lack of public trust is crucial to global economic governance because it forces a focus on domestic conditions and concerns affecting citizens everywhere which undermines the opportunity for national leaders to address global challenges and to contribute to strengthening the international institutions and mechanisms. The 2008 crisis affected publics everywhere by directly impacting their jobs, incomes, pensions and home mortgages. Banks seemed to get bailed out whereas people lost jobs, homes and a sense of security. With the many seeming to be hurt by the crisis while the wealthy few were shielded from its impact, there is a more intense sense of unfairness with rising concerns about inequality. Financial markets seemed out of control of governments. Leaders looked as if they were not taking responsibility for economic outcomes. Institutions meant to cushion the public impact of crisis seemed to fail to do so.

This public impact of the global financial crisis created the need to achieve global institutional reform and but also created the public backlash that severely constrained it, *“Most (people) fault their government for bad economic times and think that governments are doing a poor job of coping with current troubles.”* (Stokes 2011) Angry publics polarized the political discussion regarding everything from fiscal deficits, the role of government and the degree of financial regulatory reform necessary. (**ANNEX III**, Pew Research on US and Global Attitudes Surveys.) There has been a failure to articulate the interfaces between addressing global challenges and domestic volatility, financial instability and slow growth, weakening the momentum for strengthening international institutions with additional resources and long overdue reforms. (See Bruce Stokes (2011) Pew **ANNEX III**.)

The fundamental, underlying drag on global governance is the widespread lack of confidence in leaders and trust in both the public and private sector. For global governance to work now, this lack of public trust must be directly addressed by actions at all levels. For multilateralism and international cooperation to be re-invigorated, the domestic political roots of distrust must be directly dealt with by initiatives, reforms and new thrusts.

The question now is how the system responds to these shifts in the setting. The next section lists the key issues to be considered in the rest of the paper which identifies “ways forward” in this challenging context.

2. Key Issues and Challenges within the New Global Context

This new global context raises challenges as to how to move the global economy, global governance and the global system of international institutions forward in this more complex, competitive and pluralistic setting in which regaining public trust is essential. The key issues are identified below, and developed in section III.

The key issues are:

- How to work within the fragmented global order and manage the tensions characteristic of it now rather than push against the grain and try to re-assert the hegemony of the Bretton Woods era.
- How to highlight the importance of externalities in public policy debates in order to elucidate the centrality of cooperation and coordination as realistic approaches beyond markets for reaping high yield outcomes from linkages between domains previously treated separately.
- How to use the process of defining the Post-2015 sustainable development agenda as a means of strengthening the commitment to a balanced, inclusive, integrated and unifying global strategy by all nations thereby strengthening the global system of international institutions, including by developing a “fresh narrative” on sustainability of advanced, emerging and developing economies working together over the next year.
- How to create coordinating mechanisms for implementing integrated agendas for sustainability in a pluralistic, multi-faceted, complex, fragmented global order.
- How to mobilize private finance for investment in productive activities and sustainability in an era of fiscal constraints through financial regulatory reform that provides incentives for long-term investment in productive activities, infrastructure and sustainability.
- How to more adroitly manage the trade-off between representativeness legitimacy of universal membership organizations, like the United Nations, with the effectiveness legitimacy of smaller groups, such as the G20.
- How to be inventive and innovative in bringing forward new norms and behaviors which embody and transact within the new realities rather than relying on formal institutional reforms to be the primary means of resolving the tension.
- How to rethink key global relationships, like that between the United States and China, so as to intensify and broaden their joint engagement in global issues and so that they contribute more robustly to the international community and strengthen their relationship in the process.

3. The Way Forward: Creating New Drivers

This new global context raises challenges as to how to move forward the global economy, global governance and the global system of international institutions in this more complex, competitive and pluralistic setting in which regaining public trust is essential. Seven proposals are developed below for consideration.

1) Realizing the Benefits of “Cooperative Realism”

The key element in the post-2015 agenda is the degree to which it identifies linkages and externalities among issues which were previously dealt with separately by specialized professions and agencies. The International Development Goals (IDGs) of the 1990s and the Millennium Development Goals (MDGs) of the 2000s themselves made the linkages clear. Human health depends upon literacy and education, in which equal treatment of women as mothers and householders become crucial; human health is dependent on environmental

sustainability, ecosystems, water and sanitation. Without healthy mothers and children, and education, worker productivity and employability suffers. Poverty reduction goes beyond economic growth to the interconnected linkages of gender equality, education, health and environmental sustainability. Investing in only one link in the chain does not generate the higher yield results that would result if the goal domains are linked fields of action which move forward together.

The human realities in the global sustainable development agenda are holistic and intertwined such that comprehensive, coherent and coordinated approaches are required to address them. This raises the salience and leverage of cooperative approaches and coordinated responses to the post-2015 agenda and makes the rationale for them more realistic and powerful than in earlier periods when the vertical approaches were dominant over horizontal efforts. Strategic linkages generate higher yield outcomes anticipated from the dynamics that accrue through exploiting externalities. *The imperative for coordination arises from the significant presence of externalities embedded in the linked policy domains of global goals.*

The term “*cooperative realism*” attempts to capture this imperative as a reality in the world. Global threats impose significant social and environmental costs in the long-run, and these have multiplier effects, given the intrinsic externalities. Cooperation becomes a realistic, responsible and tough-minded response to these realities as well as to the new global context. In his chapter “The Way Forward” in 2005, Paul Heinbecker wrote: “In 1945, our parents were realists. They knew that the world might not survive another worldwide cataclysm. They knew that principle unsupported by power was unavailing and that power unconstrained by principle could have catastrophic consequences. They understood that cooperation would serve them well and confrontation would serve them ill.” (p. 187.)

To paraphrase Heinbecker in the current context, “the world will not survive ignoring the ravages of climate change, unsustainable energy systems, accelerating inequality, and mass poverty. The existence of linkages between issues, multiplier effects that accrue from synergies and externalities among them are realities which, if ignored and unmanaged, would be a failure of responsibility. Market forces in energy, finance, and labor without the constraints of oversight and regulation could have catastrophic consequences. In situations of market failure, only cooperation and coordination will serve the *public interest*.”

If these tenets are true, current generations can be realists, too, and adopt approaches which insist that the social, economic, environmental and political costs of *not* forging cooperative, coordinated and concerted actions in the public interest would be worse than market failure, because it would be a failure of public responsibility. *Cooperative realism* is based on the realities of inter-linked issues generating higher yield social outcomes in the *public interest*.

2) Promoting the Global Sustainable Development Agenda as the Galvanizing Device for the Post-2015 Agenda

(A) The IDG-MDG Experience: Lessons for the SDGs and the Post-2015 Agenda: In a 2002 paper for the World Bank on the implementation phase of the Millennium Development Goals (MDGs) which will culminate in 2015, it was stated that “*the central challenge in the implementation phase is to maintain the political momentum of the consensus phase.*” (Bradford 2002) The three major issues for implementation of the MDGs were: (i) how to *operationalize* the MDGs primarily from a country government perspective; (ii) how to *mobilize* resources and policies from both country government and international agency perspectives (FFD); and (iii) how to maintain the *strategic vision* inherited from the consensus formation stage.

Briefly, it is clear from experience with the International Development Goals (IDGs) in the period since their approval by the OECD industrial country donor governments in May of 1996 through the adoption of the MDGs by the international community in March of 2002 that a *deliberate national political decision* to adopt the IDGs and / or the MDGs by national governments of developing countries was essential. Neither the IDGs nor the MDGs were cookie cutter formulas that could be simply adopted by national governments or societies of developing countries. The country had to deliberate, debate, and decide on their own national interpretation and formulation of the goals, which were vetted with stakeholders in society and understood by parliaments, in order to be effectively implemented.

There also had to be governmental decisions regarding the internal processes and architecture for managing the country's implementation of the goals, including whether there would be a special inter-ministerial committee for managing the inter-sectoral nature of the IDGs and MDGs. Data is crucial in monitoring and evaluating progress toward achieving the goals. Data costs money; political, budgetary decisions need to be taken regarding resources to be available for data development and analysis. Demand-driven data collection and analysis is definitively more effective than supply-driven data dissemination because the end-users, namely political leaders, are the crucial client of the oversight process.

For donor countries, it was essential to involve parliaments integrally in the goal definition and follow up processes since parliaments are the ultimate sources of authority to allocate national resources. As the High Level Panel on Financial for Development (FFD) headed by former Mexican president, Ernesto Zedillo, pointed out the support for the MDGs would not be sufficient "unless public opinion in developed countries recognize the moral and utilitarian case for the MDGs".

Hence, the *implementation of the MDGs* both from a developing country government and an international donor perspective is *essentially a political process* in which the country's governmental leaders and parliamentary members must be involved, engaged and committed for implementation to be effective.

From an international perspective, the crucial lesson from the IDG and MDG experience has been that *the strategic vision* articulated by these two sets of universally approved goals was *the glue for both operationalizing the adoption and implementation of the goals and mobilizing* internal and international resources and policies for achieving them. In retrospect, it becomes clear that if the unity among major actors generated by the consensus-formation process does not carry over to the implementation phase, the operationalizing and mobilizing processes necessary for implementation will not be focused enough on common purposes to be successful in achieving the goals. (Bradford 2002)

The final conclusion is that, given the importance of engaging society and parliaments in goal definition and in implementation for success in achieving ambitious goals, *communications and engagement* of key stakeholders and public opinion in the both phases of the process are crucial to realizing the transformation embedded in global goals.

(B) Sustainable Development Goals (SDGs) and the Post-2015 Agenda: The post-2015 agenda presents the possibility for the international community to define for itself *for the first time* a common agenda applied universally to all countries. Whereas the MDGs, which nominally included developed countries, was in the end a global development agenda for developing countries. There is an important on-going debate about the degree to which universality *and* common but differentiated responsibilities (CBDR) will be included in the SDG agreement as an "overarching principle" beyond the environmental domain and beyond a "functional conception" which would be less binding. "The deep conceptual question remains as to how to integrate this duality of universality and differentiation in a unitary framework." (Leong 2014A.)

This attempt at universal inclusiveness has advantages of getting advanced country publics to realize that the sustainability agenda has meaning for them domestically, not just relevance internationally as a global development strategy. Nonetheless, there has to be flexibility for recognizing differential country contexts to be matched by differentiated approaches. Room for choice and difference in country approaches is necessary for country ownership. The proposal here is to use the post-2015 sustainable development agenda as a way to ramp up social mobilization processes and communications mechanisms to connect the new SDGs to national publics in ways that explicitly develop momentum for the transformative processes necessary to generate the sustainable development trajectories of all economies and the global economy as a whole.

As pointed out by Homi Kharas (2014), "the post-2015 agenda reflects an effort to build a *fresh narrative*, where development is no longer seen as a set of activities that advanced countries undertake to support those that are less developed. Instead in the fresh narrative countries recognize their *spillover effects* on each other and commit to both domestic reforms and international collective action to create a global context that is supportive of sustained prosperity for all." (p. 190.) As a consequence, countries are enjoined by the fresh narrative of the post-2015 agenda to "put their own house in order" for their own sakes but also to take responsibility for their impact on others. "The global sustainability agenda cannot be achieved if the major economies continue to

focus their actions only upon their own sustainability trajectory, without including their impact on the sustainability trajectory of other countries.” (p. 186.) *Aligning the G20 core agenda with the post-2015 sustainability agenda would enhance and enlarge the impact of each.*

An additional key feature of the “fresh narrative” is to highlight the key linkage between goals and to connect the goals to *priority concerns of people*. “One of the key messages of the High-Level Panel report is that sustainable development cannot be deconstructed into a series of individual activities but must integrate economic, social, and environmental issues into a *comprehensive program*. It is a systems approach to development, recognizing the connections within countries of their policies, institutions and resources along with the *linkages* among them in providing a supportive global economic environment.” (Kharas, p. 191.) Synergies cannot be reaped and multipliers do not kick in if “development is deconstructed into a series of individual activities”. The cooperative realism approach articulated above is consistent with the integrated “systems approach to development” of the HLP and is necessary for its implementation. (See ANNEX V HLP Report) This approach applies to the international dimension as well where it is clear that support for sustainable development goes beyond development assistance to trade, private direct investment, financial flows, knowledge-sharing, and technology.

These two key elements of the post-2015 agenda work together; an integrated systems approach congruent with the holistic conditions faced by most citizens based on a “fresh narrative” addressing the priority concerns of people are together likely to resonate with the public more than the technical jargon of finance and economic policy, thereby invigorating stronger relationships between leaders and their people, helping to restore *public trust and confidence*. In light of the sensitivity and heated discussions among governments, a universal agenda that also respects the differing realities of each nation is a vital step forward toward creating a *unified* global effort to implement the SDGs and the post-2015 agenda. (ANNEX V, OWG)

3) Coordinating Mechanisms to Achieve “Coherent Pluralism”

From a global governance point of view, the first step toward creating new “drivers” in this moment is to accept the new realities as the inevitable result of the increasing complexity created by the forces and factors that have led to the fragmentation of the global order. Among other vectors in the force field affecting the future of global governance, there are now new systemic tensions: (i) between the institutions inherited from the Bretton Woods era, which have not been reformed enough, and the newly established institutions; (ii) between the inclusive representativeness of the United Nations and the effectiveness of smaller groups such as the G20; and (iii) between rising regionalism and global imperatives. These tensions are intrinsic to the new global context; they must be managed and balanced rather than resisted.

The welter of forces and actors involved in global governance is not such a new phenomenon and neither is it a hopeless situation. There are a plethora of public and private sector actors addressing the sustainable development agenda. There are different levels and layers at which action occurs, at the global, regional and national level, not to speak of different levels within countries.

Given the multi-sectoral, multi-ministerial, public-private nature of the post-2015 agenda, the most important focal point for coordination would seem to be at the level of national governments. [See HLP “Unifying Goals with National Plans for Development”, ANNEX V, below.] The designation of a super-minister for managing the sustainability agenda, internally and externally, would seem to be a promising first step in orchestrating the actors and activities involved in implementing the sustainability agenda for each country. Without a national focal point, especially in developing countries, the external actors will inevitably establish specific relationships with internal agents which will differ from activity to activity, foiling the central priority of exploiting externalities, linkages and synergies embodied in the sustainability agenda itself.

Regional arrangements now constitute serious, substantial and significant sets of actors, modalities and institutions which are salient vectors in the global system of institutions and in the global force field of interconnected issues. For region-wide post-2015 efforts, it would seem to be advisable to try to have a single regional focus for implementing sustainability trajectories which involve more intense regional interactions, such as regional transportation, energy, trade and the investment portfolios of the regional multilateral development banks (RMDBs). Post-2015 initiatives in other sectors and domains, despite being global in scope, will undoubtedly have, and should have, regional mechanisms for their management. These may differ from

region to region or from issue to issue. *But the point is to have a clear division of labor at different layers of the system and a clear commitment to the same agenda.*

Given what we all now know to be the diversity of actors, voices and stakeholders, the need for informal, differentiated *networks* to address specific issues are the norm not the exception. (UNDP- CCIEE 2013, pp. 22-24.) Nevertheless, some greater intentionality and further ordering of regional arrangements might be important as the post-2015 Agenda is being put in place. Some practical thinking about the *regional architectures* that would be the most efficacious in each area of the world could be discussed at the HLF 2014.

At the global level, there have already been moves toward more open, flexible, informal and inclusive forms of cooperation in the aftermath of the Busan High Level Forum in 2011 which initiated institutional innovations for development cooperation in the new global context. These initiatives simultaneously seek to be comprehensive, globally inclusive and loosely institutionalized so as to work more effectively in a “fragmented global order”. The OECD and the OECD Development Assistance Committee (DAC) remain important players, as do the Bretton Woods Institutions, but the networks for global coordination are more diversified, decentralized and fluid to accommodate the increasing complexity and diversity of the international system.

The roles of the RMDBs and the Sub-Regional Development Banks (SRDBs) play in the development finance system are a mixture of competitive and complementary roles and relationships (Linn 2014). These are the exigencies of the current global context in the fragmented order to simultaneously be effective and hence competitive in delivering results but to realize that the intrinsic linkages of issues requires also strong relational ties with other actors in the same or related domains. *Being competitive and cooperative are not mutually exclusive, but need to coexist in the new context.*

4) Financial Regulatory Reform

In order to achieve greater financing for sustainable development, the financial regulatory reform agenda currently underway, led by the G20, the IMF and the Financial Stability Board (FSB), is critical to creating a global financial system in the public interest to benefit the many rather than the few and to fuel investment in real economic activity rather than feed speculation. The current challenge remains to provide adequate safeguards against recurrent financial instability at the same time as putting in place adequate incentives for investment in real economic activity as opposed to financial speculation. *The magnitude of investment* required to reach the new Sustainable Development Goals, such as sustainable energy and infrastructure, *cannot possibly be realized through public sector financing alone.* Hence, the global financial regulatory reform agenda is crucial to the post-2015 Agenda as a means of mobilizing private financing for social and environmental long-term investments in sustainability. (See ANNEX IV Bradford, 2014)

Public sector debt and deficits severely constrain the role of government financial support for the SDGs. Only with the full participation of private sector finance and financial markets can sufficient resources be mobilized to achieve the transformation implicit in the Post-2015 sustainability agenda. The contrary also applies, however; too much reliance on the private sector without public sector engagement will not be sufficient either. Private-Public Partnerships (PPP) are vital but cannot become screens behind which governments retreat in the face of fiscal constraints.

The support of the private sector is vital for pragmatic financial regulatory reform to assure vigilance in oversight and supervision of financial markets and institutions, alertness to vulnerabilities and potential volatility, and standards and rules to dampen speculation and excessive risk. This financial reform agenda is vital to the financial community itself and the private sector to restore *public confidence* in markets among average citizens who have been burned by crises affecting their homes, jobs and pensions. The G20, IMF and FSB have moved forward effectively on these fronts in a concerted fashion. (See Sterland July 2014)

The global public will look dimly on any backtracking on this progress and on any failures of systemic oversight that may occur. *The private sector, the international institutions and global leaders* have a vital interest in making this new financial oversight regime work in behalf of the public interest. These three actors *need to work together to make sure there is not a breach in the global financial system that has a public backlash effect on all three actors.* They need to join together to restore *public confidence* in the global financial system

5) Complementary Roles for the UN and the G20

There is a need to recognize that, whereas all voices and views matter, the larger the number of decision-makers, the more difficult it is to resolve issues and make decisions. There needs to be a willingness to recognize that smaller groups of countries can move the global agenda forward in terms of narrowing of unresolved issues and focusing on key trade-offs which facilitate the broader international negotiations process. On the other hand, equally, there needs to be a realization by the smaller groupings, like the G20, that global leadership needs to be *on behalf of the whole* and not narrowly based on the interests of the major economies.

There have been numerous efforts by the G20 to include the views of those countries outside it. (See Bradford and Lim 2011) *The problem in recent years is not that the G20 has engaged in too much global leadership but that there has been too little.* A more vigorous way forward would be for the G20 to be more ambitious with respect to the post-2015 agenda, establish mechanisms for incorporating the views and interests of non-G20 countries, and lead the world forward on the sustainable development goal definition and realization efforts. This double shift, trying to accommodate the needs of both representativeness and effectiveness in global leadership and decision-making, could be a significant contribution to global economic governance. *The UN and the G20 can be competitive and complementary as well, each fulfilling a vital function the other cannot.*

Within the G20, a division of labor between the G20 leaders and the G20 Development Working Group could be proposed (Kharas 2014). In this formulation, the leaders would focus on living up to the “core” sustainability agenda of “keeping one’s house in order”, especially in managing their domestic, internal policies and forces to minimize their negative spillover effects on the rest of the world. And the G20 working group would focus on the substantive, technical issues of coordinating the multilateral institutions in addressing global challenges posed by the post-2015 agenda. This *division of labor* would enhance the G20 leaders’ domestic leadership on behalf of internal sustainability and external risk while giving senior level G20 officials and international organizations the responsibility for managing “policy coherence” among the multilateral institutions. (See ANNEX VI, below, on Division of Labor within the G20.)

If this division of labor could be done, there will be some convergence toward achieving both the overarching objective of strengthening domestic governance by restoring *public trust* in leaders and strengthening internal decision making processes by showing leaders leading *and* by connecting leaders with their people’s priority concerns and the overarching objective of strengthening the global economic governance and international institutional system necessary to create an enabling global context for achieving long-run sustainable development for all.

6) From High Reliance on Formal Institutional Reforms to More Emphasis on Soft Power Norms and Behaviors

Given the new global context, soft power norms, behaviors and processes hold new promise to be effective in achieving shifts in power and representation relative to formal institutional reforms alone. The moment seems to have passed when shifts in voting shares and chairs in the international financial institutions would be as efficacious as a means of redressing weights in global economic governance as was hoped for some years ago. Given this stalemate, it seems promising to create new opportunities for representation by other means. For example, it has undoubtedly been true for a long time, despite the serious and substantial focus on voting shares in the IMF, that the qualities and capabilities of the person representing a country at the IMF is as important as the percentage share of the country’s vote. Presumably, ideas and influence matter in the IMF and the weight of the official country representative is ultimately derived from the behaviors, abilities and agility of the person more than by the voting share of the country itself.

Nonetheless, international and domestic pressure must continue to be directed at the U.S. Congress to increase awareness of the degree to which the lack of U.S. support for the IMF quota increase and governance reforms weakens the capacity of the international community to respond to future financial crises, undermines the role of the United States as a force in the global economy, and exacerbates the fragmentation of the global order by weakening the central pillar of the global financial system, namely the IMF, which is critical to global financial stability and economic growth. (See ANNEX III on the IMF.)

7) Rethinking Key Global Governance Relationships in Order to Enhance Multilateral Outcomes and Strengthen Cooperation

Diverse dynamics among many major countries are important features of the global system. No country ties its destiny to that of another. Most countries now have diverse ties across regions and around the world. Differing plurilateral groupings of countries advance different issues in various country configurations.

Nevertheless, the roles of China and the United States in the world and their relationship to each other are crucial for their own people and for the world as a whole. There is a mutual understanding among U.S. and Chinese elites that the relationship between the two nations is one of “strategic distrust”. (Lieberthal and Jisi, Brookings, 2012) What their study finds is that this “strategic distrust” originates from *perceptions* and that it is not a geopolitical, military derived distrust but rather arises from *concerns regarding long term “core” interests*.

Survey research by the Carnegie Endowment for International Peace (CEIP 2013) reveals two important observations relevant to our inquiry. One is that it is useful to “differentiate between abstract and concrete trust” and that “*concrete cooperation is more important than mutual trust*”. And secondly, that there are perceptions in both the U.S. and Chinese publics and leaders that they are both “*competitors*” and “*partners*”, but not “*enemies*”. As one Chinese elite participant observed, it may be possible for China and the US to become both “competitors” and “partners” simultaneously. (See ANNEX VII.) This seems to be an important observation indeed, consistent with the contradictory behaviors that seem to have to coexist in the new global context where competition and complementarity, or friction and cooperation, also have to coexist.

There is *an opportunity* in this context for China and the United States in *collaboration* with each other to engage with other countries in addressing longer-term issues of consequence to people in all nations by helping *to advance the post-2015 agenda for sustainable development*. These new efforts by the U.S. and China could be vehicles for connecting leaders to their people in more direct ways than has been possible in the G20, which has been dealing with current account imbalances, exchange rates, financial regulatory reform, and the international financial institutions, issues that seem far removed from the concerns of the average citizen. Prioritization of human concerns and sustainability challenges could potentially be a means of increasing *public trust* in leaders and institutions globally as well as a means of increasing “strategic trust” between China and the U.S.

If China assumes the presidency of the G20 Summit for 2016, China and the U.S. could work together to reinvigorate the G20, better align the G20 and the UN processes on Post-2015, on UNFCC and on FFD, and build greater trust between them, as well. China playing a bridging role between consensus formation on the Post-2015 Agenda in 2015 and the operationalizing of its implementation in 2016, linking the two, could be a powerful boost to the success of this newest goal-setting process.

An effort by China and the U.S. to collaborate on advancing the post-2015 agenda both in the United Nations and in the G20 could be a sweet spot for US and China to demonstrate more generally that cooperation can coexist with competition, that they can be “partners” and competitors” at the same time, even in a global context which for the moment is not centered on cooperation. While not a game changer, such an effort could send a signal that two of the most important nations on earth recognize the importance of their relationship to each other and to the world and that their joint leadership and support for *sustainability for all* indicates a clear concern for people and their plight. Leaders and governments connecting with their peoples is a necessary step in restoring *public trust and confidence*, essential for *domestic governance* as well as to *global governance*.

This proposal is not meant to privilege US-China relations in their foreign policies or bilateral relationships, each of which are complex, but rather to simply find a significant area of human concern on which their collaboration could make a substantial contribution to the world, to global governance and to the international system, with positive domestic repercussions within both countries.

CONCLUSION

The Charter of the United Nations clearly speaks of “**We the Peoples**”, not we the Permanent Representatives (to the UN), or we the Ministers, or even we the Presidents and Prime Ministers. *Leaders hold a sacred trust on behalf of their citizens.* [...] The world needs its leaders to take command. [...] Leaders have it in their power

to surmount interstate differences and to respond to the very great expectations of people around the globe.” (Heinbecker 2005)

The Post-2015 Development Agenda is an opportunity for all leaders in the United Nations, in the G20, in regions and other plurilateral groupings to move forward for “We the People” on issues of vital, direct, concrete concern to them which can improve their lives and livelihoods. *The post-2015 agenda has the potential to demonstrate that governments can be catalytic mobilizers of resources, policies and private sector efforts in the public interest.* If that were to happen, the human condition could improve significantly; public trust could be restored in leaders and institutions responsive to needs of people, and global governance and the international system of institutions could be strengthened, despite the cross-currents inherent in today’s fragmented global order.

Selected References

Michael Ignatieff (2014), “The New World Disorder”, *The New York Review of Books*, September 25, 2014, pp. 30-33.

Gideon Rose and Jonathan Tepperman (2014), “The American Distemper: Dysfunction Junction-Trouble on the Home Front”, *Foreign Affairs*, September-October, 2014, page 2.

Francis Fukuyama (2014), “America in Decay: The Sources of Political Dysfunction”, *Foreign Affairs*, September-October, 2014, pp. 5-26.

Yascha Mounk (2014), “Pitchfork Politics: The Populist Treat to Liberal Democracy”, *Foreign Affairs*, September-October, 2014, pp. 27-36.

E.J. Dionne (2012), *Our Divided Political Heart*, New York: Bloomsbury

The Pew Research Center (2014), *Beyond Red vs. Blue: The Political Typology: Fragmented Center Poses Election Challenges for Both Parties*, Washington: The Pew Research Center.

The Pew Research Center for the People & the Press (2013), *Public Trust in Government: 1958-2013*, Washington: The Pew Research Center for the People & the Press, October 18, 2013.

Bruce Stokes (2011), “Public Attitudes in G20 Countries”, by Bruce Stokes, Director, Global Economic Attitudes, Pew Research Center, chapter 26 in Bradford and Lim (Brookings, 2011).

CIGI: NPGL Centre for International Governance Innovation (CIGI), Ontario, Waterloo Canada (2009-2012), *National Perspectives on Global Leadership*, a dozen experts from G20 capitals assessed how leaders at G20 summits were perceived by their publics through national media sources. www.cigionline.ca Search: NPGL.

James Steinberg and Michael O’Hanlon (2014), “How to Prevent U.S. – Chinese Relations from Blowing Up”, *Foreign Affairs*, Vol. 93, No. 4, July/ August 2014.

Kenneth Lieberthal and Wang Jisi (2012), *Addressing U.S.-China Strategic Distrust*, Washington: The Brookings Institution, John L. Thornton China Center Monograph Series Number 4, March 2012.

Michael D. Swaine, Luo Yuan, Liu Xiangdong, and Rachel Esplin Odell (2013), *U.S.-China Security Perceptions Survey: Findings and Implications*, Washington: Carnegie Endowment for International Peace (CEIP).

David Shambaugh (2013), *China Goes Global: The Partial Power*, Oxford: Oxford University Press.

Nicholas R. Lardy (2014), *Markets over Mao: The Rise of Private Business in China*, Washington: Peterson Institute for International Economics, released on September 10, 2014.

Robert Legvold (2014), “Managing the New Cold War: What Moscow and Washington Can Learn from the Last One”, *Foreign Affairs*, Ibid.

Alexander Lukin (2014), “What the Kremlin Is Thinking: Putin’s Vision for Eurasia”, *Foreign Affairs*, Ibid.

Charles A. Kupchan (2012), *No One’s World: The West, The Rising Rest, and the Coming Global Turn*, Oxford: Oxford University Press.

Kishore Mahbubani (2005), *Beyond the Age of Innocence: Rebuilding Trust between America and the World*, New York: Public Affairs.

Kishore Mahbubani (2008), *The NEW Asian Hemisphere: The Irresistible Shift of Global Power to the East*, New York: Public Affairs.

UNDP and the China Centre for International Economic Exchanges (CCIEE) (August 2013), *Reconfiguring Global Governance ---Effectiveness, Inclusiveness and China's Global Role*, New York: United Nations.

United Nations High-Level Panel (HLP) of Eminent Persons on the Post-2015 Development Agenda (2013), *A New Global Partnership: Eradicate Poverty and Transform Economies through Sustainable Development*, New York: United Nations.

ILO, OECD and World Bank (2014), *G20 Labor Markets: Outlook, Key Challenges and Policy Responses*, Report prepared for the G20 Labor and Employment Ministerial Meeting, Melbourne, Australia 10-11 September 2014.

UNCTAD (2014), *Global Governance and Policy Space for Development, Trade and Development Report 2014*, New York: United Nations.

OECD (2012), "The Busan Partnership for Effective Development Cooperation", based on the Fourth High Level Forum in Busan, Korea, November 29-December 2, Paris: OECD July 2012.

Alvin Leong (2014A), "The Pursuit of Universality", Post2015.org, August 26, 2014.

Alvin Leong (2014B), "The Principle of Common but Differentiated Responsibilities and the SDGs", Post2015.org, May 27, 2014.

Open Working on Sustainable Development Goals (OWG), (2014), "Outcome Document", United Nations: un.org.

Colin I. Bradford and Wonhyuk Lim (eds) (2011), *Global Leadership in Transition: Making the G20 More Effective and Responsive*, Washington: The Brookings Institution Press.

Colin I. Bradford (2013), "Political Leadership Changes and the Future of the Global Economic Order", Institute for Global Economics 20th Anniversary Conference, Seoul, Korea, October 31, 2013.

Colin I. Bradford (2014), "Global Rebalancing, Systemic Risk Assessment and the IMF and the G20" in Kemal Dervis and Peter Drysdale (eds), *The G20 Summit at Five: Time for Strategic Leadership*, Washington: The Brookings Institution Press.

Colin I. Bradford (2002), "Toward 2015: From Consensus Formation to Implementation of the Millennium Development Goals: Issues for the Future: The Implementation Phase, Final Review Draft for DEC-World Bank, December 2002.

Barry Sterland (2014), "Financing the Future", Speech to the Melbourne Institute: Social and Economic Outlook, July 4, 2014 at www.treasury.gov.au.

Homi Kharas (2014), "The G20 and Sustainable Development", in Kemal Dervis and Peter Drysdale (eds), *The G20 Summit at Five: Time for Strategic Leadership*, Washington: The Brookings Institution Press.

Johannes Linn (2014), "The Evolving Role of Multilateral and Subregional Development Banks" in *World Politics Review*, July 1, 2014, pp. 13-18.

Johannes Linn (2013), "Realizing the Potential of MDBs", in *Russia's G20 Summit: St. Petersburg 2013*, London: Newsdesk Publication and Toronto: Munke Centre, pp. 96-97.

Andrew F. Cooper, Christopher W. Hughes and Philippe de Lombaerde (eds.) (2008), *Regionalisation and Global Governance: The Taming of Globalisation?*, New York: Routledge.

Paul Heinbecker and Patricia Goff [eds.] (2005), *Irrelevant or Indispensable? The United Nations in the 21st Century*, Waterloo, Ontario: Wilfrid Laurier University Press.

Thomas G. Weiss and Ramesh Thakur (2010), *Global Governance and the UN: An Unfinished Journey*, United Nations Intellectual History Project Series, Bloomington: Indiana University Press.

Kemal Dervis (2005), *A Better Globalization: Legitimacy, Governance and Reform*, Washington: Center for Global Development.

Ngaire Woods (2014), "Global Economic Governance after the 2008 Crisis", London: GEG Working Paper 89, 2014.

ANNEX I: Tax Annex to the Saint Petersburg G20 Leaders Declaration

September 5, 2013, St Petersburg

1. The G20 has been at the forefront of efforts to establish a more effective, efficient and fair international tax system since they declared the era of bank secrecy over at the G20 London Summit in April 2009. In an increasingly borderless world, strengthening international cooperation in tax matters is essential to ensuring the integrity of national tax systems and *maintaining trust in governments*. (Emphasis added.)

2. The Global Forum on Transparency and Exchange of Information for Tax Purposes has played a critical role in ensuring that the international standard of exchange of information on request endorsed by the G20 is implemented effectively around the world.

3. The G20 has now endorsed the development of a new global tax standard: to automatic exchange of information. The Global Forum will establish a mechanism to monitor and review the implementation of the new standard on automatic exchange of information.

4. The next challenge regarding automatic exchange of information is now to get all jurisdictions to commit to this standard and put it into practice. All G20 countries have led by example in signing this Convention and to date more than 70 countries and jurisdictions are covered or are likely to be covered by the Convention, including significant financial centres. The Convention is a powerful tool in the fight against tax evasion and allows for all forms of cooperation in tax matters, including automatic exchange of information. We expect all jurisdictions to join the Convention without further delay.

5. International collective efforts must also address the tax base erosion resulting from international tax planning. Base erosion and profit shifting (BEPS) relates chiefly to instances where the interaction of different tax rules result in tax planning that may be used by multinational enterprises (MNEs) to artificially shift profits out of the countries where they are earned, resulting in very low taxes or even double non-taxation.

6. International tax rules, which date back to the 1920's, have not kept pace with the changing business environment, including the growing importance of intangibles and the digital economy.

7. The Action Plan aimed at addressing BEPS sets forth an ambitious agenda to examine the following fundamental aspects of the international tax rules:

- First, changes to international tax rules must be designed to address the gaps between different countries' tax systems, while still respecting the sovereignty of each country to design its own rules.
- Second, the existing international tax rules on tax treaties, permanent establishment, and transfer pricing will be examined to ensure that profits are taxed where economic activities occur and value is created.
- Third, more transparency will be established, including through a common template for companies to report to tax administrations on their worldwide allocation of profits and tax.

- Fourth, all the actions are expected to be delivered in the coming 18 to 24 months.

8. Developing countries must reap the benefits of the G20 tax agenda. 500 Words

NEWS: Headline: “G20 countries agree to exchange tax information to stamp out evasion. Meeting of G20 finance ministers in Australia endorses plan to automatically exchange information on a reciprocal basis by the end of 2018”, *The Guardian*, September 21, 2014. Article:

“G20 countries have agreed to start automatically exchanging tax information in an effort to erode global tax evasion.

The communique from the finance ministers’ meeting in Australia at the weekend endorsed a plan to automatically exchange the information on a reciprocal basis by the end of 2018.

The ministers called on all financial centres to make the commitment by the time of the global forum meeting in Berlin at the end of October and to support efforts to monitor global implementation of the new standard.

“We support further coordination and collaboration by our tax authorities on their compliance activities on entities and individuals involved in cross-border tax arrangements,” the communique said. “*The Guardian*, September 21, 2014.

ANNEX II: IMF Reform and Quota Increase: The State of Play

On December 15, 2010, the Board of Governors, the Fund’s highest decision-making body, completed the 14th General Review of Quotas, which involved a package of far-reaching reforms of the Fund’s quotas and governance. Once the reform package is approved by member countries (it includes an amendment to the Articles of Agreement that requires acceptance by three-fifths of the members having 85 percent of the total voting power) and implemented, there will be an unprecedented 100 percent increase in total quotas and a major realignment of quota shares. This will better reflect the changing relative weights of the IMF’s member countries in the global economy.

The reform package builds on earlier reforms from 2008, which became effective on March 3, 2011. These strengthened the representation of dynamic economies—many of which are emerging market countries—through ad hoc quota increases for 54 member countries. They also enhanced the voice and participation of low-income countries through a near tripling of basic votes.

Building on the 2008 reforms, the 14th General Review of Quotas will:

- double quotas from approximately SDR 238.5 billion to approximately SDR 477 billion (close to US\$737 billion at current exchange rates),
- shift more than 6 percent of quota shares from over-represented to under-represented member countries,
- shift more than 6 percent of quota shares to dynamic emerging market and developing countries (EMDCs),
- significantly realign quota shares. China will become the 3rd largest member country in the IMF, and there will be four EMDCs (Brazil, China, India, and Russia) among the 10 largest shareholders in the Fund, and
- preserve the quota and voting share of the poorest member countries. This group of countries is defined as those eligible for the low-income Poverty Reduction and Growth Trust (PRGT) and whose per capita income fell below US\$1,135 in 2008 (the threshold set by the International Development Association) or twice that amount for small countries.

A comprehensive review of the current quota formula was completed in January 2013, when the Executive Board submitted its report to the Board of Governors. The outcome of this review will form a basis for the Executive Board to agree on a new quota formula as part of the 15th Review. The Board of Governors have set a deadline of January 2015 for the completion of the 15th General Review of Quotas.

Source: IMF Factsheet on Quotas Updated on March 25, 2014

IMF Reform and Quota Increase: Current Status

In order for the proposed amendment on reform of the Executive Board to enter into force, acceptance by three-fifths of the Fund's 188 members (or 113 members) having 85 percent of the Fund's total voting power is required. As of September 5, 2014, 146 members having 77.07 percent of total voting power had accepted the amendment. Those members are listed below¹.

For the quota increases under the 14th General Review of Quotas to become effective, the entry into force of the proposed amendment to reform the Executive Board is required, as well as the consent to the quota increase by members having not less than 70 percent of total quotas (as of November 5, 2010). As of September 5, 2014, 163 members having 79.64 percent of total quota had consented.

Source: IMF Factsheet, Updated September 5, 2014

ANNEX III: Pew Research Surveys on Public Trust

“Global Public Downbeat about the Economy; Many Wary of the Future”, Pew Research Center, September 9, 2014

“Six years after the beginning of the Great Recession, amid an uneven global economic recovery, publics around the world remain glum. *In most nations, people say their country is heading in the wrong direction and most voice the view that economic conditions are bad*, according to a new 44 country survey by the Pew Research Center conducted among 48,643 respondents from March 17 to June 5, 2014.

“This is the first in a series of Pew Research Center reports based on the spring 2014 global survey that will look at public views of major economic changes in advanced, emerging and developing nations.

“A global median of 60% see their country’s economy performing poorly. This includes 64% of those surveyed in advanced economies and 59% in emerging markets. Only in developing economies is there some semblance of satisfaction with economic performance: 51% voice the view that their economy is doing well.”

Source: Pew Research Center, Global Attitudes Project, September 9, 2014.

“Public Trust in (US) Government Nears All-Time Low”, October 18, 2013.

Public trust in government fell from over 70 per cent in 1958-1963 to 19 percent in October of 2013. “(In the U.S.) post 9/11 public confidence in nearly all institutions increases sharply” to 60 per cent in October 2011 (Gallup, in Pew chart). “Following the financial crisis and the bank bailout, trust matches historic 1994 low”, October 2008 CBS/NYT poll in Pew chart. Pew results in February 2014 show “trust in government today remains historically low (in the U.S.)”, Pew chart.

The Pew Research Center for the People & the Press (2013), *Public Trust in Government: 1958-2013*, Washington: The Pew Research Center for the People & the Press, October 18, 2013.

Bruce Stokes (2011), “Public Attitudes in G20 Countries”, by Bruce Stokes, Director, Global Economic Attitudes, Pew Research Center, chapter 26 in Bradford and Lim (Brookings, 2011).

“The G20 met in Seoul in November 2010 at a time of widespread despair among the publics in G20 countries. In the wake of the global financial crisis, people are hurting, unhappy about the way that things are going in their societies, disconsolate about the state of the economy, and yet generally hopeful about the future. *Most*

fault their government for bad economic times and think that governments are doing a poor job of coping with current troubles. There is, however, widespread support, especially in the West, for more financial regulation. Faith in capitalism and globalization still remains strong. And the message that publics are sending to their leaders---with majority backing in the United States and plurality support in France, Germany, Britain, and Italy --- is that *they want them to make the management of international economic problems their top priority*” (p. 285)

Source: 2010 Pew Global Attitudes Survey, Pew Research Center

ANNEX IV: G20 Leadership on Financial Stability for the Global Economy

Summary and Conclusions from Bradford (2014) in Dervis and Drysdale (2014) for the Australian G20 Summit in November 2014.

“The fundamental issue facing the G20 Summit Leaders is how to not only come up with policy changes and institutional reforms which improve the global economy but also how to connect their leadership with the concerns of their people whose livelihoods depend now on the stability and growth of the global economy. The issues raised here appear to us to have political leadership content and dimension.

The global financial crisis affected the jobs, incomes, pensions and savings of people everywhere. For not the first time, the global financial system “shocked” the global economy on which people now depend. G20 Leaders must take public responsibility for economic outcomes that affect the public interest. Therefore, G20 Leaders need to demonstrate that they have taken actions which will protect the public interest in financial stability and promote the positive linkages of financial stability to growth.

To demonstrate leadership on the downside risks of the financial system impacting again the global economy of jobs, income and output, the G20 Leaders need to assure the public that they have put in place safeguards against systemic risk.

***They can demonstrate that through objective evaluations of accomplishments and weaknesses in national financial regulatory reform efforts by G20 governments and of the global financial regulatory instruments and actions of the Financial Stability Board (FSB), verifying that safeguards have been put in place and that the process is on-going.

***They can assure the public that the neglected linkages between financial forces, markets and institutions and the global economy are now under intense and integrated scrutiny by the International Monetary Fund (IMF), if the changes recommended here are implemented.

***And G20 Leaders can assure the public that this comprehensive and continuous review of the relationship between the financial system and the global economy will receive policy level review by ministers of finance and oversight and responsibility by G20 leaders.

To demonstrate leadership on the positive contribution that financial stability can make to economic growth:

***G20 Leaders can decide to integrate financial stability into the G20 Framework for Strong, Sustainable and Balanced Growth (FSSBG) to assure that the global economy implications of financial reforms are fully present in the single most important G20 process that prioritizes growth.

***Leaders can articulate a vision of the positive synergies between financial stability and growth, with reforms favoring incentives to long-run investment in productive activities rather than short term profits and speculation. Leaders can highlight the fact that financial stability is essential for fueling investment-led growth.

***Leaders can articulate a vision of financial stability that requires responsibility by both private and public sector actors.

***Leaders can demonstrate to the public that they have thought through and seen past the old idea that financial stability and growth are inevitably in conflict, that financial stability comes first and growth second, to a new relationship where financial stability creates the investment climate in which growth is more dynamic and socially beneficial and where safeguards against financial shocks are in place to protect the public interest.” See also Sterland (2014)

ANNEX V: The Post 2015 Agenda; Report of the High-Level Panel (HLP) and Outcome Report of the Open Working Group on SDGs (OWG)

“Developing a single, sustainable development agenda is critical. Without ending poverty, we cannot build prosperity; too many people get left behind. Without building prosperity, we cannot tackle environmental challenges; we need to mobilize massive investments in new technologies to reduce the footprint of unsustainable production and consumption patterns. Without environmental sustainability, we cannot end poverty; the poor are too deeply affected by natural disasters and too dependent on deteriorating oceans, forests and soils.

“The need for a single agenda is glaring...Right now, development, sustainable development and climate change are often seen as separate. They have separate mandates, separate financing streams, and separate processes for tackling progress and holding people accountable. This creates overlap and confusion... It is time to streamline the agenda.” (p. 5)

“People care no less about sound institutions than they do about preventing illness or ensuring that their children can read and write—if only because they understand that the former play an essential role in achieving the latter. Good institutions are, in fact, the essential building blocks of a prosperous and sustainable future. The rule of law, freedom of speech and the media, open political choice and active citizen participation, access to justice, non-discriminatory and accountable governments and public institutions help drive development and have their own intrinsic value. They are both means to an end and an end in themselves.” (p.4)

Unifying Global Goals with National Plans for Development

“The post-2015 agenda must enable every nation to realize its own hopes and plans. We learned from the MDGs that global targets are only effectively executed when they are locally-owned---embedded in national plans as national targets—and *this is an important lesson for the new agenda*. Through their national planning processes each government could choose an appropriate level of ambition for each target, taking account of its starting point, its capacity and the resources it can expect to command. They could receive input on what is realistic and achievable in each target area from citizens, officials, businesses and civil society in villages, towns, cities, provinces and communities. This is an opportunity for governments to ensure access of citizens to public information that can be used as the basis of national strategies and plans. *Emphasis added*.

“In many circumstances international partners and agencies will be invited to assist in helping countries implement their plans and achieve their targets---on average 30 official development partners, many with more than one development agency, are operating in each developing country. These agencies have a responsibility to harmonize their efforts with national plans, operate through the government budget where practicable, and collaborate with each other to ensure the maximum impact for the least effort.” (p. 21)

OWG “Outcome Document”, United Nations, Open Working Group on the SDGs

“Sustainable Development Goals are accompanied by targets and will be further elaborated through indicators focused on measurable outcomes. They are action oriented, global in nature and universally applicable. They take into account different national realities, capacities and levels of development and respect national policies and priorities. They build on the foundation laid by the MDGs, seek to complete the unfinished business of the MDGs, and respond to new challenges. These goals constitute an integrated, indivisible set of global priorities for sustainable development. Targets are defined as aspirational global targets, with each government setting its own national targets guided by the global level of ambition but taking into account national circumstances. The

goals and targets integrate economic, social and environmental aspects and recognize their interlinkages in achieving sustainable development in all its dimensions.” Para 18

ANNEX VI. Dual Track Division of Labor within the G20 for Managing Sustainable Development Homi Kharas in Dervis and Drysdale (2014)

“The G20 could lead by example in terms of how to approach a complex and integrated sustainable development agenda by emphasizing sustainability in the core G-20 agenda and aligning it with the post-2015 focus on sustainability...The post-2015 agenda is one that leaders will agree to in September 2015, and *is likely to involve a periodic review mechanism involving leaders at the United Nations*, it becomes a natural framework to incorporate into the G20 itself. A process like the Mutual Assessment Process should be set up to monitor G-20 countries’ progress toward meeting the relevant goals and targets....

“The (G-20) Development Working, on the other hand, should focus more on identifying areas in which *multilateral organizations* could contribute to solving global problems. It could be renamed the Managing Globalization Working Group. This *dual track* would provide a focused sustainability agenda for the G-20. The leaders would focus on *domestic actions* to respond to the G-20’s strong, sustainable, and balanced growth framework and to the post-2015 agenda, along with collective actions to implement the global partnership called for in the post-2015 agenda. The (G-20) Development Working Group would focus on using *multilateral institutions in a coordinated way to make technical advances* in implementing core critical issues...This alignment between the core agenda of the G-20 and the post-2015 agenda---and the *clearer division of labor* between the leaders’ summits and the working groups---would provide a more compelling and coherent vision for the future.” (Kharas 2014, p. 198-199.) *Emphasis added.*

ANNEX VII: U.S-China Security Perceptions and Approaches Kenneth Lieberthal and Wang Jisi, in their influential March 2012 essay, define “strategic distrust” as characterizing the U.S.-China relationship at its core. They state that “‘strategic’ means expectations about the nature of the bilateral relationship over the *long-run*; it is *not* a synonym for ‘military’. ‘Strategic distrust’ therefore means a *perception* that the other side will seek to achieve its *key long term* goals at concerted cost to your own side’s core prospects and interests.” (p. 5, *emphasis added.*)

For our purposes here, what is of interest is the emphasis on distrust growing from *perceptions* and that it is not a geopolitical, military derived distrust but rather arises from *concerns regarding long term “core” interests*. They conclude by saying “strategic distrust will inevitably impose very high costs on all concerned if it continues to grow at a rapid pace, as we believe it has been doing.” (p. 51. *emphasis added.*)

In 2012, the Carnegie Endowment for International Peace (CEIP) and the China Strategic Culture Promotion Association (CSCPA) in Beijing organized with Pew and others survey research of both the general publics and elites (officials, business, experts and media professionals) in both countries. The results are useful in informing the shape of an effective approach to U.S. – China relations, especially in light of the Lieberthal-Jisi observations. Based on workshops with elite leaders from both countries, CEIP-CSCPA conclude that it is useful to “differentiate between abstract and concrete trust” and that “concrete cooperation is more important than mutual trust”. (p. 14) In opinion surveys of both the public and elites of China and the U.S. revealed that more than 40 per cent of the public, officials, military, business scholars and media leaders believe that the U.S. and China are “competitors”, and 15 percent or more (except for the Chinese public and government officials (important exceptions) see each other as “partners”. By comparison, those on both sides seeing the other as “enemy” are comparatively low, below 15 percent (except for Chinese government officials). (p. 11) This survey result fits with the workshop result that “some Chinese elites suggested that countries can simultaneously be partners and competitors and that this may be the case in the U.S.-China relationship.” (Figure 2, p. 18, *emphasis added.*)

In identifying “potential sources of collaboration” *both* American and Chinese elites prioritized “the economy” as the “primary area for collaboration” (U.S.) or “most helpful way to improve U.S. –China cooperation”

(China). “American elites also mentioned the potential to collaborate to confront common threats (climate change...pandemics, and hot spots” (such as Korea and the Middle East)”. (p. 37.)

These two studies (Brookings and CEIP) reveal insights into the U.S. – China relationship which support the conclusion in the text of this paper: “There is an opportunity in the current context for China and the United States in collaboration with each other to engage with other countries in addressing longer-term issues of consequence to people of all nations by helping to advance the post-2015 agenda for sustainable development.” Such a multilateral approach might be extremely helpful in building trust in China in other countries, which currently is quite low. (CEIP p. 16.)

Sustainable Financing for Development in the Post-2015 Context

Peter Wolff, German Development Institute¹

Executive Summary

A broad and comprehensive post-2015 development agenda will require the creation of a comprehensive financing framework with the Monterrey Consensus (2002) and the Doha Declaration on Financing for Development (2008) providing the basis. Recommendations by several reports, particularly the report of the Intergovernmental Committee of Experts on Sustainable Development Financing (ICESDF) address both the mobilisation of finance and effective use of existing finance for development.

Discussions in the run-up to the next international conference on financing for sustainable development in Addis Ababa in July 2015 are moving beyond a traditional focus on mobilising more official development assistance (ODA) to a broader focus on making more efficient use of different types of finance and the role of non-financial means of implementation (MOI). There is a broad agreement that a conducive national and international policy environment is critical in setting the right conditions for the mobilisation and effective use of finance.

Since the 2002 Monterrey conference overall resources in developing countries have increased dramatically with domestic tax revenues being the largest category and domestic investment growing the fastest. While international public finance has increased, its relative importance is declining, particularly for middle-income countries (MIC). International private finance has grown rapidly across all income groups, but the allocation is concentrated and volatile.

In the context of the post-2015 debate the following areas will have to be discussed as an integrated combination of finance, means of implementation, as well as national and global policies to make finance effective:

- Mobilising and effectively using public finance with increased ODA and climate finance as well as mobilizing domestic resources.
- Making sure that private funding and South-South-Cooperation is used effectively for sustainable development with a set of rules of conduct for Transnational Enterprises as well as for public and private banks and export financing agencies.
- A trade and technology package for sustainable development with a focus on LDCs.
- A global roadmap (country by country) for climate friendly growth with advanced countries in the lead.
- A global system and policy environment that includes binding agreements on climate change, a supportive global trade regime, financial and tax rules, and rules on migration and technology.

¹ This paper partly draws on preparatory work for the European Report on Development 2014 "Financing and other means of implementation in the post-2015 context" which will be published in January 2015.

1. Introduction: The Debate on Sustainable Financing for Development in the Post-2015 Context

The post-2015 development agenda process

The United Nations Department of Economic and Social Affairs describes the post-2015 development agenda process as follows: "The outcome document of the 2010 MDG Summit requested the Secretary-General to initiate thinking on the global development agenda beyond 2015. The outcome document of the 2012 Rio+20 Conference on Sustainable Development initiated an inclusive process to develop a set of sustainable development goals. There is broad agreement that the two processes should be closely linked and should ultimately converge in one global development agenda beyond 2015 with sustainable development at its core. The process of arriving at this new framework is Member State-led with broad participation from external stakeholders such as civil society organizations, the private sector and businesses, academia and scientists. The United Nations has played a facilitating role in this global conversation and has the responsibility of supporting Member States by providing evidence-based inputs, analytical thinking and field experience." (http://www.un.org/en/development/desa/policy/untaskteam_undf/process.shtml)

The debate on the post-2015 agenda has been supported by a series of work streams and subsequent reports outlining recommendations on a global framework that should apply to all countries. These include the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda (HLP, 2013), the UN System Task Team on the Post-2015 UN Development Agenda (UNTT, 2012), the UN Sustainable Development Solutions Network report (UN SDSN, 2013) and the UN Global Compact (2013) reports on the goal-setting agenda. The process is supported by a series of national, global and thematic consultations as well as regional consultations. The global discussions will be consolidated in the form of Secretary General's Synthesis Report by the end of 2014, and an agreement will be adopted by the UN General Assembly in September 2015.

The outcome document ("Zero Draft") of the Open Working Group on SDGs (OWG, 2014b) has proposed 17 goals (see ANNEX), including a number of sub-targets for each goal in order to guide international negotiations on the post-2015 agenda.

17 SDGs as proposed by the OWG

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

The post-2015 debate on sustainable financing for development

In addition, it has been discussed at various high-profile venues that a broad and comprehensive post-2015 development agenda will require the creation of a comprehensive financing framework with the Monterrey Consensus (2002) and the Doha Declaration on Financing for Development (2008) providing the basis for the framework. This work has been guided by the report of the Intergovernmental Committee of Experts on Sustainable Development Financing (ICESDF, 2014), which included policy recommendations, both domestic and international, to create a national and global enabling environment for sustainable development financing. These recommendations address both the mobilisation of finance and effective use of existing finance for

development. Given that global finance (savings) exceed the financial means required to achieve sustainable development (ICESDF, 2014), the key will be to create a conducive policy environment to channel global savings towards investment in sustainable development.

The next international conference on finance for development – a follow-up to the 2002 Monterrey conference – is to be held in Addis Ababa in July 2015, two months before the post-2015 agenda-setting conference.

Although discussions are still in the early stages, they have already moved beyond a traditional focus on mobilising more official development assistance (ODA) to a broader focus on making more efficient use of different types of finance and the role of non-financial means of implementation (MOI). The OWG has recommended that each SDG should include guidance on MOI, thus integrating linkages with the discussions on financing for development.

There is no agreed definition of MOI. In the definition of the OWG, the notion of ‘Means of Implementation’ describes the interdependent mix of financial resources, technology development and transfer, capacity building, inclusive and equitable globalization and trade, regional integration, as well as the creation of a national enabling environment required to implement the new sustainable development agenda, particularly in developing countries.

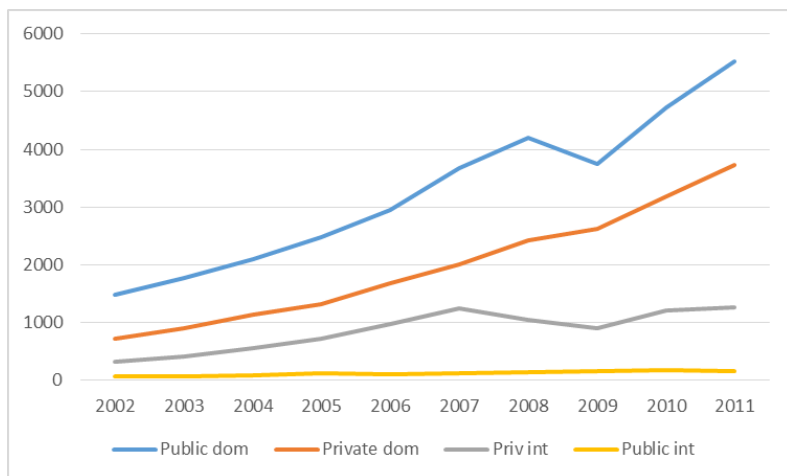
The discussions on finance for development in the post-2015 context have thus moved towards a perspective on finance in the context of a range of necessary policies to mobilise and effectively use financial resources:

- From aid to considering a wider variety of sources of finance: While the previous MDG needs estimations aimed primarily for an increase in ODA, more recent analyses emphasise the importance of other means, from increased mobilisation of domestic resources, following the Accra Agenda for Action (2008), to private capital flows.
- A better informed discussion on non-financial and financial MOI: The efficiency of finance depends on the institutional and policy framework specific to each country. Without the proper capacity, additional resource inflows might serve to increase consumption and reallocation of public resources rather than bringing about a real increase in investment through public expenditure.
- A stronger focus on an enabling global environment: A conducive international policy environment is critical in setting the right conditions. Global and regional rules and institutions for trade, finance, migration, technology are key to mobilise and effectively use finance towards sustainable development.

2. Financing trends, financing needs and challenges beyond 2015

There have been significant changes in finance flows since the 2002 Monterrey conference. There have been some positive trends but also some major challenges. Overall resources have increased dramatically with domestic tax revenues being the largest category and domestic investment growing the fastest. While international public finance has increased, its relative importance is declining and the distribution seems to be moving towards (U)MICs rather than LICs or LMICs. Private finance is volatile and selective, often bypassing the poorest countries when left to market forces.

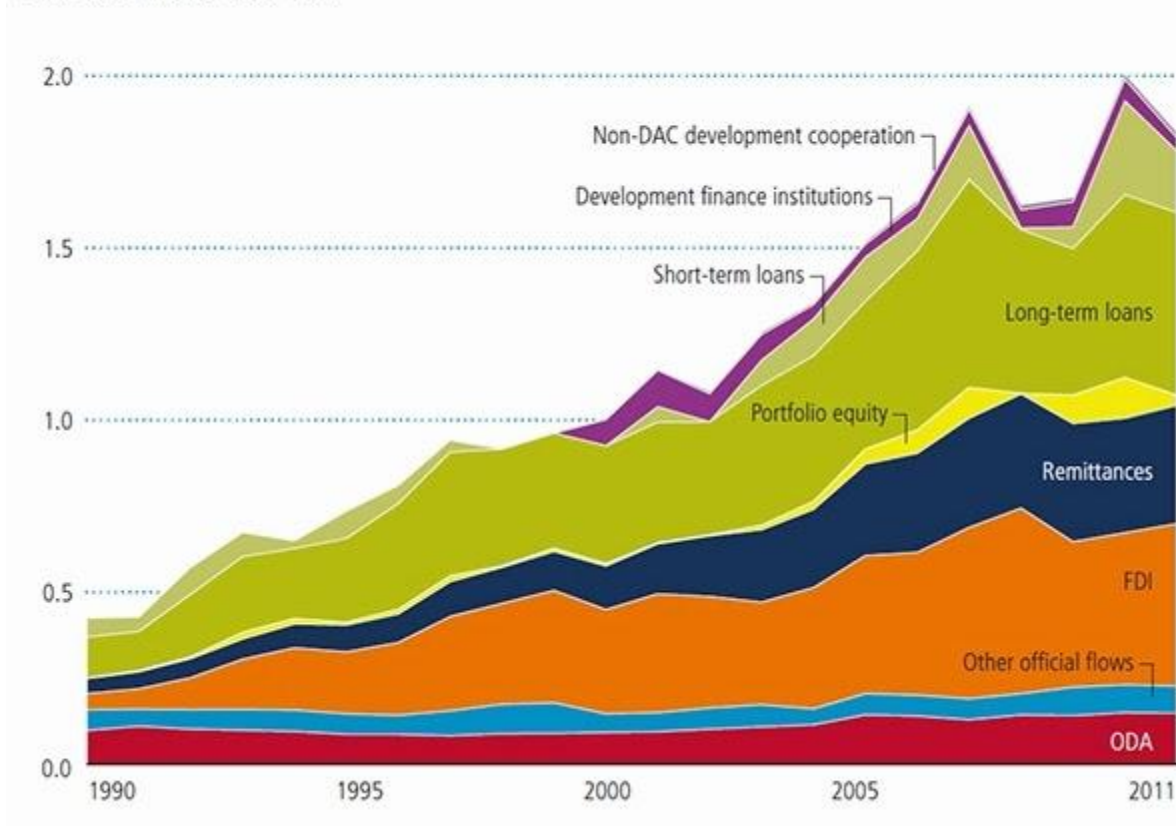
Figure 1: Trends in development finance (public domestic, private domestic, private international, and public international sources) obtained by developing countries (2011 \$, billion), 2002–2011



Sources: ODA+OOF – OECD DAC CRS Table 1; Remittances and private international capital, GFCF and FDI – World Development Indicators (WDI); public revenue – IMF FAD database; **Note:** For ODA, OOF, remittances and private international capital data are drawn directly from relevant sources; for public revenues, data have been calculated using IMF FAD data

Figure 2:

International resource flows to developing countries have grown rapidly
2011 US\$ trillions, 1990–2011



Public domestic finance

All country groups have achieved very significant increases in their levels of public revenue in absolute terms. LICs have faced the most significant challenges in mobilising tax revenues, which is not only a function of their income and the structure of their economies (with large agricultural and informal sectors) but a range of other factors that have hindered efforts to raise tax revenue. These include tax incentives offered to the private sector; tax evasion by multinational companies (MNCs); the under-taxation of the wealthy, and of resources such as land and property and sectors such as mining; and weaknesses in tax administration. These are challenges that affect all developing countries in some way, but are particularly pronounced in LICs. Addressing these issues poses significant political challenges, which suggests that it will take time to achieve notable increases in tax revenue.

Public international finance

ODA has increased across all country income groups, while OOF levels seem to have remained relatively modest. It suggests that despite some improvements in allocations of ODA to LICs (for which per capita ODA has increased rapidly over the last decade) there remain questions about the suitability of allocations of public international finance. Concerns about a weak relationship between ODA levels and the needs of recipient countries remain and are reinforced by recent increases in ODA to MICs. In addition, OOFs have been very modest beyond UMICs, raising concerns about whether these less concessional but still important flows could be better targeted at LMICs, many of which have less access to ODA.

While South-South Cooperation is growing fast and will become an increasingly significant form of public international financing, there has been only limited detailed analysis on its allocation patterns. Outward FDI from developing countries has increased sharply, reaching \$454 billion in 2013, with outflows from the BRICS countries alone amounting to \$200 billion (UNCTAD 2014).

It seems as though an increasing focus of the international community on mitigating climate change has helped to propel increases in ODA to UMICs, as these countries have been the focus of significant increases in ODA commitments to address such challenges over the last decade (ODI, 2014). This trend highlights one of the key questions in current discussions on the future of ODA – the degree to which it should be focused on addressing GPGs and issues such as climate change, rather than on more traditional development and poverty-reduction objectives. Based on commitments made as part of the United Nations Framework Convention on Climate (UNFCCC), developing countries have been prominent in calling for assistance on climate change to additional to ODA commitments. Regardless, during the 2010–2012 period, an average of \$13 billion of ODA (or around 10% of the total) was principally focused on climate change (OECD, 2012), especially on mitigation activities for which the priority is often investments in emerging economies.

For UMICs (and to some degree LMICs), a significant proportion of the ODA loans received in recent years has been provided by donors from funds raised on financial markets and lent on at higher interest rates to these countries (OECD, 2013). Such practices, which have been facilitated by low global interest rates allowing these loans to meet existing ODA loan concessionality standards, have helped to stimulate an ongoing OECD DAC review of the suitability and relevance of the current definition of ODA. The review is considering a range of possible revisions to the definition of ODA as well as proposals to introduce a measure to capture broader flows of finance beyond ODA (OECD 2014).

Private domestic finance

In terms of share of GDP, UMICs have mobilised the highest levels of domestic credit, with LMICs having the highest levels of domestically financed capital formation and both groups achieving similar levels of market capitalisation. LICs have generally mobilised much lower levels of private domestic finance and growth in these sources has been more modest than for MICs. Private finance is also volatile and concentrated.

Private financial institutions in developing countries play an important role in generating financial resources to support development. Domestic banks are one of the most important among this group of institutions. In general the higher income groups have experienced higher levels of domestic credit as well as greater increases in the levels of domestic credit over time. These flows have also been volatile for all country groupings, and especially in UMICs. The ratio in LICs has doubled since 1995 but is still very low, suggesting the need for major changes in the banking sector.

Stock markets help to mobilise and allocate private financial resources, from individuals and institutional investors towards listed companies. They are very thin in LICs, with a few companies listed and traded infrequently, but there is a growing number of stock markets in developing countries.

International private finance

International private finance has grown rapidly across all income groups, but the allocation is concentrated and volatile. The trends for LICs are perhaps most noticeable, given that they have achieved the highest and fastest growing levels of remittances and FDI as a share of GDP, albeit with their FDI still predominantly focused on extractive sectors, which poses challenges for linking them to the broader economy. In contrast flows from private capital markets (portfolio equity and bonds and commercial loans) have been predominantly focused on MICs (with similar trends for LMICs and UMICs). These flows have also been the most volatile across all financing sources, and therefore as LICs begin to access them they will need to manage challenges such as volatility very carefully.

Despite their modest absolute levels, remittances have been particularly important and grown fastest for LICs, from 2.2% in 1995 to 7.4% in 2012. Remittances have also been important for LMICs, although these levels may have peaked at around 5% and have fallen slightly in recent years. Despite their very large levels of remittances in absolute terms, these flows have largely been below 1% of GDP for UMICs. It has been estimated that between 9% and 30% of total remittances flows have been between developing countries (World Bank, 2007). However, this may be an underestimate given that South–South remittances are more informal than North–South and North–North remittances, so may suffer from greater under-reporting.

The period 1995–2012 has seen a dramatic transformation in the context of FDI flows to developing countries, with their levels of FDI increasing rapidly and overtaking those to developed countries for the first time in 2012 (UNCTAD, 2013). Although increases in FDI were experienced by all country groupings, its scale and character (in terms of sectors and types of FDI) has varied significantly across and within these groupings, with potential implications for their development impacts.

The character and types of FDI attracted by country groupings have differed quite significantly, especially for the lower-income countries. There is a strong concentration of FDI flows in LICs (and LDCs) in the extractive sectors (mining, quarrying and petroleum) and related manufacturing sectors, although the dominance of these sectors in FDI flows to LDCs is reported to have been falling over the last decade (UNCTAD, 2013). In contrast, FDI to most MICs is much more diversified in terms of countries and sectors.

It is also important to note that the growth of South–South FDI has been an important factor in supporting increases in FDI to developing countries and in promoting the relative resilience of FDI flows to developing countries during and since the global financial crisis. It is estimated that the contribution of South–South FDI to total FDI to developing countries increased from 25% in 2007 to 34% in 2010, and is mainly focused on green field investments (World Bank, 2011). Brazil, India and China have been at the forefront of these flows. In addition, the continued growth of FDI to LDCs in recent years has been supported by increasing FDI from other developing countries, especially India and China (UNCTAD 2013).

Net portfolio flows have been of significance only to MICs, with their levels experiencing significant volatility and generally fluctuating between 0.5% and 2% of GDP. During the East Asian crisis in the late 1990s these flows fell sharply, and they turned negative during the global financial crisis, illustrating their strong pro-cyclical nature. A relatively new way for low-income and African countries to raise public funds is through issuing sovereign bonds. Sub-Saharan African countries issued a record \$4.6 bn in 2013 in sovereign bonds (5% of issues by developing countries), up from zero in 2010 (and around \$ 1 bn in 2001).

3. Challenges in public finance - Future trends and proposals for mobilising development finance

Establishing an agenda for finance for development in the post-2015 context requires an understanding of the evolving nature of finance needs and sources, as well as likely scenarios for and challenges related to mobilising such financing.

Public domestic finance

The IMF's latest projections for government revenues across developing countries suggest that government revenue for LICs will remain stable at roughly 21% of GDP. They also suggest that 'emerging economies' will see their revenues to GDP ratios fall gradually from 27.3% of GDP in 2013 to 25.8% of GDP in 2019 (IMF, 2014). These projections therefore point towards a challenging period for revenue-generation and expenditure across all developing countries, although the value of revenues will still increase.

Such an outlook for government revenues is based on assumptions about the policy environment surrounding revenue generation by developing countries. Given that current tax capacity is below its potential in many developing countries, it is possible to improve government revenue performance in the coming years by introducing revenue-enhancing policies and practices (IMF, 2013). The historical experience of LICs in SSA suggests that it is possible even for such countries to increase tax revenues by 0.5–2% over periods of one to three years and by 2–3.5% over periods of five to ten years (IMF, 2012). Hence it is possible for tax revenues to increase in the coming years in value terms and as a ratio to GDP. But this requires significant reform to domestic public finance.

A specific issue applies to mobilising revenues from the extractive industries (EIs), such as mining and petroleum – there are differences between mining and petroleum with respect to the distribution of costs, benefits, and risks associated with the exploration and development phases. With the increases in mineral prices since 2004 and the discovery of several new mineral resources in recent years, there are high potential benefits to be obtained from EIs. The share of government revenues varies markedly across countries. The taxation of EIs is affected by a number of specific factors. Rents can be large, but the circumstances are highly volatile (e.g. due to volatile resource prices) and uncertain (i.e. difficult to predict).

Tax administrators face a range of further challenges such as transfer-pricing abuse, reported value of production, debt payments, and hedging. For example, when TNCs calculate taxable income for their operations in each country, they need to put a price on goods and services traded among units of the same MNC. In practice, companies can use this mechanism to transfer value to jurisdictions where taxes are low.

Public international finance

Following a slowdown in the growth of ODA in the late 2000s (OECD, 2013), total ODA fell by 6% in real terms during the period 2010–2012, before recovering to 2010 levels in 2013 (OECD, 2014). There are, however, significant concerns about future prospects for ODA levels. The OECD projects that global ODA levels will stagnate over the period 2014–2016, suggesting that substantive increases are unlikely and that as percentage of GDP ODA will decline significantly for all country groupings. The OECD's analysis also suggests

that an increasing proportion of this ODA will be directed towards MICs (largely due to increased ODA loans to these countries), with SSA likely to receive only small increases (OECD, 2013). It is therefore clear that changing this outlook on ODA will require an increase in political commitment from donor governments, which the post-2015 process and the accompanying Addis Ababa conference on development financing provide an opportunity to mobilise. Aid from non-traditional DAC donors and from non-DAC donors is, however, likely to increase.

With regard to OOF, there have been significant challenges in maintaining the significant increases that were mobilised to support developing countries (largely MICs) to respond to challenges posed by the global financial crisis. The World Bank led such efforts by mobilising large increases in outflows from its International Bank for Reconstruction and Development (IBRD) and International Finance Corporation (IFC) (IEG, 2010). Since 2010, however, OOF levels have fallen significantly and there are concerns about future levels of this source, which can be so important to MICs, especially those whose access to the most concessional forms of financing are low or falling (Kharas, 2014). An important development in this regard is the recent announcement by the World Bank of an extra \$100 bn in lending to MICs over the next decade, albeit by changing borrowing and internal lending rules (NYT, 2014).

The last 10 years have seen increasing attention to identifying new and innovative sources of financing for development (IFD).² To date a number of new proposals have been taken forward to pursue this goal, albeit with relatively modest results; recent UN analysis suggests that only \$8.4 bn in funding has been raised by IFD initiatives since 2002 (UNDESA, 2012). There is, therefore, significant potential to further pursue these and other emerging IFD proposals.

It should be noted, however, that there are very challenging political (and other) obstacles to be addressed in taking forward the most significant IFD proposals (especially global taxes), which face strong resistance, for example from financial centres and energy industries. It is also not clear to what degree some of the measures proposed will provide resources for developing countries, given that developed countries will want to retain some of the revenues they generate for their own needs. There is therefore a great deal of uncertainty about the degree to which IFD measures can be relied upon address the financing gap for sustainable development in developing countries.

Mobilising public and private finance for sustainable development - Reform of subsidies on fossil fuels and carbon taxes

The removal of fossil-fuel subsidies and the introduction of a general carbon tax would send appropriate price signals (i.e. incorporating environmental damage in the price of using energy) and mobilise more investment in R&D and greater incentives for renewable energy investors. A price on carbon, for example, would also help to reduce the need to find additional investment in renewable energy, as more private investment would flow into this area. Further, the world spends \$557 bn a year on subsidies for fossil fuels compared to \$33 bn for low-carbon sources of energy (Stern, 2006), including biofuels and nuclear power.

The economic consequences of energy subsidies in general and for fossil fuels in particular can be far-reaching. While the former are often aimed at protecting consumers by providing secure energy, fossil-fuel subsidies can hamper the diffusion of green energy technology. Moreover, energy subsidies as such can aggravate fiscal

² A range of definitions of IFD is currently being used. A review by the OECD identifies three categories of IFD mechanisms: (a) new approaches for pooling private and public revenue streams to scale up or develop activities for the benefit of partner countries; (b) new revenue streams (e.g. a new tax, charge, fee, bond raising, sale proceed or voluntary contribution scheme) earmarked to development activities on a multi-year basis; and (c) new incentives (financial guarantees, corporate social responsibility or other rewards or recognition) to address market failures or scale up existing development activities (OECD, 2009)

imbalances, depress private investment and promote capital-intensive industries and at the same time reduce incentives for renewable energy. Since wealthier households tend to claim most of the benefits of subsidies, subsidies might even reinforce inequality (IMF, 2013) and hamper social transformation. In most regions, energy subsidies are pervasive and ossify undesirable structures in the energy market. Thus removing fossil-fuel subsidies could increase incentives for private investment in R&D for green energy technologies and act as a policy measure for leveraging finance for green investments.

4. Challenges in private finance - Future trends and proposals for mobilising development finance

Private domestic finance

In terms of the outlook for domestic private finance available to developing countries, one of the best indicators is projections for gross investment, which is driven largely by domestic savings rates in developing countries. High domestic savings rates in developing countries (due to demographic and structural trends) are expected to help drive significant increases in investment in these countries, outpacing investment in HICs. As a result, sources of private capital will increasingly come from developing countries, especially China, and by 2030 half of the global stock of capital is expected to be in developing countries (up from around 30% in 2010) (World Bank, 2013).

Finance by banks and by pension funds located in developing countries is expected to increase further. Private resources from domestic pension funds and insurance companies in developing countries grew ten-fold from 2002–2012 to US\$5.5 trillion in 2012 (World Bank, 2013). They are expected to increase further to US\$50 trillion by 2050. Furthermore, reaping the benefits from increased banking credit, more corporate bonds and stock markets requires fundamental changes to domestic financial markets in the poorest economies.

Mobilizing private finance through public-private-partnerships - PPPs for infrastructure finance

The need to cover maintenance and operational costs throughout a project's life cycle and to develop whole life-cycle cost approaches to finance for infrastructure has led to a rise in the number of PPPs in the last two decades. Even though PPPs have higher upfront costs than does public finance, they have specific advantages that can make them the preferred means of financing infrastructure. Risk is shared with or borne by the private sector, which may result in substantial savings for the public sector. The participation of the private sector can also lead to better project selection, more cost-effective construction processes, savings in building materials and equipment, a better quality of service and improved governance, all tending to reduce the life-long cost structures of the project. This is especially true in countries whose public works departments have only limited capacity to manage such projects or where governance structures are weak. However, governments need to develop the capacity and the skills to engage with, evaluate and manage PPP contracts effectively in order to obtain the benefits. This suggests that PPPs may be a useful potential source of infrastructure finance in specific circumstances that apply more to MICs and HICs than to LICs.

Private international capital

The outlook for remittances flows to developing countries is largely a positive one, with recent projections suggesting that these will reach \$540bn in 2016, an increase of more than 50% compared to 2012 levels. Remittance flows are also expected to continue to increase in all regions (World Bank, 2013).

UNCTAD's most recent projections for FDI to developing countries suggest that there will be no growth in these flows in 2014 and only modest growth occurring in 2015 and 2016. This projection is based on concerns

about growth levels in developing countries, as well as on the effects of the ending of quantitative easing in the USA (UNCTAD, 2014).

However, the long-term prospects for international capital flows to developing countries are much more positive. Capital flows to SSA are expected to increase sharply from \$62bn in 2012 to \$254 bn in 2030, owing to better growth prospects, demography, and improved investment climate. SSA's share in total capital flows to developing countries is also expected to increase over this period.

Another important trend relating to private international finance is that, new and more diverse sources of such finance are expected to play an increasingly important role in the coming decades. For instance, institutional investors, such as pension funds, sovereign wealth funds (SWFs) or insurances, have more than \$70 tr under management (Kaminker and Steward, 2012). Philanthropic groups and foundations (including family offices and high-net-worth individuals) are also becoming ever more interested in social impact investing, which includes investments for social or environmental purposes. Recently, the Norwegian pension fund announced it would invest more in developing countries. Chinese SWFs have also become interested in investing in developing countries. But a significant share of SWFs or institutional investment never reaches developing countries. Hence, a significant effort, for example in the post-2015 (or G20) context, would be needed to mobilise and channel institutional investment towards poorer countries and infrastructure sectors.

Global economic policies are crucial for the prospects of portfolio flows to developing countries. The global financial crisis of 2007–2008 and its severe economic consequences – a significant slowdown in global economic activities, a collapse in global trade, debt- and unemployment-related problems in a number of advanced economies – have not only induced a re-evaluation of the prospects of global economic growth but also prompted a re-design of global regulatory and economic policy frameworks. Increased volatility in the capital flows has made macroeconomic management difficult worldwide. Moreover, global economic policies (monetary, financial, fiscal) that address the volatility of finance flows can have major impacts on developing countries.

5. The way forward

In the run-up to the Financing for Sustainable Development Conference in Addis Ababa in July 2015 there will be an intense debate on what a global agreement on financing the post 2015 agenda should entail. Based on the work of the OWG there seems still to be a large scope for debate on the financial and non-financial MOI to be agreed upon.

The following areas will have to be discussed as an integrated combination of finance, means of Implementation, as well as national and global policies to make finance effective:

- **Mobilising and effectively using public finance:** Increasing public contributions for ODA (0.7%/GDP) and climate finance by developed countries, matched by efforts of developing countries to mobilize domestic resources; re-allocation of ODA to LICs and fragile states and smart use of ODA in MICs for leveraging private capital; increasing tax revenues in developing countries by broadening the tax base; introducing a Financial Transaction Tax for financing of global public goods; reducing illicit capital outflows through international tax cooperation and identifying the legal ownership of companies worldwide. Ensure transparency of trade and investment contracts with the public sector as well as financial flows to governments.
- **Making sure that private funding and South-South-Cooperation is used effectively for sustainable development:** Defining rules of conduct (social, environmental and governance) for Transnational Enterprises as well as for public and private banks and export financing agencies; agree on rules for

responsible investment and responsible lending; use public funds and public funding agencies to establish common rules through co-financing with private enterprises and private financial institutions. Support developing countries in building better capacities for investment promotion (FDI), particularly in extractive industries and commodities, and for developing investment in infrastructure (including PPP).

- **Trade and technology for sustainable development:** A trade package for LDCs including full duty-free/quota-free access for LDC exports as well as progress on non-tariff barriers including rules of origin and elimination of subsidies by advanced countries; technology bank and voluntary patent pools for LDCs.
- **A global roadmap (country by country) for climate friendly growth** with advanced countries in the lead: raising resource efficiency by removing fossil fuel subsidies and introducing a price on carbon.
- **Designing a global system and policy environment** that includes binding agreements on climate change, a supportive global trade regime, financial and tax rules, and rules on migration and technology.

Actors

The actors that will have different roles and responsibilities include different country groupings, different government departments and autonomous state bodies such as export credit agencies or export promotion agencies, business (organisations, financial sector firms, manufacturing etc.), other national (e.g. academia, think tanks, CSOs) and international (UN, World Bank, IMF, RDBs, etc.).

Having led the Financing for Development process since its inception in the run-up to Monterrey 2002 the UN has clearly an overarching facilitator role for all the other actors.

There are several country groupings such as regional organisations or the G20. These could contribute to finance and policies depending on their competencies (standard setting, consensus seeking, spotlighting). The G20 in particular has an important role in global rule making given its self-acclaimed status of premier economic forum.

One group of stakeholders who will be particularly important for the implementation of the post-2015 development framework will be the BRICS and other South-South contributors. Already South-South cooperation is providing an increasing amount of financial resources for development. With the recently launched New Development Bank and related Contingency Reserve Agreement the BRICS countries have complemented the global financing architecture with new institutions.

Apart from public actors, private actors will also have roles and responsibilities, both in terms of enhancing positive effects, recognising their growing role in financing development, and mitigating negative effects, avoiding business practices that go against domestic social and environmental standards. Different types of actors will have roles in the implementation of the framework, but some have a more determinant role in providing leadership and setting the framework whereas others will react and support. Thus the lead role is clearly with governments at national and global levels; a more reactive and supportive role though this can also be by stimulating and provoking action can be expected to be filled by domestic private sector, the international private sector including the financial sector, civil society and indeed individual citizens.

References

- IEG. (2010) *The World Bank Group's Response to the Global Economic Crisis – Phase 1 evaluation*. Independent Evaluation Group, World Bank, Washington 2010.
- IMF. (2010) *Determinants of Foreign Direct Investment: A Sectoral and Institutional Approach*, IMF Working Paper, 10-187. International Monetary Fund, Washington DC
- IMF. (2012) *Mobilizing revenue in sub-Saharan Africa: empirical norms and key determinants*. IMF Working Paper 12/108. International Monetary Fund, Washington: DC. IMF FAD database
- IMF. (2013) *Energy Subsidy Reform: Lessons and Implications*. International Monetary Fund.
- IMF. (2014) *World Economic Outlook (WEO) Recovery Strengthens, Remains Uneven*, International Monetary Fund, Washington, April 2014
- Kaminker, Ch., Stewart, F. (2012) *The Role of Institutional Investors in Financing Clean Energy*. OECD Working Papers on Finance, Insurance and Private Pensions, No.23. OECD, Paris.
- Kharas, H. (2014) *Time to Boost IBRD as well as IDA*. World Bank blog, 19 February 2014.
- NYT. (2014) *World Bank to Lift Lending to Developing Countries*. New York Times, Accessed April 1st 2014.
- ODI. (2014) *Trends in ODA across developing country groupings – A dynamic analysis*. Overseas Development Institute, forthcoming.
- OECD (2009), 'Innovative funding to finance development: Progress and prospects', Sandor, E., Scott, S. and Benn, J, DCD Issues Brief, OECD, Paris, November 2009
- OECD (2012) *OECD DAC Statistics: Climate-related aid*. OECD, Paris.
- OECD (2013) *The where of development finance - Towards Better Targeting of Concessional Finance*. OECD, Paris.
- OECD (2014) *Mobilising Resources for Sustainable Development*, OECD DAC, Paris
- Stern, N. (2006) *Stern Review: The Economics of Climate Change*.
- UNCTAD. (2013) *World Investment Report 2013*. United Nations, Geneva.
- UNCTAD. (2014) *Investment by South TNCs Reached a Record Level: Acquiring Developed Country Foreign Affiliates in the Developing World*. Global Investment Trends Monitor 16 (28 April 2014). United Nations.
- UNDESA. (2012) *World Economic and Social Survey 2012: In Search of New Development Finance*. UNDESA, New York.
- UN Intergovernmental Committee of Experts on Sustainable Development Financing. (2014) *Report of the Intergovernmental Committee of Experts on Sustainable Development Financing Final Draft 8 August 2014 [Advance unedited version]*. United Nations, New York.
- UN High Level Panel of Eminent Persons on the Post-2015 Development Agenda. (2013) *A New Global Partnership: Eradicate poverty and transform economies through sustainable development*. United Nations Publications, New York

UNSDSN. (2013) *Achieving Gender Equality, Social Inclusion, and Human Rights for All: Challenges and Priorities for the Sustainable Development Agenda*. Report of the SDSN Thematic Group on Challenges of Social Inclusion: Gender, Inequalities, and Human Rights.

UN Open Working Group on the Sustainable Development Goals. (2014a) *Working Document for 5-9 May Session of Open Working Group*. United Nations, Online.

UN Open Working Group on the Sustainable Development Goals. (2014b) *Outcome Document*. United Nations, Online.

UN System Task Team on the Post-2015 UN Development Agenda (2012) *Realizing the Future We Want for All*. United Nations, Online.

World Bank, (2007) *South-South Migration and Remittances*, World Bank Working Paper number 102, World Bank, Washington: DC.

World Bank. (2011) *Outward FDI from developing countries are up, notably South-South flows*, Prospects for Development blog, posted 02/04/11.

World Bank. (2013) *Capital for the Future Saving and Investment in an Interdependent World*. World Bank, Washington: DC.

The Role of Developing Countries in Global Economic Governance —With A Special Analysis on China's Role

Ye Yu, Xue Lei and Zha Xiaogang, Shanghai Institutes of International Studies

Executive Summary

Since the beginning of this century, the power shift from the North to the South has radically changed the nature and structure of global economic governance. Conceptual and theoretical changes also contributed to the trend. Developing countries, especially emerging economies, are taking more active and comprehensive approaches to global economic governance. First of all, they are making use of existing international economic institutions. Secondly, they intend to strengthen their regional economic cooperation institutions by further deepening regional monetary and financial cooperation. Third, they are investing more resources in the establishment of trans-regional or mini-lateral economic cooperation mechanisms. Yet with the established powers more inward looking and the rising powers still not well prepared, there exists a vacuum in the international community, which may contribute to a deficiency in the supply of public goods for effective global economic governance.

The role of China merits special attention. Existing literature reveals an increasingly active but not yet proactive role of China towards global economic governance. China's position as a "developing power of global nature" has a pluralistic quality, signifying that its role in global economic governance will continue to be transitional and evolutionary. We have seen marked rise of Chinese representation as well as its contribution of capital and knowledge in major global fora, which are nevertheless rather limited compared to external expectations. Its domestic priorities and structural weakness in technology, currency and ideas define the fundamental limits of China's role in global economic governance. The transition process is characteristic of a complex coexistence of both strengths and weaknesses, of ambition and ambiguity. This duality has profound implications for the world: on the one hand, China can serve as the bridge of the South and North, but on the other hand it is still not in a position to unite the two factions and lead the "rebuilding" of the Bretton Woods Institutions.

Looking ahead, China and other developing countries should put more efforts towards co-shaping and improving global economic governance in the following directions. First, there needs to be a coordinating entity among the various cooperative mechanisms. The G20 and the UN could have certain complementary roles. The G20 still has an edge in terms of the global financial framework as well as macroeconomic policy coordination and consultation. The development issue could become the one linking the major work of both the UN and the G20. Second, the international community needs to build a regional and global stabilizing framework. The 2008-2009 Global Financial Crisis and the recent market turmoil in emerging markets demonstrated the vulnerabilities of developing countries in relation to macroeconomic policy changes in the developed countries. The former need to provide a certain guarantee to the latter to offset the negative spillover effects of their policy changes. Without the participation of developed countries, the ongoing work on building the regional and global stabilizing framework can never be completed. Third, there needs to be a combination of the Post-2015 Development Agenda and the Framework for Strong, Sustainable, and Balanced Growth¹. The development issue cannot be seen as a purely economic phenomenon. The world needs a comprehensive approach in dealing with development challenges.

¹ The Framework for Strong, Sustainable, and Balanced Growth was first presented at the G20 Pittsburgh Summit, which stressed the importance of restructuring and rebalancing of world economy. See Communique of the G20 Pittsburgh Leaders' Summit, September 25, 2009, <http://www.ft.com/intl/cms/s/0/5378959c-aa1d-11de-a3ce-00144feabdc0.html#axzz3GABjj41k>, last accessed on September 29, 2014.

1. Introduction

Generally speaking, global economic governance (GEG) encompasses power, structure, and institution, with these elements together determining its operation and nature. Since the beginning of this century, a very important phenomenon in GEG is that several major emerging countries and the developing countries² as a whole have attained greater representations and influence. Although still lagging behind the developed countries, the progress of the South is already unprecedented considering the low profile and weak capacity in the past. The power shift has fundamentally changed the nature and structure of global governance. In the meantime, we have also been witnessing the proliferation of regional or global cooperative mechanisms. During the financial crisis, the G20 emerged as the premier forum for international economic cooperation. With the Leaders' Summit of the world's major economies – developed as well as emerging economies – the G20 has fully displayed its capability in building political consensus. However, there are new challenges accompanying the great changes. With the established powers more inward-looking and the rising powers still not well-prepared, there exists a kind of vacuum in international community, which may contribute to a deficiency in the supply of public goods for effective GEG.

2. Developing countries and GEG

2.1. The growing economic power of emerging and developing countries

The basis for emerging and developing countries to take more active and comprehensive approaches to GEG is their increasing weight in the global economy. From 1991 to 2010, the developing countries in general increased their share of the global GDP from 31.2% to 47.9%, in which China increased from 1.7% to 9.4%, India from 1.2% to 2.7% and Brazil from 1.8% to 3.3%. Even those small- and medium- sized developing countries realized fast growth, such as Indonesia's global GDP share increased from 0.13% of 1991 to 0.16% of 2010, and Vietnam's increased from 0.04% to 0.17%³. According to the IMF's data for 2012, the purchasing power parity GDP of the emerging and developing countries have converged with that of the developed economies for the first time in modern history⁴ (see Table I).

Table I: Share of Global GDP, Export of Goods and Services, and Population by Different Group of Countries

	Number of Economies	GDP		Exports of Goods and Services		Population	
		Advanced Economies	World	Advanced Economies	World	Advanced Economies	World
Advanced Economies	36	100.0	43.6	100.0	61.2	100.0	14.7
United States		37.7	16.4	16.1	9.9	30.5	4.5
Euro Area	18	28.2	12.3	40.4	24.8	32.0	4.7
Germany		7.9	3.4	12.0	7.4	7.8	1.2
France		5.7	2.5	5.7	3.5	6.1	0.9
Italy		4.6	2.0	4.5	2.7	5.8	0.8
Spain		3.3	1.5	3.3	2.0	4.5	0.7
Japan		10.5	4.6	5.9	3.6	12.3	1.8
United Kingdom		5.2	2.3	5.6	3.4	6.2	0.9
Canada		3.4	1.5	3.9	2.4	3.4	0.5
Other Advanced Economies	14	15.0	6.5	28.1	17.2	15.6	2.3

² The term “emerging and developing countries” has been adopted by both the IMF and World Bank in referring to the community of the developing countries as a whole, while setting a dividing line between some “much-developed developing countries” or middle-income developing countries and the least-developed countries. The former include countries such as China, India, Brazil, and etc. And the latter covers many poorest countries including Afghanistan, Central Africa Republic, South Sudan, etc. Also see the classification made by the World Bank on countries belonging to different income groups. The low-income countries have a GNI per capita of \$1,045 or less in 2013 and the middle-income countries have a GNI per capita of \$12,746 or more. http://data.worldbank.org/about/country-and-lending-groups#Upper_middle_income, last accessed on October 14, 2014.

³ World Bank, *World Development Indicator 2011*. The percentages are calculated by the author.

⁴ IMF, World Economic Outlook Database.

		Emerging Market and Developing Economies	World	Emerging Market and Developing Economies	World	Emerging Market and Developing Economies	World
Emerging Market and Developing Economies	153	100.0	56.4	100.0	38.8	100.0	85.3
Regional Groups							
Commonwealth of Independent States ²	12	8.6	4.9	10.1	3.9	4.8	4.1
Russia		6.1	3.4	6.6	2.6	2.4	2.0
Emerging and Developing Asia	29	50.9	28.7	43.5	16.9	57.3	48.8
China		28.1	15.8	26.4	10.2	22.7	19.4
India		11.8	6.6	5.3	2.0	20.8	17.7
Excluding China and India	27	11.0	6.2	11.9	4.6	13.8	11.8
Emerging and Developing Europe	13	6.0	3.4	8.9	3.5	3.0	2.5
Latin America and the Caribbean	32	15.5	8.7	13.9	5.4	10.0	8.5
Brazil		5.2	3.0	3.1	1.2	3.4	2.9
Mexico		3.6	2.0	4.5	1.7	2.0	1.7
Middle East, North Africa, Afghanistan, and Pakistan	22	13.7	7.7	18.3	7.1	10.4	8.9
Middle East and North Africa	20	12.2	6.9	17.9	6.9	6.8	5.8
Sub-Saharan Africa	45	5.3	3.0	5.3	2.0	14.6	12.5
Excluding Nigeria and South Africa	43	2.5	1.4	3.0	1.1	10.9	9.3

Source: *World Economic Outlook: Legacies, Clouds, Uncertainties*, October 2014, by the IMF.

In the trade area, emerging and developing countries have risen quickly along the rankings. In 1992, the top ten trading economies were all from developed economies. The G7 countries alone occupied 53.4% of global goods and service export, while China had just 1.7% and Brazil only had 0.9%. As for India and Russia, they were even outside of the top 30 exporters in the world. The whole trading system was dominated by the developed economies. In the last decades the global context changes radically and emerging economies have become significant exporters in 2012. Their total share in global export rose to 47%, close to one half. In this year, China accounts for 10.2% of global export becoming the first trading economy (jumping up from the 16th place in 1992). Russia and India have also become large exporters currently positioned respectively at the 10th and the 15th place of the world ranking. In contrast to this trend the G7 countries share of global export has decreased to 34.2%⁵ (see Table II and III).

Table II: Top Ten Economies of Merchandise Export and Import, 2012

Rank	Exporter	Value	Share	Annual percentage change	Rank	Importer	Value	Share	Annual percentage change
1	China	2,049	11.2	8	1	United States	2,335	12.6	3
2	United States	1,547	8.4	5	2	China	1,818	9.8	4
3	Germany	1,407	7.7	-5	3	Germany	1,167	6.3	-7
4	Japan	799	4.4	-3	4	Japan	886	4.8	4
5	Netherlands	656	3.6	-2	5	United Kingdom	680	3.7	1
6	France	569	3.1	-5	6	France	674	3.6	-6
7	Korea, Republic of	548	3.0	-1	7	Netherlands	591	3.2	-1
8	Russian Federation	529	2.9	1	8	Hong Kong, China	554	3.0	8
9	Italy	500	2.7	-4		– retained imports	140	0.8	6
10	Hong Kong, China	493	2.7	8	9	Korea, Republic of	520	2.8	-1
	– domestic exports	22	0.1	33	10	India	489	2.6	5

Source: *World Trade Report 2013: Factors Shaping the Future of World Trade*, by the WTO.

⁵ UNCTAD Database, calculated by the author according to current price and exchange rate of the US dollar.

Table III: Top Ten Economies of Export and Import of Commercial Services, 2012

Rank	Exporters	Value	Share	Annual percentage change	Rank	Importers	Value	Share	Annual percentage change
1	United States	614	14.1	4	1	United States	406	9.9	3
2	United Kingdom	278	6.4	-4	2	Germany	285	6.9	-3
3	Germany	255	5.9	-2	3	China ^a	281	6.8	19
4	France	208	4.8	-7	4	United Kingdom	176	4.3	1
5	China ^a	190	4.4	4	5	Japan	174	4.2	5
6	India	148	3.4	8	6	France	171	4.2	-10
7	Japan	140	3.2	-2	7	India	125	3.0	1
8	Spain	140	3.2	-1	8	Singapore	117	2.8	3
9	Singapore	133	3.1	3	9	Netherlands	115	2.8	-5
10	Netherlands	126	2.9	-7	10	Ireland	110	2.7	-5

Source: *World Trade Report 2013: Factors Shaping the Future of World Trade*, by the WTO.

In the area of international investment, the global picture is becoming rosier for the emerging and developing countries. The distribution of global capital is, in fact, changing and emerging and developing countries are growing in capital stock. Before 1995, global capital was mainly stocked by the developed countries. However, after 1995, emerging and developing countries have substantially increased their capital stock and the process is still going on steadfastly. In 2012, China, Brazil, India and Russia together have accounted 18% of global capital stock, almost twice of that of Germany and equal to the share of the US⁶. As the result of this change in global capital stock, the global direct investment structure has also changed significantly. Before 2000, the developed economies had been the main FDI provider. In 1993, developing countries as a whole only provided 9% of global FDI, while the developed countries provided 91%. In 2012, emerging and developing countries provide 35% of global FDI⁷.

In the domain of global development aid, too, the influence of emerging countries has become much more evident. In the past, the main international aid providers were OECD-DAC and OPEC member countries. Nowadays, the emerging economies have played much more important role than before. Although the OECD-DAC countries are still the major player as a whole, their share of aid supply in global total has decreased to 75.6%, around 10 percentage points lower compared to 10 years ago. Moreover, many researchers believe that the BRICS countries' aid scale has still been underestimated⁸.

All these achievements and power growth have given the emerging and developing countries more confidence on their chosen development strategies. They also learn from their experience on how to govern their international economic cooperation and therefore formulate their approaches to GEG.

2.2. Theoretical changes

The fundamental logic is the changing economic power layout, but the changing theoretical and conceptual background is just as important. Since the end of the World War II, the main intellectual basis for international economic cooperation has been founded mainly upon two different theories, the hegemonic stability theory (HST) and the neo-liberal institutionalism. The HST has stressed the key role of the hegemony. It believes that, without an international government, hegemony is essential for world peace and development, as it can provide necessary international public goods for all countries in the world to develop their economies and to promote international economic cooperation. However, the facts before and after the Cold War have shown the world that the existence of one hegemony or two hegemonies could not provide enough and effective international public goods but instead led to conflicts and wars and monopolies in the region of developing countries. The neo-liberal institutionalism has more persuasive power compared to HST, as it correctly indicates that countries

⁶ World Bank, *Global Development Horizons 2013: Capital for the Future, Saving and Investment in an Interdependent World*, Washington: World Bank, 2013, pp. 29-32.

⁷ UNCTAD Database, calculated by the author according to current price and exchange rate of the US dollar.

⁸ OECD, *Development Co-operation Report 2012*, Paris: OECD, 2013, p.260.

can promote international economic cooperation and realize their development with a win-win result. However, its weaknesses have been clearly displayed when several financial crises happened during the 1990s and early 2000s, in which the global institutions such as the World Bank and the IMF could not effectively deal with them, leaving many emerging and developing countries hopeless and severely damaged with their economies⁹.

Witnessing all these developments in GEG, the emerging and developing countries have realized that they should not only make use of the existing international economic institutions such as the World Bank, IMF, UNCTAD, UNDP, but also create more regional and bilateral institutions to promote and safeguard their economic and development interests. This is synthesized as the regional public goods theory¹⁰. This theory assumes the global institutions might not be able to provide effective and enough public goods for emerging and developing countries, as they are either not very much familiar with the specific regions or countries' situation and the corresponding needs, or used by the big powers for their own geopolitical or diplomatic interests, or privatized by the existing powers. With this theoretic change, the emerging and developing countries have more comprehensive and profound understanding of the nature of global economic governance. They would believe now that, the existing GEG mechanisms are sometimes useful but not necessarily effective for some specific region and countries. What they need is a more layered and multi-dimensional network of global, regional and bilateral economic governance.

2.3. The emerging and developing countries' approaches to GEG

Since the end of the Cold War, and especially the new century, the emerging and developing countries have adopted very dynamic and active approaches to global economic governance. First, they have tried to make use of the existing international economic institutions, such as the World Bank, IMF and the WTO. Almost all the emerging and developing countries have actively joined the three afore mentioned institutions. And China's accession to the WTO may be seen as a historic event in terms of its impact on both the Chinese economy and the world economy as well, which led to the formation of the largest regional manufacturing network and the subsequent changing flow of FDIs to the emerging economies. In the meantime, as members of UN, the emerging and developing countries have accesses to other UN bodies for international economic cooperation, such as UNCTAD and UNDP, which have been able so far to support developing countries both in terms of policy strategies and project management.

The World Bank has remained the biggest individual development financing provider for many countries, while its role is becoming increasingly significant in terms of experience-sharing and capacity/knowledge-building in developing countries. The IMF has different importance for different emerging and developing countries. For those small and poor developing countries, IMF is still the lender of last resort. Large emerging countries do not expect much of its financial support, but they still see it as an important policy adviser and partner with whom to discuss international and macroeconomic issues. The UN bodies are the most natural partners for the emerging and developing countries to take part in GEG, as the UN is more based on membership rather than weighted voting mechanism. This also explains why many developing countries would try to form their common trade and investment agenda through UNCTAD, as they were very weak in terms of trade power compared to the developed economies before the end of the Cold War. Even now, UNCTAD is still an important platform on which to express developing countries' collective ideas and interests in global trade and investment. UNDP has been one of the main global institutions engaged in development efforts. It provides highly-valued support and substantial programs for those poor developing countries. Therefore, the majority of emerging and developing countries still attach great importance to cooperating with these existing international institutions.

Second, emerging and developing countries have strengthened their regional economic cooperation institutions. Because of similar history and customs, close geographic distance and usually more familiar with their own advantages and disadvantages, regional cooperation mechanisms have been widely established and strengthened during past decades, especially after the end of the Cold War. In East Asia, many regional mechanisms have been established and perform important functions, such as the various cooperative mechanisms among ASEAN and China, Japan, and South Korea, as well as the Chiang Mai initiative Multilateralization (CMIM); in Latin

⁹ 樊勇明:《从国际公共产品到区域性公共产品——区域合作理论的新增长点》,载《世界经济与政治》,2010年第01期,143-152.

¹⁰ See Todd Sandler, "Regional Public Goods and International Organizations", *The Review of International Organizations*, Vol. 1, Issue 1, 2006, pp.5-25. Also see Guillermo E. Perry, "Regional Public Goods in Finance, Trade and Infrastructure", Document CEDE No. 2013-43, October 4, 2013. For relevant practices, see Inter-American Development Bank, *Regional Public Goods: An Innovative Approach to South-South Cooperation*, 2014.

America, Mercosur (Southern Common Market) has represented the most recent and dynamic regional economic integration progress, while the Pacific Alliance is gaining momentum as well. In Africa, the African Union (AU) has been the center pillar for regional cooperation, and the African Free Trade Zone established in 2008 displayed the determination and strong desire for substantive regional economic integration. Comparatively, regional institutions in the East Asia are based on well-connected production network, while those in South Asia, Africa and Latin America are more a top-down approach without deep economic integration in the regions.

Third, after the 2008-2009 Great Financial Crisis (GFC), the emerging and developing countries are cooperating with developed countries to establish new mechanisms and institutions to strengthen GEG, such as the G20 summit and the Financial Stability Board. As the GFC erupted, the developed countries - especially the United States - found themselves unable to deal with it alone. Consequently, the G20 summit became a newly established GEG mechanism where the emerging and some other developing countries gain, for the first time, equal places, at least nominally, in discussing and managing global economic affairs with the old powers. Emerging and developing countries chose to join the new G20 mechanism not only in the willing of sharing rights and power but also as a way to cooperate with developed countries to stabilize and manage the global economy. The global financial sector used to be exclusive domain of the developed countries, but as emerging countries' financial power grew, it became necessary to be open to them as well. Certain emerging countries have attained seats in the newly founded Financial Stability Board (FSB) as well¹¹. Now they can have their and other developing countries voice to be heard during the making and formation of international financial standards and rules. Emerging and developing countries' cooperative attitude towards these newly established global level economic governance mechanisms is important because it can help avoid the risk of breaking up the existing GEG framework and strengthen their effectiveness and legitimacy.

Fourth, emerging and developing countries are paying more attention and investing more resources to establish trans-regional or mini-lateral economic cooperation mechanisms among them. BRICS is the typical case. As the largest emerging economies, they try not to depend too much on the developed economies in terms of either trade or investment and instead aim to tap the huge potential of their mutual economic cooperation. Besides, as the reform of current international financial system has been delayed by the developed economies, they also want to take appropriate measures to tend to their and other developing countries' interests. Therefore, they have established the BRICS Summit as a formal institution to promote cooperation among the five largest emerging countries. Within this framework, some very significant new trans-regional mechanisms have been launched, such as the BRICS New Development Bank (NDB) and the Contingent Reserve Arrangement (CRA). These two mechanisms are up-to-date the most substantial economic and financial governance institutions initiated by emerging and developing countries and a historical breakthrough of GEG framework. In this way, the emerging and developing countries might have more autonomy in dealing with development and financial issues.

Fifth, emerging and developing countries are establishing many bilateral mechanisms to promote economic cooperation and deal with economic challenges. This bilateralism mainly displays in two forms: the first is between two countries, and the second between an emerging country and a developing region. Emerging countries have reached many bilateral trade, investment, financial and monetary cooperation agreements with other countries, such as FTA, BIT, SWAP and resource agreements. For example, China has established many bilateral free trade agreements with other countries, including developed, emerging and developing countries, which constitutes a great contribution to the improvement of global trade governance. Related to international monetary and financial governance, China has established various currency-swaps agreements with different countries. On energy cooperation, important agreements have been signed between China and Russia and between China and Saudi Arabia that will have implications on the global governance related to energy issues. Moreover, both China and India, the two largest emerging countries, have established their respective cooperation forum mechanisms with Africa, while China also establishes a similar one with Latin America. This emerging "one-country-plus-one-developing-region" model is an innovative mechanism in terms of GEG framework, due to the fact that they are all developing countries while the first is stronger and bigger, the latter appears weaker and smaller on an individual scale, even though it has bigger negotiation power when

¹¹ 杨洁勉等:《国际金融体系改革的评估与展望》,载《国际展望》,2011年第05期,第75-90页。

performing as a whole region.¹² There has been certain concerns by people from both inside African countries or outside on the potential inequality of such a bilateral relation. Two scholars mentioned that under certain circumstances “FOCAC can be understood as an imperfect multilateral undertaking knowing that bilateral relations are at the core of the relations between China and African countries both within and outside the institution”. Then they argued: “is FOCAC an organization similar to the Commonwealth or the International Organization of La Francophonie? Are African countries true actors in this institution or do they orbit around China while it defines the rules and principles to be enacted and profits from them alone?”¹³ In practice, the FOCAC has provided a platform for various parties to share their views and concerns over China-Africa relations, which has demonstrated its role of promoting mutual learning and mutual adaptation. This is conducive to continuously improving policies and performance of both China and African countries.

2.4. Limits and challenges

It is a fact that the emerging and developing countries have gained more power and voice in global economic governance. They also have made much progress by strengthening cooperation among themselves. But there are still many limits and challenges for them to further take part in global economic governance.

- The emerging countries are yet to become as stable and powerful economies like the United States, which will limit their capacity and freedom to effectively take part in GEG, whether to share the responsibility or to express their interests and ideas. All emerging countries, including China, India, Brazil, though have achieved fast growth in the past decades, they are still far to be called mature or developed modern economies. They have to restructure their own economy toward the path of sustainable growth. The domestic economic agenda may restrain their willingness and capability in playing a role in GEG as public goods providers.
- Emerging and other developing countries have quite different interests in GEG. . There is great difficulty even in a specific region to achieve a unified stance on international economic issues. For instance, in the WTO multilateral trade negotiations, great differences have existed between the developing countries mainly as importers and exporters of agricultural products respectively. On the other hand, many emerging and developing countries are still at the lower stages of industrialization, mainly depending on the cheap labor, land and natural resources for economic development and trade growth. Their comparative advantages are similar in many aspects. For instance, apart from some developing countries with abundant reserve of natural resources, the biggest advantage for most emerging and developing countries still lies in their large pool of cheap labors, such as Vietnam, Indonesia, and the Philippines in Southeast Asia. These countries have the common demand and sometimes compete with each other in attracting foreign capital investment so as to assimilate the large labor supply. So it is necessary to find a way to make use of each emerging and developing countries comparative advantage while avoiding conflict of interests.
- Many geopolitical suspicions have deterred economic cooperation among emerging and developing countries and weaken their capacity in global economic governance. The typical case is between China and India. Although the two emerging countries are both members of BRICS, the long existing border issue has strong negative impact on their mutual economic cooperation. In South Asia, the long term conflict between India and Pakistan has been the main reason of a lack of substantial economic cooperation mechanisms in the region. The religious and political confrontations in the Middle East region have greatly reduced the chance for regional economic cooperation and a collective regional stance in global economic governance.
- As developed countries are recovering from the financial crisis, especially the US, they have less momentum to respond to the emerging and developing countries requests in reforming the GEG framework. As a result, the development agenda has got less attention in G20 and other GEG institutions compared to several years ago.

¹² See Chuka Euka, “The Forum on China-Africa Cooperation (FOCAC): A Framework for China’s Re-Engagement with Africa in the 21st Century”, *Pakistan Journal of Social Sciences*, Vol. 30, No. 2 (December 2010), pp.209-218.

¹³ Mamoudou Gazibo and Olivier Mbabia, “Reordering International Affairs: The Forum on China-Africa Cooperation”, *Brazilian Journal of Strategy & International Relations*, Vol. 1, No. 1, January-June 2012, pp.51-74.

3. China and GEG

3.1. An open debate

China recovered its membership in the Bretton Woods Institutions soon after its adoption of reform and opening policy in 1978 so as to get their support of both financial resources and knowledge. Recovery of its membership in the UN was even earlier. However the importance of China as a contributor in GEG was only recognized in the 1990s at earliest. The 1997 financial crisis brought the important role of China for the first time to the attention of the G8 Summit, the *de facto* forum of global governance, including GEG, in the last three decades.¹⁴ Former Canadian Finance Minister and then Prime Minister Paul Martin introduced how the crisis successfully led to the launch of the G20 Meeting of Finance Ministers and Central Bank Governors that happened two years later in 1999.¹⁵ However, China and other developing countries only played very limited role in this first event.¹⁶ The year of 2003 represented a turning point when China finally agreed to participate in the G8 outreach dialogue, the so-called “G8+5” process – process that stimulated enormous academic interests and studies on the changing attitude of China toward the global governance forum dominated by western countries. This shift occurred because China increasingly realized the importance of merging into globalization and the G8 itself had evolved in a less conceited way.¹⁷ The reflection of Wang Yizhou deserves a quote in underling how China needed to be “both active and cautious” when dealing with G8¹⁸. These two perspectives reflected the typical dual attitude of progression on one side and suspicion on the other, which can be identified both on the Chinese side and the G8 one during that period.

It is fair to say it was the western intellectuals and global change that finally pulled China into the central circle of GEG before China got prepared for it. Martin and many other foreign scholars called for a “Leaders 20 (L20)” quite a long time ago.¹⁹ However it took another crisis in 2008-09 for this to occur politically. This G20 Leaders’ Summit represents a real turning point for China’s participation in GEG, which actually led to the popularization of the western term GEG in Chinese public media and to a more intensive discussions about what role China can and should play in GEG.²⁰ For the first time, Former Chinese President Hu in his speech proposed his perspective on how to reform GEG and he continued to do so in the following Summits. In March 2009, right before the G20 London Summit, Chinese Central Bank Governor Zhou Xiaochuan published an article related to the different reform approaches of the international monetary system²¹ which was interpreted by western media as an expression of Chinese ambition in challenging existing dollar system. On the contrary, the Nobel laureate Paul Krugman interpreted Governor Zhou’s argument as “a plea” for international community to reduce the negative impact China suffered from dollar’s dominance.²² Most properly, Chinese State Counselor Yang Jiechi summarized the role of China in GEG as an “active participant, supporter and contributor” in 2013,²³ the order of which indicates Chinese role in GEG is more an active participant and supporter and to a less extent a contributor even after the crisis.

To conclude, the existing literature reveals an increasingly active but not yet proactive role of China towards GEG. It can be argued that this is a transition process often characterized by ambiguity and hesitation. Those who are very close to the Chinese policy circle suggest China should strengthen the function of its G20 Sherpa, enhance its internal coordination and build more common interest communities externally, including accession to the OECD, for a better role in the G20²⁴ The G8 is still functioning or even reviving, which should not be

¹⁴ 林利民等, “八国集团与中国”, 《现代国际关系》2003年第6期, 第38-39页。

¹⁵ Paul Martin, “A Global Answer to Global Problems”, *Foreign Affairs*, May/June, 2005.

¹⁶ Leonardo Martinez-Diaz, “The G20 after Eight Years: How Effective a Vehicle for Developing-Country Influence?”, The Brookings Institution working paper, Oct. 2007.

¹⁷ 吕有志, “为什么中国与八国集团越走越近”, 《现代国际关系》2005年第7期, 第36-38页。

¹⁸ 时殷弘等, “中国走近八国集团”, 《世界知识》2003年第13期, 第26页。

¹⁹ Paul Martin, “A Global Answer to Global Problems”, *Foreign Affairs*, May/June, 2005. For other studies, e.g., John Kirton, “From G7 to G20: Capacity, Leadership and Normative Diffusion in Global Financial Governance”, paper for International Studies Association Annual Convention, March 1-5, 2005, Hawaii; Thomas Fues, “Global Governance Beyond the G8: Reform Prospects for the Summit Architecture”, *International Politics & Society*, Issue No. 2, 2007, pp. 11-24; Dries Lesage, “Globalisation, Multipolarity and the L20 as an Alternative to the G8”, *Journal of Interdisciplinary International Relations*, Vol. 21 Issue 3, 2007, pp.343-361.

²⁰ Paul Martin, “A Global Answer to Global Problems”, *Foreign Affairs*, May/June, 2005.

²¹ 周小川, 关于改革国际货币体系的思考, 2009年3月24日, http://news.xinhuanet.com/fortune/2009-03/24/content_11060507.htm.

²² Paul Krugman, China’s Dollar Trap, *New York Times*, Apr 3, 2009.

²³ http://www.gov.cn/guowuyuan/2013-11/02/content_2584592.htm.

²⁴ 金中夏等, 《中国与G20: 全球经济治理的高端博弈》, 北京: 中国经济出版社, 2014年4月, 第173-182页。

considered as a bad thing if it helps coordinate the developed world and control their internal problems. The same holds true for BRICS or other regional forums. GEG should and can not be dominated by the G20, and therefore China needs to have an overall consideration about different levels of participation. More recently, an increasing number of authors are focusing and questioning on the role of China in specific global economic institutions, such as the World Bank, or in other regional or cross-regional initiatives like BRICS, arguments that are going to be covered in the following paragraphs.

3.2. The changing position and interests of China in the global economic system

How to define the status of China is a very controversial issue now, as many people tend to believe China is not a developing country any more. This paper argues the sharp division of developing and developed countries is not valid any more to describe China's unique position. To put it simply, it can be asserted that China is "a developing power of global nature"²⁵ primarily occupied by domestic challenges but indeed particularly keen in pursuing its global economic interests. Three major issues can be underlined as describing the current Chinese position:

First and foremost, China has become one of the "major powers" in the world. There are a variety of aggregate indicators that can evidence the enormous size of China, such as being the first country in terms of population; the second one, in relation to its GDP; the first one again, in terms of its export and import, its industrial output value, its consumption of energy and a lot of other commodities; it also becomes the largest trading partner. China has been identified by IMF as one of the five "systematically important economies"²⁶. It's important to note that after the 2008 crisis, Chinese economic growth contributed to 30% of the world growth.²⁷ Therefore, whether China can successfully transform its economy and sustain its growth will have a huge impact on the world economy in the upcoming years.

Secondly, the rise of China coincides with the intensification of the globalization process, which increased substantially China's demands and interests in the global market. On the trade side, China has higher stakes in global trade system as it is already the top trader in the world. It will have rising demands and import dependence in natural resources and high-end consuming goods and services, including tourism and immigration.

The same holds true in investment and finance. Compared to trade, Chinese position in the international investment system is evolving. China has been the largest destination for foreign direct investment (FDI) for about two decades, while in recent years the world is seeing a two-digit percentage growth of Chinese outbound FDI. China, in fact, exported \$107.8 billion of FDI in 2013, the third in the world, a very balanced level with the FDI import of \$117.6 billion. Referring to capital output, China is also increasing official development aid (ODA) based on the idea of South-South cooperation and "win-win" strategy. Whether China can successfully shift its capital output from huge foreign exchange reserves investment in American sovereign bonds to the productive FDI in the future medium term will be a defining indicator to test whether China can successfully transform its economy for the rebalancing of world economy. This also explains Chinese strong interests in enhancing the role of RMB, so as to avoid the "dollar trap" and defend itself from external financial risks.

Third, however, it must be stressed that China is still at a developing stage facing enormous problems and challenges at domestic level, such as environmental degradation and social stratification, accumulated during 30 years of unprecedented growth. Although China is very big in size, however it's still very weak in structural power, especially in technology and finance. The Third Plenum of the Eighteenth Congress of the Chinese Communist Party (CPC) listed 60 points in the reform agenda, that includes issues like reforming fiscal and financial system, state-owned enterprises, land use and natural resources pricing, improving administrative system, rule of law and social equality, promoting innovation and managing urbanization among others. Fundamentally, the key reform will be related to how redefine the relationship between the government and the market in order to transform the economy from a resource-based to an innovation-driven one. Essentially, this reform will be about forging a unique, untested path towards inclusive growth and sustainable development on a massive scale. In conclusion, China has to deal with domestic challenges of structural economic transformation

²⁵ The Chinese translation should be "全球性发展中大国".

²⁶ For example see a description in IMF, Cross-Cutting Themes in Major Article IV Consultations, Aug 14, 2009.

²⁷ 刘丽娜等, 中国对世界经济贡献"清单", 新华网, 2013年9月5日, http://news.xinhuanet.com/fortune/2013-09/05/c_117242532.htm.

while strengthening its role in the international arena. The two reform processes should work in parallel, as causes and effects. As Chinese leaders emphasized repeatedly, China's future reform strategy needs to integrate the domestic and the external agenda while strengthening mutually beneficial cooperation on a global scale.

3.3. The changing role of China in GEG

When referring to global governance, it should be considered how China is still in a learning process making great efforts to define its new role in the global governance architecture. The complexity of China's international position and interests makes its role in GEG provisional, as a work in progress. This changing process will continue to be characterized by an intricate coexistence of both strength and weakness, ambition and ambiguity. On the one hand, while China might serve as the bridge between the South and the North, on the other its position has not gained enough strength yet to make that happens or to lead to the "rebuilding of the Bretton Woods system". The following paragraphs will elaborate these issues looking in particular at the achievements and limitations of China's participation in GEG.

3.3.1. Strengths and achievements

- China has achieved much more representation in the various GEG platforms, as for example being a member of the G20, "the premier forum for international economic cooperation". Under the political drive of the G20, China has also got higher voice within the international financial institutions (IFIs). Moreover, China is expected to become the third largest shareholder of IMF after its 2010's reform package comes into effect.
- China as a "major power" has greatly increased its role in the development of the South. After the financial crisis, China actively participated in crisis rescue through ¥4 trillion of fiscal stimulus while supporting the capital increase of IFIs. For the first time the new Minister of Finance Lou Jiwei stated that China should shape its fiscal policy considering itself as a major power and therefore taking more initiatives when participating in GEG.²⁸ Another timely example was that China granted US\$ 0.3 billion to the 17th replenishment of the International Development Association (IDA), the World Bank's fund for the poorest, which is almost an increase of 100% compared to that of the last round three years ago, and represents China's single largest contribution to an international organizations. China also increased financial support to the UN system through assessed or voluntary contributions. More fundamentally, China appears to be even more active in its contributions through bilateral, regional and cross-regional initiatives, such as "Silk Road Economic Corridor and Maritime Silk Road" strategy, Forum on China-Africa Cooperation (FOCAC), Asia Infrastructure Investment Bank (AIIB) and BRICS NDB and CRA.
- China has also started to play a more active role in shaping and influencing the global agenda thinking. The Strong, Sustainable and Balanced Growth Framework (SSBG)²⁹ set by the G20 in Pittsburgh in September 2009 could be seen as an abbreviation of the current GEG agenda. It was based on the first round negotiations under the China-US Strategic and Economic Dialogue two months earlier.³⁰ Chinese leaders put the attention on the developing countries' interests arguing how the largest imbalance in the world economy is mainly related to development.³¹ After the crisis, China also played a vital role in pushing IFIs for an open-up towards a governance reform and the empowerment of developing countries.³² Chinese caution in regulating capital account helped to avoid serious damages by the two financial crises in 1997 and 2008, which to some extent helped persuade IMF after the 2008 crisis to believe that some control of capital account is useful. Different from Arabian oil-rich countries that emerged as new donors in the 1970s, China has developed through industrialization and a major structural reform of its economic system, supported by the reform of all the other sectors including the education one. Thanks to this reform process, China nowadays represents one of the emerging powers in research and development too and is expected to

²⁸ Chinese Finance Minister Lou Jiwei's speech at the small scale meeting on climate change during the 5th China-US Strategic and Economic Dialogue, Washington D.C., 2013.

²⁹ For an elaboration of its meaning, please refer to IMF, "Review of the Fund's Involvement in the G-20 Mutual Assessment Process", May 13, 2011, <http://www.imf.org/external/np/pp/eng/2011/051311.pdf>, p.11.

³⁰ "Briefing by Treasury Secretary Tim Geithner on G20 Summit", <http://www.whitehouse.gov/the-press-office/press-briefing-treasury-secretary-geithner-g20-meetings>.

³¹ See Chinese Presidents' speeches at each year's G20 Summit; 温家宝, 世界经济失衡从深层次看是发展的不平衡, 中新网, 2010年3月14日, http://www.china.com.cn/policy/txt/2010-03/14/content_19606249.htm.

³² 金中夏等, 《中国与 G20: 全球经济治理的高端博弈》, 北京: 中国经济出版社, 2014年4月。

have a much more influential position in knowledge building and exchange. China has established a “knowledge hub” with the World Bank to exchange ideas and experiences about development.³³ The traditional donors are recognizing limits of their approaches of delivering ODA. China is also actively participating in the debates about post-2015 international development agenda.³⁴

3.3.2. Weaknesses and limitations

- Chinese contributions are still rather limited compared to external expectations. Its domestic priorities and structural weakness in technology and finance define the fundamental limits of Chinese role in GEG. Chinese financial contributions to multilateral institutions are increasing but still relatively small in share. Its largest grant of \$0.3 billion is only a minor part of the total \$48 billion of IDA’s 17th replenishment. China still sees itself as a developing country supporting, therefore, the application of “common but differentiated responsibilities (CBDR)” as the basic principle for global governance. China is not able to lead by itself the WTO’s “Doha Round” negotiation to a success. In relation to the post-2015 international development cooperation, China stresses the core responsibility of North-South cooperation while considering the complementary role of South-South cooperation. International cooperation should go well beyond ODA and covers other types of cooperation such as trade, knowledge transfer, people exchange, etc. China has paid too much attention on the voice reform of IFIs, while what substantial changes China can bring into operational policies of them and UN development agencies remain to be seen.
- China is currently facing an increasing of competition and tensions with both the North and the South. On the one hand, China is trying to upgrade its exports, which has led to rising disputes from the North, while on the other hand, China is still very competitive in the export of labour-intensive products which constitutes a direct competition with Southern countries. Least developed countries are concerned that the restructuring of GEG is in favour of emerging economies at their costs, such as in the latter reform of IFIs.³⁵ China actually gave up some quota increase based on the formula so as to accommodate the interests of other developing countries in the negotiation of IMF and World Bank governance reform.
- Chinese regional and bilateral initiatives might increase fragmentation of GEG if not well managed. Fragmentation of GEG is not a new phenomenon. On one hand, this has increased supply of resources for public good, while on the other, it also increased complexity and costs of GEG. China’s case is not an exception in this respect. Many of Chinese new initiatives on infrastructure reflect its different opinions on priorities should have the global agenda. Complementarities can be found between the new institutions China participated, such as BRICS NDB and CRA, and those existing IFIs, but competition is also inevitable. China should put more efforts to enhance coordination among the existing institutions.
- The rise of geopolitical tensions in East Asia, especially between China and the US, might pose future challenges for China’s participation in GEG. The recent developments in the trade agenda in the Asia-Pacific region - such as the competition between TPP and RCEP - are largely driven by the US policy of “pivot to Asia”. Considering that China and the US are the two major players in global economic issues, the escalation of tension in the region cannot be separated from GEG’s developments. If, on one side, the Chinese political and cultural system might make the situation even harder³⁶ on the other hand, this strategic competition between US and China might also create more room for less developed countries.

4. The Way Forward

Looking ahead, China and other developing countries should put more efforts and cooperating to reshape and

³³ 财政部与世界银行签署成立“世界银行—中国发展实践知识中心”备忘录，2011年11月27日，新华网，http://news.xinhuanet.com/fortune/2012-11/27/c_113822734.htm.

³⁴ Eg. Thomas Fues and Ye Jiang (ed.), *The UN Post-2015 Agenda: How Europe and China can Take the Lead*, Bonn: German Development Institute, 2014.

³⁵ Jakob Vestergaard, *The World Bank and the Emerging World Order: Adjusting to Multipolarity at the Second Decimal Point*, Danish Institute for International Studies, 2011.

³⁶ China slowly grows into its crucial role, *Economist*, April 3 2009.

enhance GEG in the following directions.

4.1. Coordination among various cooperative fora

With the rise of emerging powers and the relatively weakness of the established western powers, the world has become more fragmented. Various kinds of cooperative mechanisms coexist, and many cover overlapping areas. There is a lack of cohesion able to unify all major players into a single well-coordinated mechanism. The UN or the G20 has this potential. However they are plagued by concerns on efficiency, effectiveness, and legitimacy. The UN has a well-established institutional framework for deliberation, decision-making, and implementation processes, in contrast with the G20's deficiency institutional building. Furthermore, the biggest advantage of the UN is the legitimacy based on its universal representativeness. The majority of countries in the world have been excluded from the membership of the G20. Therefore, the UN has always been the only platform where every country can share its view even though both the G20 and the UN functions are strictly related to strengthening a global network.

The G20 still has its edge in terms of global financial framework and macroeconomic policy coordination and consultation. The Bretton Woods Institutions prefer to follow the recommendations of the G20, since the G20 members constitute the overwhelming majority of the shares and voices in both the IMF and the World Bank. However, the G20 has not made convincing performance in the area of development, despite the fact the development issue has been put on the top agenda of the G20 since the 2010 Seoul Summit. The composition of the G20 determines that it could not handle the development issue by itself. Yet the lack of development has become one of the critical gaps restraining the recovery and booming of global economy. It has been confirmed by many scholars and a lot of statistical studies that the income disparity has become a widespread phenomenon in both the developing and developed countries. And this has been gradually eroding the foundation for rapid and robust economic growth.

That said, the UN has had a long history of working on development issues, with its subordinate and specialized agencies forming a well-organized network for development. The development issue could become the one linking the major work of both the UN and the G20. The first-time-ever briefing to the UN members in the General Assembly last year by G20 Summit Host Russian delegates should be made a usual practice. On this regard the emerging powers can make a great difference, in particular China. China's experiences of rapid transition from one of the least-developed countries to a relatively better-off one have great attractiveness both for other developing countries and multilateral institutions. This knowledge-sharing or experience-sharing role of China may lead to improvement of development discourse and guideline, which, differing from previous guiding principles laid down by developed countries, will stress more on terms such as local ownership and policy space. This could bring changes to the long-time-west-dominated patterns of development discourse and focus more on self-creation of growth and development source at domestic level. China should act as a bridge between the G20 and G77. Considering its size, China should take care of more interests of other developing countries, e.g. through providing more ODA, trade preferences and opportunities, so as to promote a more sustainable South-South cooperation.

4.2. Building a Regional and Global Stabilizing Framework

Due to the long-term marginalized status in the international economic system, the concern of developing countries as a whole has always been neglected. With the emerging economies having their membership in the club of the major economies, the G20, such concern needs to be taken seriously. For instance, the international financial system now under overhaul should be designed in the direction of integrating the developing countries' concerns, such as disorderly flow of international capital and its impact on international balance of developing countries; manipulation of monetary policies by some major reserve currency issuing countries, etc. Furthermore, the international trading system should also include more of the development-related elements, which implies the preferential and special treatment to developing countries as well as more duty-free-quota-free treatment for products from the Least Developed Countries.

The 2008-2009 Global Financial Crisis and also the recent market turmoil in emerging markets demonstrated again the vulnerabilities of developing countries in relation to macroeconomic policy changes in the developed countries. The financial crises of 1990s happening in some emerging economies had actually mainly been

caused by the shift of policy goals in the United States economy. Recent events have showcased the major channels for the transmission of policy impacts from the developed markets to the emerging markets, i.e., trade and investment. Usually the trade sector impacted directly relates to the real economic sector and the investment sector to the capital markets and exchange rates changes, with the capital flight in the latter part always leading to a Balance of Payment crisis in the relevant developing countries. And the changing flow in speculative capital has always caused disruption in commodities markets. This means that the growth and development of developing countries has often been interrupted by the spillover effects of the major developed countries, against which the developing countries have very few policy means to counter. As one rare exception, China has not experienced great damage in the past crises, which relates closely to the cautious capital and exchange rate policy it has held for a long time.

Recent studies also show that in the recent Global Financial Crisis, the developing countries received little impact have certain commonalities: large volume of foreign exchange reserve, low ratio of national debt denominated in foreign currency, and a relatively strict control on capital account. This may be the reason for the softening of stance on capital control by the IMF, which definitely shows the increasing influence of the emerging economies. However, there are not so many developing countries being capable of match up the above-mentioned conditions. In this case, a network of regional and global financial safety net has been critically important to the healthy and smooth going of developing economies. Actually the emerging economies have taken certain preventive measures among themselves. The point is that they cannot depend all on themselves in the face of another major crisis. The developed world has the responsibility to provide certain kind of guarantee to stabilize the emerging markets, for instance, the currency swap arrangements. Until now the US Federal Reserve has refused to sign such agreements with major emerging economies, with the request from India being explicitly rejected. In this vein, the IMF, World Bank, or relevant UN agencies need to urge the developed economies to assent to such arrangements. Since the current international monetary system has been largely dominated by currencies from developed countries, these countries have to provide certain guarantee to developing countries to offset the negative spillover effects of their policy changes. Without the participation of developed countries, the ongoing work on building the regional and global stabilizing framework can never be completed. Developing regions need to foster more solid internal economic integration for a more resilient development,

4.3. Forging a Strong, Sustainable, and Balanced Growth Embedded with SDGs

Just as already put, the future of global economy could not get away from the circumstances in the developing world. Yet contemporary global development has had great difference with the growth history of the developed world, or even the major emerging economies like China. There needs to be a combination of the Post-2015 Development Agenda and the Strong, Sustainable, and Balanced Growth framework. The recent discussions surrounding the making of the Post-2015 Development Agenda have shown clearly that a lot of factors need to be considered and addressed for a sound and smooth development path. Development requires stable, healthy, and secure environment in the developing countries, which actually has touched upon the relations between development and environment, development and social conditions, development and security, etc. So the development could never be seen as a purely economic phenomenon. The world needs a comprehensive approach in dealing with development challenges. Some UN agencies have already viewed it from this perspective, for instance, the Infrastructure for Peace initiative presented by the UNDP. Based on its experiences in working with developing countries, the UNDP has always worked in a comprehensive way, with the issues of development, security, social cohesion having all formed part of its overall strategy. In terms of specific approaches, apart from the traditional South-South Cooperation, the trilateral mechanisms of North-South-South Cooperation may be a feasible way forward, with the major emerging economies and the developed countries being able to share their own special knowledge and experiences in addressing challenges to development. During this process, the UN agencies can definitely play certain channeling and bridging role based on their experiences and expertise in working in various developing countries.