G20

Perspectives from

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THE RUSSIA SUMMIT: ST PETERSBURG — SEPTEMBER 2013

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Taking the steps to sustained economic growth





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Feeding the world depends on educating farmers

By Vladislav Baumgertner, CEO, Uralkali

The topic of food security remains one of the world's most pressing global issues and is rightly on the agenda at this G20 summit. At the June 2013 St Petersburg International Economic Forum, we were one of the panellists in a session on increasing agriculture productivity as an essential element to improve global food security. The participants agreed that the task of agriculture intensification requires various approaches involving a range of stakeholders – government, business and the scientific community. In order to bring together the efforts of these stakeholders, it is crucial to develop strong and mutually beneficial partnerships. While governments can focus on policy, businesses and scientific institutions can work with governments to improve the education levels of farmers on new technologies and production techniques.

In terms of what we can do to increase crop production now, there are essentially two general approaches: first, expand the use of agricultural land; and second, intensify agricultural production.

There are only a few areas left around the world where it is possible to significantly increase the amount of land employed for food production. These are in sub-Saharan Africa, the Amazonian part of Latin America and Russia. Yet each of these locations has its limits and drawbacks. The use of lands in South America for agriculture is associated with heavy costs and negative consequences for the environment. In the Amazon, any significant expansion of agriculture would be accompanied by damage to forest ecosystems. Africa has shown that it is susceptible to drastic changes in climate, as proved by the East Africa drought of 2011-12. Russia, in contrast, has high potential for growth without a negative environmental impact because there are still large reserves of unused arable lands. However, it requires significant investments into new agricultural technologies and an improvement in the general level of farmers' education.

The most apparent and environmentally friendly decision is to intensify agriculture in existing lands. The introduction of new technologies, seed varieties, increased mechanisation of agriculture, and more sophisticated and balanced usage of nitrogen, phosphate, and potash fertilisers – for which consumption has increased globally by one and a half times since 1980 – have almost doubled the world's average grain yield from 2.3 tonnes per hectare in 1980 to 4.3 tonnes in 2011.

So what can be the role for a socially responsible business in contributing to global agriculture growth – beyond supplying the farmers with machines, seed, fertilisers and crop protection products?

- First, business should develop new technologies and application practices to be gradually introduced for everyday usage in agriculture.
- Second, business should stimulate the use of intensive technologies even by the least educated farmers in the most distant quarters of the world through demonstration test programmes.
- Third, and probably the most important, business should pay more attention to improving the educational level of farmers by working in partnership with governmental authorities and scientific institutions.

With UN predictions that there will be 10 billion people on earth by 2050, by which time demand for food will have risen by 60 per cent, it is vital that governments, companies and civil society find solutions to meet this significant surge in demand. According to the Food and Agriculture Organization, the coarse grain yield in 2010 for developing regions was 1.3 tonnes per hectare in Africa and 2.6 tonnes across the developing regions, whereas in North America it was 8.5 tonnes. If we bear in mind that agriculture comprises up to 30 per cent of GDP in developing countries, the spread of advanced agriculture practices can do much more than increase the amount of food produced. It can have a fundamental positive impact on a country's economic strength.

Improved literacy, agricultural knowledge and financial basics can contribute substantially to increasing yields from the existing arable lands

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An address on the occasion of the G20 leaders' summit in St Petersburg

An address by the president of the Russian Federation, Vladimir Putin, as the G20 leaders gather for the 2013 St Petersburg Summit

This year marks the G20's fifth anniversary. At the peak of the crisis the G20 members agreed on coordinated measures to support the global economy. We made the commitment to curb trade protectionism, developed new principles of financial regulation, and defined the objectives for future economic policy coordination and reform of financial institutions. The measures taken at that moment helped deter the crisis, stabilise the financial markets and enhance the oversight of the systemically important financial institutions. The G20 members launched the reshaping of the international financial architecture to make it more sustainable and fair, and started the work on building the mechanisms for better mutual confidence.

The global economy, however, still remains within the risk zone. Though we are experiencing a slow recovery, its pace is not sufficient for levelling off global imbalances. Our common strategic goal is therefore to ensure strong, sustainable, balanced and inclusive growth for all.

Since the very beginning of Russia's G20 presidency, we have identified fostering economic growth and job creation as our primary objectives – mainly through stimulating investment, effective regulation, and enhanced trust and transparency. Having these priorities as a starting point allowed us to ensure the continuity of the G20's work and make considerable progress over the nine months in such areas as implementation of the Framework for Strong, Sustainable and Balanced Growth, quality job creation, international financial system reform, development and the strengthening of multilateral trade.

These days the Russian G20 presidency is on the verge of entering its most important stage, which is the summit to be convened on 5-6 September in St Petersburg. We have thoroughly and responsibly worked through all the items on our agenda, and are approaching the summit with a solid track record of agreements.

Let me briefly touch upon a few of this year's achievements. The G20 reached a consensus on the need to balance the policies aimed at stimulating economic growth at a due pace with the medium-term strategies for fiscal consolidation. Clearly, we cannot win investors' trust unless governments are open and transparent in the way they manage their budget deficits and public borrowing.

Another major accomplishment includes the work undertaken on reforming tax regulation fighting tax evasion. The G20 Action Plan on Base Erosion and Profit Shifting developed with the support of the Organisation for Economic Co-operation and Development can by all means be considered the most prominent step towards the modernisation and coordination of our countries' tax policies in a hundred years.

Important decisions are to be made to stimulate investment. A roadmap for long-term investment financing has been developed to be implemented during the Australian presidency in 2014, along with the principles for the institutional investors.

The joint meeting of the G20 finance and labour ministers was an innovation of the Russian presidency. It gave us an opportunity to consider for the first time the issues of macro and finance policies in conjunction with the tasks of quality job creation and social protection, to discuss steps to stimulate youth employment and measures of labour activation of vulnerable groups.

On the issue of development, an accountability report has been compiled for the first time in G20 history. The St Petersburg Development Outlook has been developed to reflect the G20 priorities in assisting low-income countries and ensuring food security, financial inclusion, development of infrastructure and human capital, as well as mobilising domestic resources.

We are to finalise decisions for promoting capital markets development, establishing more efficient financial regulation and infrastructure both globally and nationally, strengthening the multilateral trade system, enhancing energy and commodity markets sustainability, and fighting corruption.

The enhanced outreach dialogue of the Russian presidency, including with non-G20 countries and their associations, international organisations, private sector, trade unions, civil society, youth, think tanks and academia, has contributed to raising the transparency and efficiency of our work. We have tried to take into account all useful thoughts and recommendations of our outreach partners.

I am convinced that the forthcoming summit in St Petersburg will reaffirm the G20's role as an efficient mechanism for coordinating the world's leading economies' policy approaches to global economy and finance. We anticipate further progress in consolidating our efforts to tackle the challenges we face, and move further towards strong, balanced and inclusive growth, and sustainable development – and most importantly, towards our principal objective of a better quality of life for our people.

We look forward to welcoming our partners in St Petersburg and are ready for a substantive collaboration and productive dialogue. ■

We have thoroughly and responsibly worked through all the items on our agenda, and are approaching the summit with a solid track record of agreements

President Vladimir Putin is convinced that the forthcoming summit in St Petersburg will reaffirm the G20's role as an efficient mechanism for coordinating the world's leading economies' policy approaches to global economy and finance

Healthcare to fuel global economic growth

Dr. Paul Stoffels
Chief Scientific Officer, Johnson & Johnson Worldwide Chairman, Pharmaceuticals, Johnson & Johnson

Strong sustainable and balanced growth is one of the main priorities for G20. In the wake of the economic crisis, growth is likely to be constrained by reduced credit and public spending. Innovation is the only non-inflationary engine of growth which is essential for economic stability sought by G20 policymakers.

Healthcare is one of the largest and fastest-growing sectors of global economy. A well-functioning healthcare system can also drive growth in other sectors. How? It builds worker productivity and increases people's income, it drives savings, reduces poverty and supports education. It improves demographic structure and drives social stability.

We in Johnson & Johnson believe that investment in healthcare is a critical driver for growth and key to achieving a healthy and productive society and to fueling a healthy economy. So money spent on healthcare should be viewed as investment not as a cost. Over the last twenty years each additional dollar in US spent on healthcare has produced health gains valued at $2.4 to $3. So, it is clear that health investments pay off but at the same time it is also true that the economic climate is difficult. So the challenge of our generation is how to balance questions of social wellbeing and economic growth and also manage and drive down the costs of healthcare? This is what keeps me up at night. Our sub-group on Health & Biotech in the B20 Task Force on Innovation has made significant progress working on this issue. Among recommendations we presented to global leaders. First of all, we should establish policies **to focus national health priorities on healthy life expectancy and productivity**, not on treating illness and absolute life expectancy. Secondly, reallocate current healthcare spending towards development and infusion of novel solutions that

Money spent on healthcare should be viewed as investment not as a cost. I envision a world of unprecedented healthy longetivity where policymakers focus on better living conditions and better quality of life

deliver better outcomes. I'm a firm believer that the future will be written in partnership. All of this is achievable if the global community work together. So last but not the least recommendation is to create favorable environment for best practice sharing to leverage successful implementation of innovation in health and recognize benefits of international cooperation.

Human progress relies on many things to be sure but health is one of the most critical. I'm hopeful that G20 leaders will recognize the tremendous value health improvements bring not just to people as individuals but to societies and economies as well. I envision a world of unprecedented healthy longetivity where policymakers focus on better living conditions and better quality of life.

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The G20: a key forum to promote growth

Much was achieved at the 2012 Los Cabos Summit, but Mexico's president Enrique Peña Nieto acknowledges that the G20 still has further to go in ensuring global economic recovery

Since its first meeting in 2008 as a leader-led forum for global cooperation, the G20 has played a key role in promoting a broad dialogue on international economic issues. Thanks to its work, the world's largest economies have been able to coordinate and cooperate on macroeconomic policy issues, as well as financial regulation. In just a few years, this group has made important contributions, setting the basis of global economic recovery and sustainable growth in an increasingly multipolar and interdependent era.

The agreements reached at the Los Cabos Summit last year are a good example of the G20's global importance. The main goal was to restore the path of sustainable economic growth. In order to achieve this end, several areas of opportunity were identified: strengthening the international financial system, improving the global financial architecture, enhancing food security and addressing commodity price volatility. During the summit, Mexico promoted a broad agenda that represented the interests of both advanced and emerging economies. Indeed, my country advocated measures such as financial inclusion, long-term investment financing, local currency bond markets, green growth, disaster risk management and the allocation of resources to prevent and solve economic crises.

Mexico is determined to boost its economic potential and contribute – at least modestly – to global economic growth

Plans for global stability

Another significant agreement reached at the 2012 summit was an increase in the resources of the International Monetary Fund (IMF) by more than $450 billion. This doubled the IMF's capacity to support and loan to countries in need. Furthermore, this was the largest expansion of resources that the IMF has ever had and an important step to close potential global financial gaps.

The Los Cabos Growth and Jobs Action Plan also defined commitments on fiscal, exchange rate and structural issues. Mexico believes these measures will contribute to global financial stability, sustained economic growth and the creation of quality jobs as a by-product. Additionally, leaders agreed to resist further protectionist measures (the so-called 'standstill') until 2014.

Unfortunately, in spite of these multilateral and other significant national efforts, global economic recovery remains modest. In fact, recent indicators suggest that growth in 2013 will be lower than initially expected. Moreover, economic imbalances in the fiscal, financial and external sectors that led to the 2008 global financial crisis are still latent factors undermining trust and expectations of growth.

In this context, Mexico is determined to boost its economic potential and contribute – at least modestly – to global economic growth. For that reason, the main political forces within my country have reached a comprehensive agreement called *Pacto por México* (Pact for Mexico), to pursue jointly the structural reforms that will enhance the country's competitiveness and productivity.

Mexico's president Enrique Peña Nieto is confident that the G20 leaders will work together towards greater macroeconomic policy coordination in St Petersburg

JUSTIN TALLIS/AFP/GETTY IMAGES

In this manner, Mexico is undertaking several structural changes. The education reform, which is already approved by the Mexican Congress, will professionalise the public school system and improve its quality. Also, our ambitious telecommunications reform will increase competition and the quality of services in this high-tech sector.

Political will and leadership

Similarly, the financial reform that is currently being discussed in Congress aims to expand credit and make it less expensive for small and medium-sized enterprises (SMEs). Other major reforms, such as the energy and fiscal reforms, will be presented during the second half of 2013. We are confident that these reforms will create a virtuous cycle of sustained economic growth and job creation.

Also, I am confident that under the current leadership of Russian president Vladimir Putin, the G20 members will now work side by side in St Petersburg towards greater macroeconomic policy coordination, a stronger international financial architecture and a renewed enthusiasm against protectionism and fiscal forbearance. Mexico will also cooperate to increase development, promote food security, finance SMEs, and consolidate more efficient and equitable tax regimes that encourage energy sustainability and green economic growth.

There is a lot of work to be done if we want to restore a path of strong, sustainable and balanced economic global growth. That is why the G20 summit is so important. It allows us to make a joint effort so that political will and leadership may come together to fulfil our commitments and make things happen. That is why the G20 is key to accomplishing these goals. ■

Manufacturing sites of R-Pharm Group

R-Pharm Group – a Russian high-tech pharmaceutical enterprise. Key areas of R-Pharm's competence and work include: manufacturing of finished forms and APIs; R&D of innovative medicines and technologies; training and education for industry and healthcare specialists; venture investments in promising scientific data and research; cooperation with major international pharmaceutical companies and international universities in the field of drug development and combined clinical trials in Russia.

R-Pharm employs more than 2,800 highly qualified specialists, and has 41 branches across the Russian Federation and the CIS countries, the USA, Japan and Turkey, covering 100 cities. Its turnover reached more than $1.8 billion in 2012.

The company has operational manufacturing sites at Novosibirsk, a GMP-compliant facility at Kostroma region, and a state-of-the-art manufacturing site in Yaroslavl.

R-Pharm Group is continuing construction of its chemical API manufacturing site Farmoslavl, which

is designed to secure the technology development and organisation of the production of pharmaceutical substances.

A state-of-the-art manufacturing site of finished dosage forms in Yaroslavl

R-Pharm's production of finished dosage forms in Yaroslavl – part of the pharmaceutical cluster in Yaroslavl region – is designed in accordance with the latest GMP requirements, including production of aseptic injection drug formulations. Within the project, the company will produce drugs for treatment of important diseases, such as diabetes mellitus, virus hepatitis, HIV infection, heavy bacterial and fungal infections, oncological diseases, rheumatoid arthritis, and so on. The manufacture is designed in exact accordance with standards of the European Medicines Agency, Food and Drug Administration (FDA), and GMP requirements. Processes, equipment, sterile areas and sites of the factory have been qualified and validated according to the requirements of the GMP standard. It successfully passed the audits by multinational pharmaceutical companies such as Astellas Pharma, AstraZeneca, Eli Lilly, Johnson & Johnson, Pfizer, Merck and others. The concept of energy-efficient manufacturing and isolator and barrier technologies are applied in order to secure the complex staff and environment safety system.

Biologics API manufacturing site
R-Pharm has been investing in the set-up of a biotechnology manufacturing site on the basis of the FlexFactory bioproduction line from Xcellerex in the USA. This project is a revolutionary one for the Russian pharmaceutical industry: it will be one of the manufacturing sites capable of producing large volumes of monoclonal antibodies, and is a vivid example of the transfer of foreign frontline technologies, since Xcellerex is an undisputable leader in eukaryotic cell cultivation. The manufacturing facility will be certified in the USA against GMP FDA requirements and will become the first Russian production site of its kind. Fermentation capacity is 4,000L now and will be expanded to 9,000L.

Chemical API manufacturing site
Farmoslavl is successfully in the process of developing technology and organising the production of pharmaceutical substances that have not been manufactured in Russia before. According to the time schedule, six technologies have already been developed with a design ready for a manufacturing site for the chemical synthesis of pharmaceutical substances. As a result of this project, more than 50 technologies in total will be developed, with a manufacturing facility to be built in Yaroslavl Region.

R-Pharm employs more than 2,800 highly qualified specialists, and has 41 branches across the Russian Federation and the CIS countries, the USA, Japan and Turkey, covering 100 cities

Training highly skilled scientific and medical personnel is an important activity of the company
For more than three years, R-Pharm Group has been developing the Grants for Pharmaceutical Industry Development project, aimed at developing human resources for the pharmaceutical industry. Today, 250 students receive personal monthly R-Pharm scholarships and participate in the company's internships and various social and business projects. Along with this project, R-Pharm is involved in the arrangement of educational and training programmes for talented Russian students and young scientists in the USA, China and Europe. R-Pharm is actively participating in arranging the Olympics of specialised universities, all-Russian annual students' pharmaceutical Olympics, and an international pharmaceutical innovations camp. This kind of collaboration gives the opportunity to form the effective educational approach of highly demanded narrow-specialised pharmaceutical specialists, in accordance with the current market situation.

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Turkey and the G20 St Petersburg Summit

With his country gearing up to host the 2015 G20 summit, Turkey's prime minister Recep Tayyip Erdoğan says that cooperation will be key to success in St Petersburg in 2013 and beyond

Turkey will assume the presidency of the G20 in 2015 and will host that year's G20 summit. With its highly representative structure that includes all the major advanced and emerging economies, the G20 has become the most appropriate platform for global economic cooperation and coordination. It is significant that issues such as development, trade, energy, climate change, food security, poverty eradication and the fight against corruption, which are closely linked to the global economy, are taken up in the G20.

Turkey actively contributes to the work of the G20. I led the Turkish delegations that participated in the G20 summits held in Washington DC, London, Pittsburgh, Toronto, Seoul, Cannes and Los Cabos. In this respect, Turkey attaches the highest importance to its G20 presidency in 2015. We will make every effort to enable closer cooperation and coordination among members on the G20 agenda.

We are planning to set our G20 presidency priorities by also taking into consideration the priorities of previous presidencies and the global economic and financial situation that will prevail at that time.

Ensuring global economic and financial stability, reforming the global economic system according to today's realities and reflecting the increasing weight of emerging economies in the system, as well as development, are issues to which Turkey gives high importance. In our presidency, we will aim for the G20 to focus on these issues and deliver concrete results. We will also give priority to enhancing the G20's relations with countries and international organisations in our region.

We welcome the fact that development has become one of the standing agenda items of the G20. We have offered to host in 2015 the Mid-Term Review Conference of the Istanbul Programme of Action adopted at the United Nations Fourth Conference on the Least Developed Countries, held in Istanbul in 2011. We will aim to create synergy between this conference and our G20 presidency.

The G20 St Petersburg Summit is being held at a difficult time, in which the global economy continues to face adverse conditions. Despite all the measures being taken, the world economy remains fragile and much-needed growth rates are still not being achieved. The financial crises of the past 10 years have shown the importance of a robust macroeconomic framework and structural reforms aimed at strengthening economic and financial bases. Therefore, we support the adoption of a positive message on growth and jobs in the leaders' declaration of the St Petersburg Summit.

In particular, the leaders' declaration should express support for the completion of the ongoing reforms of the governance of the International Monetary Fund, including the urgent entry into force of the 2010 quota and governance reform, as well as reaffirm the G20's commitment to agree on the new quota formula and complete the 15th general quota review by January 2014, as agreed at the Seoul Summit and reiterated in Cannes and Los Cabos.

Emerging market economies have slowed down more sharply than expected due to capacity constraints, tighter financial conditions and volatile commodity prices. The possibility of a prolonged slowdown in these economies has recently appeared as a new downside risk for the global economic outlook. In addition, starting from the end of May 2013, because of concerns about the termination of accommodative US monetary policy, the environment for emerging market economies has worsened. Even speculation on a possible early exit has had a very adverse impact on the volatility of the currency, equity and debt markets of emerging market economies.

A sustainable economic plan

We strongly believe that the G20 should increase its coordination and cooperation on exit strategies and policy normalisation. There is no doubt that emerging market economies will do their best to stabilise their financial markets.

However, unilateral steps will not be sufficient to restore market confidence. Those members of the G20 that issue reserve currencies should act carefully to minimise negative spillovers from their exit strategies. The timing, pace and modality of their exits should be clearly communicated to prevent the overshooting of the markets. It is extremely important to ensure that this process is conducted without harming the growth outlook and financial stability objectives of emerging economies.

Turkey is now a rising donor country that contributes to building the capacities of other countries through the assistance it provides

In the leaders' declaration, it is imperative to send sufficiently strong signals to the markets about our medium- to long-term fiscal plans that imply a more sustainable debt path. In this context, the St Petersburg fiscal strategy will be a very important step to demonstrate a strengthening of advanced G20 members' fiscal positions.

The leaders' declaration should reaffirm the G20's strong collective commitment to development and our shared objective of contributing to poverty alleviation in low-income countries. We would welcome language on the G20's engagement in the post-2015 development agenda, including expression of support for the timely and successful conclusion of the post-2015 global development agenda discussions at the UN.

Advancing trade liberalisation is an area of high priority for Turkey. The leaders' declaration should include wording on the G20's collective support to the achievement of a forward-looking package at the Bali ministerial conference of the World Trade Organization. This is important also in terms of the G20's credibility.

DENNIS BRACK/LANDOV/PA IMAGES

Recep Tayyip Erdoğan, Turkey's prime minister, has seen his country's influence on the world stage increase alongside its assistance with global problems

In the difficult climate in which the world finds itself, Turkey today represents a success story in every sense. I would like to take this opportunity to share some insights on its current position and experience.

As the world's 16th-largest and Europe's sixth-largest economy, with its rich history and civilisation, as well as its unique culture and geostrategic position, Turkey is a country that can stay equidistant to every pole, continent and geography in the world while also being able to understand different societies and cultures, communicate with all countries and societies on Earth, build ties of the heart and speak the same language with different nations.

Turkey today is a country whose views and contributions are sought on global challenges such as economic growth, employment, sustainable development and energy security, whose projects have been realised and whose planning on these issues is widely appreciated.

The success that Turkey has achieved has been made possible by the multidimensional active foreign policy that we are implementing, our successful economic performance and our comprehensive contributions to the efforts to deal with global problems and challenges, in particular poverty alleviation.

The successful reform and transformation process that Turkey has realised in recent years ranges from the securing of macroeconomic stability to banking reform; from the liberalisation of economic structures to regional development initiatives; and from education reform to transformation of the social security and health systems.

The reform and transformation process has provided us with a unique experience. Turkey is now a rising donor country that contributes to building the capacities of other countries through the assistance it provides. Our official development assistance (ODA) has surpassed $2.5 billion. We provide assistance to more than 100 countries. Having increased our ODA by 99 per cent in 2012 compared with the previous year, Turkey also preserved its position this year as the member of the Organisation for Economic Co-operation and Development that most increased its development assistance.

In light of our recent economic successes, we believe that today's principal economic challenges require joint, harmonised and determined steps to be taken by G20 members. The spirit of cooperation between G20 members will continue to be important for finding solutions to challenges that may arise in the future.

In this regard, we are aiming for 2015, when we will assume the G20 presidency, to be a year when our cooperation with G20 and the countries and international organisations in our region will reach its highest level. ■

South Africa and the G20: hopes for the St Petersburg Summit

South African president Jacob Zuma on the G20's role in advancing global reforms and enhancing developing countries as poles of growth

It is always a special pleasure for me to meet with other G20 leaders at our annual summits, which provide a unique forum for us to exchange views and strengthen our cooperation to ensure global economic stability and promote long-term, sustainable recovery and balanced growth. In St Petersburg, this innovative cooperation among our countries, both developing and developed, on global financial and economic issues will also extend to development, trade and employment.

While the steps taken by the G20 have significantly reduced the impact of the global and financial crises, we all remain aware of the ongoing challenges to global economic growth and stability. The *World Economic Outlook Update* issued by the International Monetary Fund in July 2013 paints a negative picture of economic growth. The report notes that despite all our combined efforts, global growth has not improved since 2012, attributing this to a large extent "to appreciably weaker domestic demand and slower growth in several key emerging market economies, as well as a more protracted recession in the euro area". A weakened and sluggish global economy has far-reaching negative consequences for sustainable development, particularly on the African continent.

As we approach the G20 summit in St Petersburg, which will be graciously hosted by Russian president Vladimir Putin, we recognise that the G20 continues to have a vital role in addressing these key economic challenges. For South Africa, our international economic cooperation in the context of the G20 remains a top priority. The Russian G20 presidency has quite rightly focused on the core issues of growth and jobs, while effectively addressing all other agenda issues through the lens of growth. This resonates directly with South Africa's own priorities, which include eradicating poverty, addressing income inequalities and creating quality jobs through economic growth.

Important in this regard is our cooperation in the G20 in working together to find solutions to structural unemployment, especially among young people, as well as to promote job creation, entrepreneurship and investment, particularly in infrastructure. Promoting improved infrastructure such as better ports, railroads, roads, communications and electricity supplies are key drivers for increasing trade and economic growth. In collaborating with other members of the G20, South Africa has sought to use its participation to help promote the interests of Africa and of the South, on the understanding that the G20 has the potential to advance global governance reforms and help reorient the international development agenda. We recognise the G20's successes, as well as the fact that so much more still needs to be accomplished.

South Africa has supported calls for the G20 to show international leadership in helping to achieve progress in multilateral institutions, on the understanding that the G20 is not a substitute for, but a complement to, the United Nations system. Additionally, as the only African member of the G20, South Africa has raised issues of particular concern to the continent with other G20 members, particularly in our capacity as one of the co-chairs of the Development Working Group.

We have always been clear that the G20 does not seek to duplicate the work on development of other bodies such as the UN, but instead adds value through the pursuit of development ideals where the G20 has a comparative advantage. In the long run, South Africa believes that the development agenda of the G20 underpins so much of the work that the G20 is doing to create greater stability and growth in the global economy.

For prosperity to be sustained it must be shared. The G20 therefore has a role to play in enhancing the role of developing countries, and low-income countries in particular, as new poles of global growth. South Africa is therefore pleased with the fact that the DWG has focused on key areas such as infrastructure, food security, human resource development, financial inclusion and domestic resource mobilisation. These priorities are all important and interlinked in our collective efforts to foster a more conducive international environment for sustainable development. Domestic resource mobilisation is an essential complement to the other DWG priorities, as it is fundamental to enable developing countries to increase sustainable resources for development, while at the same time reducing their dependency on aid flows, which are often prescriptive and undependable.

We are conscious of the implications that many G20 decisions have for other economies and the global economy as a whole

Important work has been done by the DWG to articulate the next-generation G20 development agenda in a way that seeks to respond to the development aspirations of developing countries, especially low-income countries, and which complements national and regional priorities. That is why the introduction of an accountability mechanism to monitor the implementation of G20 commitments on development is such an important initiative. As a group, we take these commitments seriously, and I will be raising this matter during the St Petersburg Summit.

The G20 has also successfully functioned as a catalyst to help advance reform of global governance institutions, especially the Bretton Woods institutions, to promote increased representation within these institutions and to ensure that they remain responsive and accountable to all stakeholders, especially developing countries. South Africa wishes to see the G20 make progress in helping promote the implementation of the 2010 IMF quota and governance reforms, which, in our view, will further enhance the legitimacy and credibility of the organisation. South Africa is fully committed to an IMF that is fully representative and reflective of all of the changes in the global economy.

President Jacob Zuma says that South Africa places a premium on outreach to non-G20 members. As the only African country in the G20, South Africa has raised issues specific to the continent

REUTERS/SIPHIWE SIBEKO

In particular, we support increasing the voice and representation of sub-Saharan Africa in the IMF. All options to achieve this objective should be explored, including the creation of a third chair for the region.

South Africa has also strongly encouraged reform of the governance structure of the Financial Stability Board to allow for equal representation among the existing membership, in line with the principle of equal representation at all levels of G20 engagement. The current arrangement constrains in particular developing country participation and engagement, and has implications for the collective responsibility of G20 members to ensure a safe and stable global financial system.

Under the Russian presidency, the G20 has also successfully further expanded its outreach programme in an effort to ensure that the interests of all non-member countries are considered in our decision making. South Africa places a particular premium on outreach. We are conscious of the implications that many G20 decisions have for other economies and the global economy as a whole, and ongoing and expanded outreach can certainly help to inform the work of the G20.

South Africa's priorities at the G20 are informed by our own development aspirations, as articulated, for example, in our National Development Plan: Vision 2030. Our efforts to secure a better life for all in South Africa are very closely intertwined with our objective to achieve a better Africa and a better world for all. We believe the G20 to be an appropriate forum in which to actively engage to ensure long-term success in this regard.

South Africa is committed to working together with the Russian presidency and other members of the G20 to ensure a successful outcome in St Petersburg, one that will continue to demonstrate the unique relevance of the G20 for our time. ■

G20: the challenge of effectiveness

As an influential member of the global economy, Saudi Arabia has played its part in the G20's efforts to stimulate growth and confidence, writes the Custodian of the Two Holy Mosques, King Abdullah bin Abdulaziz

The importance of the G20 countries is evident, as they account for 90 per cent of global gross domestic product (GDP), 80 per cent of international trade and two-thirds of the world's population. The G20 demonstrated its clout with the action plan it adopted following the financial crisis that shocked the world in 2008. The action plan focused on implementing reforms to stimulate and promote sustainable growth, instil confidence in the global economy, and continue reforms of the financial sector and international financial institutions.

The G20 has affirmed that strong, sustainable and balanced growth remains its top priority, as it promotes prosperity throughout the world. Indeed, the actions it has taken have helped restore confidence in the global economy, stimulate growth, accelerate financial regulation reform and enhance coordination in these areas among its members, in addition to augmenting the resources of the International Monetary Fund (IMF) and the World Bank.

The efforts made by the G20 after the 2008 financial crisis demonstrate its capacity to be the main forum for international economic cooperation, as stated in the agreed statement during the Pittsburgh Summit of 24-25 September 2009. We believe this is consistent with developments on the global economic stage and responds to the need for a forum that is more representative of the global economy, to which both advanced and developing countries with economic weight contribute.

We are confident of the G20's ability to continue its active role in confronting the issues facing the world today

Saudi Arabia's role and contributions in the G20 stem from its systemic role in the global economy. Indeed, Saudi Arabia makes effective and influential contributions to international efforts aimed at maintaining global economic stability and establishing a stable global economic system that helps achieve sustainable and balanced growth, and protects the interests of all countries, both advanced and developing.

Saudi Arabia has played a positive and effective role in maintaining the stability of the world energy market through its active role in the global oil market. In fact, Saudi oil policy is based on balanced foundations, taking into account the interests of both the producing and consuming countries, particularly poor countries. To this end, Saudi Arabia has made many sacrifices, such as maintaining costly spare production capacity in order to promote the growth and stability of the global economy. We continue to look forward to closer cooperation between the oil-producing and -consuming countries, in order to ensure market stability and the security of demand and supply, given their importance in safeguarding the flow of investments necessary to enhance production capacities. We must also help poor countries in their efforts to obtain clean, reliable and reasonably priced sources of energy, which is a basic requirement for reducing poverty and achieving sustainable growth and development in these countries.

It is also essential to ensure that policies to protect the environment, mitigate climate change and support new technologies do not discriminate against oil and other fossil fuels. Saudi Arabia's active and influential role in the international oil market, and hence the global economy, and in the donor community at the regional and international levels qualifies it to continue playing an important role at the IMF and the World Bank, as well as in regional financial institutions.

In its efforts to confront the repercussions of the global financial crisis and help stimulate growth in the global economy, Saudi Arabia has taken a number of measures in the areas of fiscal and monetary policies. In 2008, it approved the largest fiscal stimulus programme as a percentage of GDP among the G20 members and increased the capital of specialised government credit institutions in order to ensure the availability of additional financing for the private sector, particularly for large projects and for small and medium-sized enterprises, and to attract private financing. These measures have helped to limit the effects of the global financial crisis on Saudi Arabia's economy and enhance its performance. The success of the policies and measures adopted by Saudi Arabia is demonstrated by the IMF's statement that Saudi Arabia was among the best performing of the G20 members between 2008 and 2012, just behind China and India, thanks to the important economic reforms it implemented. Saudi Arabia has also helped support the efforts of poor countries to confront the fallout of the global financial crisis by increasing its bilateral and multilateral development and humanitarian assistance and by supporting the resources of regional and multilateral development banks.

We are pleased with the success achieved by the G20 in recent years, as it has been able to respond to the repercussions of the global financial crisis through measures that have spared the world from falling into recession. It is crucial to continue our efforts to maintain the effectiveness and vital role of the G20, and we look forward to seeing the G20 continue to play an important role in supporting global economic growth and stability. In light of the cooperation and coordination we have witnessed among the G20 members, we are confident of the G20's ability to continue its active role in confronting the pressing issues facing the world today. Our confidence is supported by seeing the topics included in the G20's agenda for 2013 under the Russian presidency, which include promoting global growth, creating jobs, reforming and strengthening the international financial infrastructure and legislation, supporting multilateral trade, combatting corruption, supporting sustainable development and energy, and enhancing partnership between the public and private sectors. In addition, it includes important topics such as encouraging non-traditional long-term financing resources, implementing structural reforms to support innovation, promoting small and medium enterprises, completing implementation of the 2010 IMF quota and governance reform, strengthening the IMF's multilateral surveillance, encouraging efforts to develop regional financing arrangements, achieving progress in the Doha negotiations, countering protectionism, and enhancing food security and financial inclusion. ■

CHIP SOMODEVILLA/GETTY IMAGES

King Abdullah bin Abdulaziz highlights Saudi Arabia's role in maintaining the stability of the world energy market through its activities in the global oil market

Global tax developments in exchanging financial account information

Mariano Giralt, Managing Director, Head of EMEA Tax Services

Lorraine White, Managing Director, Head of EMEA Securities Tax & US Tax Services

Offshore tax evasion is a serious concern for governments around the world, and for years they have been working actively to combat this by adopting various legal actions to enforce the disclosure of cross-border financial account information.

Since 2005, financial institutions within the EU have been following the European Union Savings Directive (EUSD) rules. EUSD requires the reporting or withholding on interest payments earned by EU residents holding accounts with a financial institution in another EU state.

In 2010, the US enacted into law the Foreign Account Tax Compliance Act (FATCA). FATCA implements a number of reporting and withholding tax measures to reduce tax evasion by US citizens holding financial accounts outside the US. Complying with FATCA, however, presented some challenges. In some jurisdictions, non-US financial institutions could not comply with FATCA without risk of contravening local laws. Governments, therefore, needed to introduce legal instruments to enable financial institutions to report the financial account information required under FATCA. These solutions are addressed in the so-called model Intergovernmental Agreement (IGA). Key to the IGA is the exchange of taxpayer information between the US and the FATCA treaty partner.

On 12 September 2012, the first IGA was signed between the UK and the US. Since then, an increasing number of IGAs have been signed between the US and governments who recognise the potential benefits of receiving additional information on the offshore assets held by their residents. It is expected that many more governments will follow suit.

The UK was quick to see the potential of implementing a new international standard in the exchange of information based around the FATCA model, and has taken further steps by seeking to conclude similar agreements between the UK and British Crown Dependencies and its Overseas Territories with financial centres.

In June 2013, there were two further important related developments. Firstly, the EU Commission's proposal for a Council Directive to expand Automatic Exchange of Information (AEOI) in the field of taxation between EU member states; and secondly, the Organisation for Economic Co-operation and Development (OECD) initiatives including the OECD report commissioned by the G8 on a global system for Automatic Exchange of Tax Information.

The EU Commission's proposal for a Council Directive COM (2013) 348, published on 12 June 2013, aims to combat tax evasion by expanding AEOI between EU member states. This is planned to take effect from January 2015, relating to the taxable period beginning 1 January 2014, and will apply to dividends, capital gains and all other financial income and account balances. According to the EU Commission, the proposed Directive to expand AEOI would strengthen the fight against tax fraud, tax evasion and aggressive tax planning.

The OECD report on a global system for AEOI, published on 18 June 2013, describes three key issues to address in developing a standard multilateral model for AEOI: 1. the scope of coverage for information to be reported and exchanged; 2. the legal basis and confidentiality restrictions with respect to information exchange; and 3. the technical and IT requirements for information exchange. The report concludes with a discussion of four steps that governments would need to take in order to implement such a model.

Much of this work is already under way at the OECD.

So what is Automatic Exchange of Information (AEOI)?

There are three types of exchange of information – on request, spontaneous and automatic.

AEOI involves the systematic and periodic transmission of bulk taxpayer information by the source country of income to the country of residence of the taxpayer. As a result, the source country is able to check its tax records in order to verify that its taxpayers have accurately reported their foreign sourced income.

At EU level, the existing Directive on Administrative Cooperation already provides for an automatic exchange of information on five categories of income and capital: employment, directors' fees, life insurance products, pensions and property income.

The current OECD standards on this provides for information exchange upon request, where the information is, according to Article 26 of the OECD Model Tax Convention on Income and Capital, "foreseeably relevant" for the tax administration of the requesting party.

But what does this mean for financial institutions?

While the actual exchange of information takes place between governments, the information to be reported will come from financial institutions. The implementation costs of an exchange of information system will require governments to invest significantly in technology and provide necessary legislation and guidance. Financial institutions will also need to make the necessary investment in technology and systems.

With the speed of change and regulation in financial services worldwide, remaining compliant while managing costs and maintaining services will require flexibility. Future-proofing is essential to minimise customer impact, manage costs and avoid future spending. This can bring benefits, such as improved and more comprehensive identification of customers, the reduction in time to on-board customers to new products or services, and knowing the tax residency and status of a customer can bring other tax efficiencies.

The OECD TRACE project

For many years, the OECD has also been working with financial institutions on another relevant tax project – Treaty Relief and Compliance Enhancement (TRACE). In January this year, the OECD's Committee on Fiscal Affairs endorsed the TRACE Implementation Package.

Essentially, TRACE is designed to reduce compliance costs and facilitate cross-border investment. When the project started, it was acknowledged that in reality, claiming withholding tax relief under DTCs and/or a country's domestic tax law is often cumbersome and time and resource intensive for governments, financial institutions and investors alike. Where the complexity and cost of obtaining tax relief is too great, anonymous withholding is often the outcome. This undermines the objectives of treaties to reduce disincentives to cross-border investment.

Although it is seen as a major step in improving tax compliance while streamlining processes, reducing costs and providing investors with a mechanism for realising their right to withholding tax relief, no member country has implemented TRACE.

Is this global trend of Automatic Exchange of Tax Information (AEOI) and TRACE interconnected?

The answer is yes. Significant efficiencies can be achieved for both businesses and governments by aligning implementation covering both AEOI and TRACE simultaneously. The simplification benefits deriving from TRACE implementation would not only offset many of the additional compliance costs associated with new information reporting requirements in AEOI, but would reduce many of the administrative burdens that governments currently face.

BNY Mellon supports these core tax compliance objectives and believes that cross-border information gathering is the reality of global financial markets, with financial institutions playing a key role as tax intermediaries.

As a leading provider of financial services with operations located in multiple jurisdictions worldwide, we strongly encourage the development of a common framework for reporting and due diligence. Otherwise, financial institutions will continue to be challenged with the complex task of interpreting different legislation and local country guidance. This will result in contrasting rules and practices that will vary in interpretations; exacerbating the already high cost of implementation and ongoing compliance.

The G20 provides an important springboard for action. Coordination is vital and we welcome the opportunity to cooperate with governments to help develop and implement a truly global standardised tax compliance regime.

Improving global confidence and supporting the global recovery

In a joint letter to the 28 heads of state and government of the European Union, European Commission president José Manuel Barroso and European Council president Herman Van Rompuy outline issues to be discussed at the G20 summit

Dear Colleagues,

We would like to inform you about the key issues coming up for discussion at the G20 summit in St Petersburg on 5-6 September.

Five years have passed since the start of the global crisis and three since its most visible impacts in Europe. We have made important headway since the last G20 summit in Los Cabos, but we need to do more. Due to the decisive policy action undertaken, financial market conditions have improved, and tail risks for the euro area have receded. But we need to remain vigilant and proactive to support the recovery and find our way to strong, balanced, sustainable and inclusive growth. G20 leaders in St Petersburg should send a positive message to improve global confidence and support the global recovery. We therefore need to show unity around a common purpose, and demonstrate that global institutions, and in particular the G20, are delivering.

In St Petersburg, the European Union should aim for results in the following priority areas:

1. Growth and employment need to be at the top of the G20 agenda

Global growth and employment remain weak and should therefore be our primary concern at the St Petersburg Summit. Leaders should adopt a strong 'St Petersburg Action Plan', with a focused package of balanced growth and sustainability-enhancing measures. Europe's contribution to this action plan could in particular build on our four-point strategy: i) measures to end financial fragmentation and ensure financial stability, including balance-sheet assessment and clean-up of the banking system; ii) structural reforms and differentiated fiscal consolidation to restore competitiveness and debt sustainability; iii) immediate initiatives to promote economic growth, notably the Compact for Growth and Jobs and the Youth Employment Initiative; and iv) measures to strengthen the architecture of Economic and Monetary Union (EMU), in particular through the rapid completion of the banking union through the set-up of the single resolution mechanism, and continued further progress on the other three pillars of the EMU roadmap.

The fight against unemployment, particularly long-term and youth unemployment, remains critical for the European and international agenda. We therefore welcome the focus of the Russian presidency on job creation, labour activation of vulnerable groups and youth employment, and the commitments on these matters taken by G20 labour ministers at their meeting in July. We should highlight that the EU is tackling the pressing challenge of youth unemployment with a comprehensive approach building on a Youth Employment Initiative now scaled up to €8 billion and a speedy implementation of the 'Youth Guarantee'.

It is also important for the G20 to fulfil the commitment made in Los Cabos to identify credible and ambitious country-specific fiscal consolidation strategies beyond 2016. We should support the idea that G20 advanced economies commit to put government debt on a sustainable path so as to provide continuity to the Toronto fiscal commitments undertaken in 2010. In this regard, the United States and Japan should continue to implement or put in place credible medium-term fiscal consolidation plans.

But fiscal policy alone is not enough. G20 economies also need to continue developing and implementing far-reaching structural reform agendas in order to boost competitiveness and accelerate changes in existing growth models where necessary. All G20 economies need to promote policies leading to a rebalancing of the global economy and do their part to build a sustainable global recovery. In this regard, large surplus economies should consider taking further steps to boost domestic sources of growth and deficit countries should raise external competitiveness.

> ***G20 economies need to continue developing and implementing far-reaching structural reform agendas to boost competitiveness and accelerate changes in existing growth models***

Long-term investment is a critical source of future growth in terms of enhancing the productive capacity of our economies. Getting the long-term financing process right is central to increase growth and potential growth. The EU shares the importance of these issues and the June European Council discussed ways to boost investment and improve access to credit. It launched a new 'Investment Plan' to support small and medium-sized enterprises (SMEs) and boost the financing of the economy, mobilising all the European resources including those of the European Investment Bank. In addition, the European Commission has also proposed a new legal framework to promote take-up of long-term investment funds and it will support high-quality and transparent securitisation instruments for SME loans.

Trade must be a central part of our growth agenda with a threefold message: firstly, as trade is a source of growth and jobs we should promote it where we can – bilaterally, regionally and at the global level – while making sure that our bilateral and regional agenda complements the multilateral trading system. Secondly, the G20 should send a strong message against protectionism calling for

José Manuel Barroso (left) and Herman Van Rompuy have emphasised that the G20 leaders should send a positive message to boost economic confidence

THE COUNCIL OF THE EUROPEAN UNION

a more effective implementation of the Toronto pledge and extending it beyond 2014. Thirdly, a successful deal with trade facilitation at its core at the ministerial meeting of the World Trade Organization (WTO) in Bali in December must be our key preoccupation for advancing the multilateral agenda. The G20 should give a strong political signal to negotiators to reach an agreement. Finally, we also welcome the attention given to improving transparency of regional trade agreements and further analysing the increasing integration of global supply chains.

The EU has a good story to tell on all three priorities: we pursue a uniquely ambitious bilateral and regional agenda tackling the whole range of obstacles to trade and investment, including behind-the-border barriers; we are fully committed to the fight against trade protectionism and to extending the Toronto pledge and giving it more teeth; and the EU is ready to work with its WTO partners towards a balanced Bali package.

2. Completing financial regulatory reform

We have made steady progress in implementing our comprehensive reform agenda in the G20. We will reiterate that the EU is delivering on time and on all fronts and is well on track to have all the main financial reforms in place by the beginning of 2014. But the G20 needs to develop a clearer narrative to set out what has been achieved so far and what is left to be done.

Above all, a renewed commitment to timely and effective implementation is needed from all G20 partners. In particular, a key focus must be the implementation of the Basel framework across the G20 in order to build a resilient banking sector.

The G20 should focus in particular on developing effective resolution frameworks and other measures for global systemically important financial institutions

Also important is the need to focus on systemic risk, wherever it originates in the financial system. The G20's work on addressing 'too-big-to-fail' problems is especially relevant here. The G20 should focus in particular on developing effective resolution frameworks and other measures for global systemically important financial institutions.

Progress should also be made on the other policy strands, covering key issues such as completing implementation of the agreed compensation practices, strengthening the oversight and regulation of the shadow banking sector, making progress in applying a global system of clear and unique identification of companies participating in global financial markets, further reducing excessive reliance on credit-rating agencies and ensuring the convergence of international accounting standards.

Finally, this work also needs to go hand in hand with more cooperation to address outstanding cross-border inconsistencies, especially in the area of over-the-counter (OTC) derivatives markets. The EU and the US have recently made major progress in this field, announcing significant agreements on how to approach the application of cross-border rules. Other G20 members should be encouraged to join this approach.

3. Push forward the work on tax avoidance and evasion

Taxation matters, namely the fight against tax avoidance and evasion, are very high on the global agenda. The conclusions of the European Council on 22 May have shown the importance of this discussion at EU level. The G8 summit in Lough Erne further added momentum to moving forward our ambitious agenda globally.

On automatic exchange of information, the EU has considerable experience and expertise to contribute and we are further strengthening our own systems. On 12 June, the European Commission proposed legislation to further extend the EU exchange of information system to cover the complete range of relevant income and account balances from the start of 2015. We fully support the work of the Organisation for Economic Co-operation and Development (OECD) on developing a multilateral standard of automatic exchange of information that should build on existing automatic exchange systems in order to maximise efficiency and we will bring our own experience into this process.

We also fully support the OECD's action plan on base erosion and profit shifting (BEPS). This plan identifies actions needed for countries to prevent base erosion and profit shifting, which is the right approach to curbing corporate tax avoidance worldwide. It fully supports our common objective to ensure that everyone pays their fair share of tax – whether large multinational or small corner shop – and that taxation reflects where economic activity takes place. The BEPS Action Plan complements the measures put forward by the European Commission to tackle aggressive tax planning in the EU, which European leaders endorsed in May. We particularly welcome the commitment to examine ways to overcome the tax challenges of the digital economy. We should ensure consistency and coordination between EU and OECD efforts and develop internationally agreed standards for the prevention of BEPS in a constantly changing environment.

Our financial systems are also exposed to significant money-laundering and terrorist-financing risks. The G8/G20/OECD and EU efforts in these areas are mutually reinforcing. We are making progress on revising and enhancing the EU framework for combatting these phenomena, consistent with the Financial Action Task Force (FATF) standards. We will urge the G20 to remain committed to ensuring that non-cooperative jurisdictions adhere to those standards in the areas of tax, anti-money laundering/combating the financing of terrorism and prudential standards.

4. Completing the reform of the international financial architecture and progressing with our work on development, anti-corruption and energy

The full implementation of the 2010 reforms on quota and governance is a critical element for boosting the legitimacy, credibility and effectiveness of the International Monetary Fund (IMF). All EU member states have fully ratified the 2010 IMF quota and governance reform, and we encourage all other IMF members to do likewise. The EU should also make clear that we are willing to work, together with the whole IMF membership, on an integrated package on the quota formula and on the general review of quotas by the agreed deadline of January 2014. We also support the initiative to further strengthen the cooperation between the IMF and regional financing arrangements. In Europe, we have already established strong cooperation with the IMF.

The St Petersburg Summit should also ensure that the good G20 work on development, anti-corruption and energy matters continues. The G20 should set out the next Multi-Year Action Plan on Development (MYAP), keep up its efforts to implement our food security commitments and further strengthen the anti-corruption agenda. On energy matters, it is important to make progress on phasing out fossil fuel subsidies, incorporating green growth policies in structural reform agendas, generating climate finance, improving the transparency of commodity markets and promoting investment in energy infrastructure.

We are determined to ensure that the St Petersburg Summit will be another step towards the recovery of the global economy and increasing financial stability. The EU has lived up to its commitments made last year in Los Cabos to stabilise the economic situation in the euro area and to further strengthen Economic and Monetary Union. We call on all G20 members to also step up their efforts and further deepen our cooperation in order to ensure strong, sustainable and balanced growth. The EU is looking forward to constructive and cooperative discussions with our G20 partners in St Petersburg. ■

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Join the Global Conversation

The G20 Research Group

The G20 Research Group is a global network of scholars, students and professionals in the academic, research, business, non-governmental and other communities who follow the work of the G20 leaders, finance ministers and central bank governors, and other G20 institutions. It is directed from Trinity College and the Munk School of Global Affairs at the University of Toronto, also the home of the G8 Research Group.

Our mission is to serve as the world's leading independent source of information and analysis on the G20. As **scholars**, we accurately describe, explain and interpret what the G20 and its members do. As **teachers and public educators**, we present to the global community and G20 governments the results of our research and information about the G20. As **citizens**, we foster transparency and accountability in G20 governance, including assessments of G20 members' compliance with their summit commitments and the connection between civil society and G20 governors. And as **professionals**, we offer policy advice about G20 governance, but do not engage in advocacy for or about the G20 or the issues it might address.

The G20 Information Centre
www.g20.utoronto.ca

The G20 Information Centre is a comprehensive permanent collection of information and analysis available online at no charge. It complements the G8 Information Centre, which houses publicly available archives on the G20 as well as the G7 and G8, and the BRICS Information Centre.

Speakers Series

The G20 Research Group hosts a speakers series in its efforts to educate scholars and the public about the issues and agenda of the G20. Past speakers have included senior officials of the International Monetary Fund and the World Bank and scholars from Columbia University and elsewhere.

Media Assistance

The G20 Research Group sends a field team to the G20 summits and other meetings when possible to assist the world's media on site and collect the documentation uniquely available there.

Research and Publications

Among the material available on the G20 Information Centre is a document detailing the plans and prospects for the G20's agenda. The website also contains the regular reports on G20 members' compliance with their summit commitments, produced by the G20 Research Group and its partner at the National Research University Higher School of Economics in Moscow.

Working with Newsdesk Media in the United Kingdom, the G20 Research Group also produced a special volume commemorating the tenth anniversary of the G20, *The G20 at Ten: Growth, Innovation, Inclusion*. It has an edition for every G20 summit since then, all available online as well as in print.

Recent Books on the G20 from Ashgate Publishing's Global Finance Series

- ***G20 Governance for a Globalized World***, John Kirton (January 2013)
- ***The G20***, Peter I. Hajnal (forthcoming)

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Promoting sustainable and inclusive growth: the view from Kazakhstan

President Nursultan Nazarbayev of Kazakhstan shares his views on the global economic landscape and the G20's potential to lead the way in shaping a new global economy that is fit for the 21st century

When the G20 met last year in Mexico, there were hopes that the global economy might finally be on the edge of a sustained recovery. But although there are positive signs, including the eurozone finally emerging out of recession, we don't have to look far to see the dark clouds over the world's economic prospects.

Across continents, unemployment remains alarmingly high, depressing demand and reducing living standards. There is a real fear that any recovery will not be translated into new jobs. Income inequality is stark between and within countries, stoking tensions in many societies.

The global financial and monetary reforms needed to prevent a repeat of the mistakes which brought the global economy to its knees have stalled. Long-term investment, so vital to a strong and sustained recovery is still well below pre-crisis levels. Only the most optimistic would believe global troubles are now firmly behind us.

This threatening background is why the meeting of the G20 in St Petersburg is so important. No other grouping can provide the leadership to set the right course for the global economy.

It was, after all, the G20 which agreed and coordinated the decisive action which prevented the crisis of five years ago turning into catastrophe. It is the G20 which must continue to set the lead in addressing the vulnerabilities and threats we now face.

Putting in place the right policies and protections matters to all countries, whatever their stage of development. The global crisis demonstrated more than ever before how interlinked our economies and fortunes were.

But it is particularly true for a country like Kazakhstan which has made a deliberate decision to develop an open economy and play our full role in finding solutions to global problems. It is why we are pleased to be attending the St Petersburg summit and fully support the priority the Russian Presidency has given in the agenda to restoring growth and driving sustainable development in which all countries and citizens share.

Achieving these ambitions must start with determined action to reduce unemployment. The energy and skills of our citizens are every nation's greatest resource. Unless we make the most of these talents and potential, we are not going to restore growth or reduce inequality.

Perhaps the most damaging legacy of the economic crisis is that globally there are now over 200 million people out of work. Unemployment in some countries has reached levels not seen for decades. Many more people find themselves out of the formal labour market or only able to get part-time or seasonal work.

Even more alarming is that it is the younger generation who are paying the heaviest price. They make up one in three of the global unemployed with many never having had the chance of work. The latest figures from Greece – one of the countries hardest hit by the crisis in the eurozone – show that nearly 65 per cent of those in the labour market aged between 15 and 24 are unemployed. In areas such as Africa and the Middle East, too, we are seeing young people cut off from the world of work. We are in danger of creating a lost generation which can only hold back growth in the future, further fuel inequality and widespread social problems.

It is why Kazakhstan strongly supports the G20 commitment to put in place measures to reduce unemployment and foster quality jobs and decent work. I also want to put on record our continued backing for the Seoul Development Consensus and its supporting pillar of Human Resource Development.

The challenge now is to turn these ambitions into effective measures which will ensure future growth drives job creation. Among the policy areas which must be addressed is how we combine the structural reforms needed with providing social safety nets for those who may temporarily lose out.

There must be measures, too, to foster an environment where entrepreneurs and small businesses – who are the motors of jobs growth – can flourish. This is a particular priority domestically for Kazakhstan, where we have set an ambition of doubling the contribution of SMEs to our economy by 2030.

Action must also be taken at a national and international level to help increase skills for the industries of the future. This needs investment in education and training as part of a renewed emphasis on tackling youth unemployment. But along with new policies, G20 countries must deliver progress toward previous commitments.

We need to see the same focus and energy in removing barriers to international trade. As the Organisation for Economic Co-operation and Development has reminded us, a one per cent reduction in the cost of trade would generate an additional $40 billion for the global economy – the majority of it flowing to developing countries.

So it is worrying that we are seeing creeping protectionism in many regions and that trade growth last year was still half pre-crisis levels. As I have said, this is a particular concern for Kazakhstan as an open economy integrated into the global trading system. But all countries – no matter what their development stage – must guard against protectionism which, no matter what its short-term attractions, is a long-term brake on growth and future prosperity.

It is also clear that improving infrastructure is one of the most effective ways of boosting trade. Investing in modern roads, railways, airports and smarter communication and energy networks will deliver major rewards. As a country at the heart of Eurasia with partners to the east and west, north and south, Kazakhstan is determined to play a central role in transforming the region's transport and energy links.

But the truth is that if countries across the world are to successfully tackle unemployment, boost trade and improve infrastructure, there must be decisive steps taken to restore market confidence. Without it,

President Nursultan Nazarbayev says that it is the G20 that must continue to take the lead in addressing the vulnerabilities and threats we now face

we will continue to see low investment, volatile capital flows and a growing public belief that the global economic and financial systems are broken, which, in turn, further dampens growth.

There is a huge amount more to do to strengthen financial regulation and overhaul international architecture left behind by the speed and scale of globalisation. Addressing systemic weaknesses and putting in place effective safeguards while preserving an open financial and economic system is vital to protect our citizens from the threats and enable them to benefit from the opportunities that globalisation brings.

Getting this balance right, now and in the future, will require the governance of key international financial institutions to be reformed. Progress has been made but we need to go further and faster. Without such an overhaul, there is a risk that they will lack the trust and legitimacy to drive the international cooperation needed to accelerate recovery and prevent another crisis.

G20 countries must give a lead in these reforms. They must also help in identifying new sources of long-term investment. This includes a greater role for private-public partnerships and less traditional sources of long-term financing.

This is a big agenda. But it is, of course, not enough to have a sustained recovery; it must also be sustainable. If it is to deliver for all countries and for future generations, our growth and development model must be greener. Without this refocus, our shared ambitions for the future simply cannot be met.

It is why I welcome the leadership demonstrated by Mexico's Presidency last year, which saw the introduction of inclusive green growth as a priority on the G20 development agenda. I also think it was a major step in the right direction that the Rio+20 Summit agreed to the creation of a set of Sustainable Development Goals as part of the post-Millennium Development Goal framework.

This is not, as some critics suggest, a trade-off between prosperity now and in the future. It is the only way to secure long-term growth. If we can put development on a more sustainable path, new industries and new markets for green technologies, innovations and services will be created.

The G20 is again critical in helping create the right environment where these fundamental changes can take place. Unless we act individually and collectively, we will see increased pressure on scarce resources like water and growing hunger as temperatures rise and extreme weather becomes more common. As we increasingly see from many parts of the world including Kazakhstan, climate change is not a future threat but a reality today.

We are fortunate in Kazakhstan in being a resource-rich country, but that does not mean we will shirk our responsibility. We have set ourselves a target of meeting 50 per cent of our energy needs from renewable resources by 2050.

We are putting in place now measures within our borders to use water more wisely and cooperating with our neighbours over shared water resources. This is another area where G20 leadership will be vital in the coming years.

The challenge in front of us is to create an economy fit for the 21st century which delivers sustainable and inclusive growth. Kazakhstan is ready to work with all our international partners, under the leadership of the G20, to meet our collective responsibilities to all our citizens, to future generations and to the health of our planet. ■

A summit of substantial success: prospects for St Petersburg 2013

There is potential for advancing on a broad front of global issues as Russia, standing at the crossroads of major geopolitical summits, takes the G20 lead

By John Kirton, co-director, G20 Research Group, University of Toronto

The eighth G20 summit, taking place in St Petersburg on 5-6 September 2013, promises to be a particularly significant event. It will be the first G20 summit hosted by Russia and by a member of the BRICS group of Brazil, Russia, India, China and South Africa. It will further institutionalise the hosting rotation and equality between the established G8 and the emerging country members of the G20. It will be the second summit held in continental Europe, following the sixth in Cannes, France, in November 2011. It will be the G20 summit with the longest interval and accumulated workload since the previous summit, which was held 15 months earlier in June 2012 in Los Cabos, Mexico. It will feature several new leaders, notably China's Xi Jinping, Japan's Shinzo Abe, Mexico's Enrique Peña Nieto, Korea's Park Geun-hye and Italy's Enrico Letta.

Russia's role in connecting summits

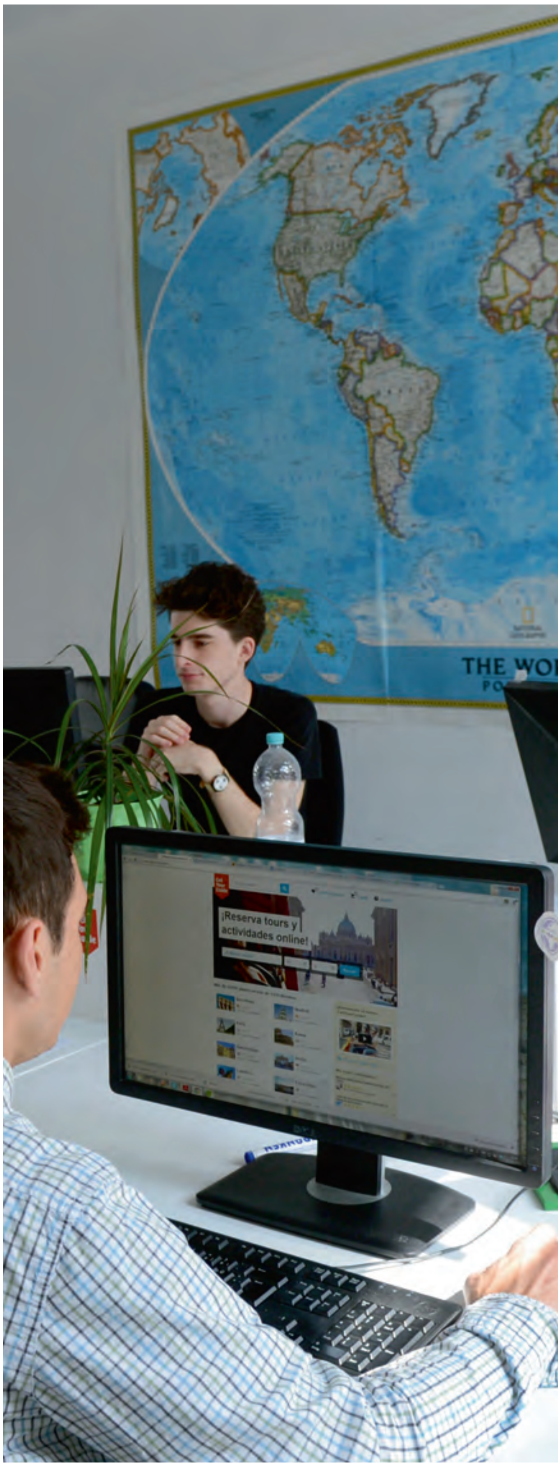
In the broader context of global summitry, the Russian host stands as the great institutional connector among the central plurilateral summit institutions of global relevance and reach, being the only G20 member that is also a member of both the old G8 and the newer BRICS. Russia also brings to St Petersburg a multiyear hosting sequence strategy, serving as host of the summits of the Asia-Pacific Economic Cooperation (APEC) forum in Vladivostok in September 2012, the G8 in Sochi, due to be held on 4-5 June 2014, and the BRICS in 2015. And with Vladimir Putin having returned as president in 2012, the G20's St Petersburg Summit reflects, and will be judged against, the results of the successful G8 meeting that Putin hosted in the same city in 2006.

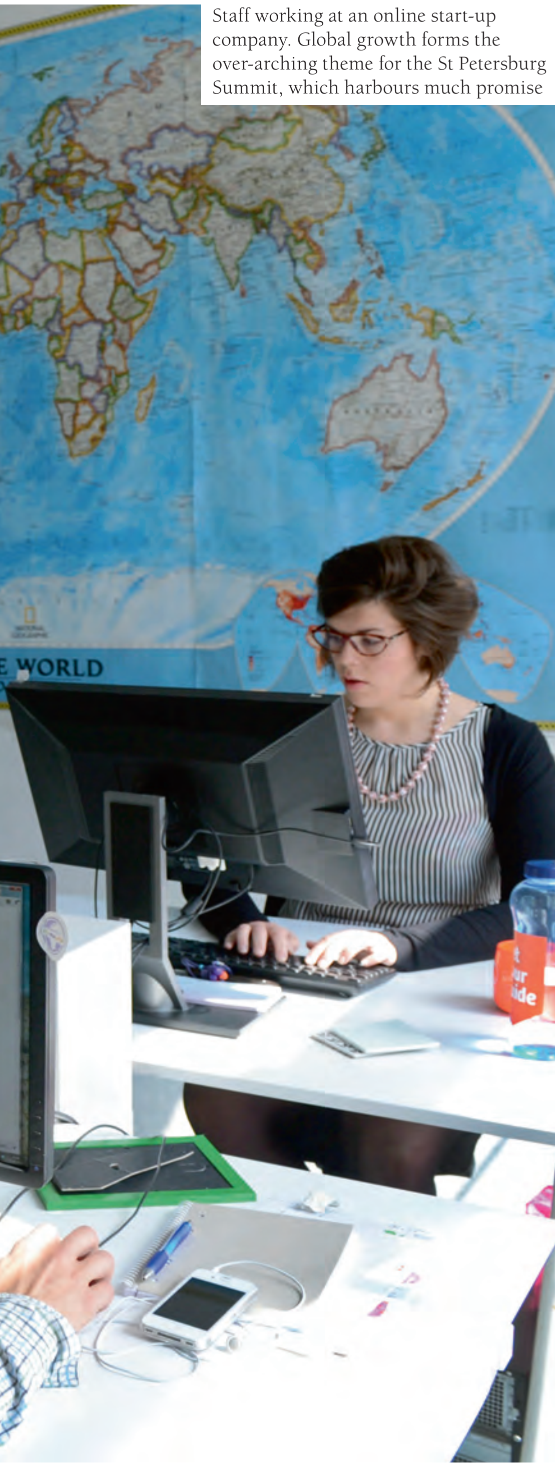
The St Petersburg Summit comes at a challenging time. Its big and broad economic hurdles begin with impending monetary policy contraction, rising interest rates and continuing fiscal deficits in a still slowly growing United States, the ongoing financial crises, recession, deficits and debts in Europe, the ballooning deficits, debt and monetary easing in Japan, and the slowing growth, financial fragility and social instability in the long vibrant emerging economies of China, India, Brazil and Turkey. The challenges extend to socially and politically relevant threats from rising unemployment and economic inequality, tax evasion and avoidance, extreme weather events associated with climate change, money laundering, corruption and terrorist finance.

Three central themes

St Petersburg's three overall themes are strengthening growth through quality jobs and investment, trust and transparency, and effective regulation. Under this trilogy it will address the core, continuing items on the G20 agenda. Those items are macroeconomic policy through the Framework for Strong, Sustainable and Balanced Growth, jobs and employment, financial regulation, international financial architectural reform, energy sustainability, development, multilateral trade liberalisation and corruption. It will also deal with the Russian host's two timely new priorities for 2013: financing for investment and government borrowing and public debt sustainability.

Institutionally, Russia has strengthened the summit through a joint preparatory meeting of labour and finance ministers, and greater interaction with non-member countries, the United Nations bodies and international organisations beyond. It has embraced civil society, including the private sector through the Business 20 (B20) and the Young Entrepreneurs Summit (YES), labour through the Labour 20 (L20), young students and professionals through the Youth 20 (Y20),





Staff working at an online start-up company. Global growth forms the over-arching theme for the St Petersburg Summit, which harbours much promise

JENS KALAENE/DPA/PA IMAGES

and academics, experts and non-governmental organisations through the Civil 20 (C20) and think tanks through the Think 20 (T20).

Areas of anticipated progress

Based on this foundation, St Petersburg promises to be a summit of substantial success. It will be marked by steady advances across a wide front rather than a big breakthrough on any one. It will further control the continuing euro crisis through its latest stage, following the banking collapse in Cyprus and the continuing struggles in Greece, Portugal and Spain. It will further tax fairness and transparency by approving the Organisation for Economic Co-operation and Development's 15-point action plan that will make the automatic exchange of tax information among governments the global standard, and help ensure that multinational firms pay taxes where their revenues and profits are actually produced. It will also offer a macroeconomic message and an action plan that emphasises stimulus over fiscal consolidation, promises a coordinated, careful and clearly communicated approach to monetary policy tightening, is reinforced by structural reform and offers a new model for financing for investment. The St Petersburg Summit will chart a new course on generating jobs by recognising the power of young entrepreneurship to create employment, innovation and productivity, and how reversing the growth of economic and social inequality can be a new source of inclusive economic growth. Indeed, it may importantly broaden the framework to have it target strong, sustainable, balanced and inclusive growth.

The summit will help implement overdue G20 commitments on financial regulation in the banking sector and extend them into new sectors such as insurance, derivatives, shadow banking and resolution regimes. It will strengthen the G20 process through the troika system of past, current and incoming hosts, civil society involvement and accountability assessment – issues on which Australia has promised to maintain the momentum as G20 summit host in Brisbane in November 2014. On development the summit will present the vision that will powerfully shape the UN's post-2015 development agenda.

Other issues will require more time and effort to produce major results. These start with the need to offer market-credible, country-specific medium-term plans to control the escalating government debt in the United States, Japan and elsewhere. They include implementation of the overdue promises to reform the voting shares at the International Monetary Fund to give emerging powers their fair share, which is an area where progress depends on appropriate action by a gridlocked US Congress. On trade, G20 leaders will again promise to renounce protectionism and ask the World Trade Organization to facilitate trade by reducing customs and administrative barriers at its ministerial meeting in Bali in December, while abandoning any serious effort to conclude the badly overdue Doha Development Round. There will also be modest advances on corruption, energy, climate and food security, and newer needs such as social policy, gender equality and health.

Russia has strengthened the summit through a preparatory meeting of ministers and greater interaction with non-member countries, the UN and international organisations beyond

The global steering committee

In all, St Petersburg will strengthen the G20 summit's recent record of keeping the European financial crisis from going global and incrementally advancing a broader array of more difficult, domestically intrusive actions, as it steadily shifts from serving as not just the central global economic crisis responder but also the global steering committee as a whole. Yet its members will need to work more intensively, cooperatively and creatively to cope with the growing problems that are compounding in a now intensely globalised world. ■

Russia's perspective on G20 summitry

The Russian presidency is building on the legacy of previous summits, responding to resistant and new risks, and consolidating efforts to restore growth

By Ksenia Yudaeva, Russian G20 sherpa, head of the Russian Presidential Experts Directorate

Russia believes that the G20 should concentrate its efforts on agreeing and implementing actions aimed at boosting strong, sustainable, balanced and inclusive growth and stimulating job creation. It should continue to enhance its efficiency by delivering on the decisions made. It should ensure legitimacy through engagement with non-G20 countries, international organisations, business and trade unions, think tanks and academia, civil society and youth. Last but not least, the G20 should increase transparency and trust. These ambitious objectives cannot be attained within one presidency. However, each successive presidency, in close cooperation with the G20 partners, can consolidate progress. This is the approach Russia is committed to. We have sought to contribute to these objectives through a focused agenda and a collaborative and results-oriented working process.

Since 2008 the G20 agenda has been consistently expanding. Its refocusing has in itself been a challenge. The focal points of our presidency include several key forward-looking initiatives that build on the legacy of the previous presidencies, respond to resistant and new risks, and consolidate the foundations of the G20 collaborative efforts to restore robust growth.

Three major issues constitute the core of the finance agenda. First, given that global growth remains subdued, G20 members need to agree on the policy actions that would support near and mid-term economic growth and allow for fiscal consolidation and stability. Striking the right balance is the key. Second, long-term investment finance is the bread and blood of infrastructure, research and development, and innovation as the key drivers of growth and competitiveness. The world needs growth, which generates quality jobs, ensures well-being and equality of opportunities for all citizens. The G20 has made substantial progress in identifying long-term sources of investment financing. These include new bank business models and other sources, such as equity markets and institutional investors. This work is supported by the Study Group on Financing for Investment and international organisations. The Organisation for Economic Co-operation and Development (OECD) submitted a special report to the G20 in February 2013. A road map for long-term financing for investment, to be developed by the time of the St Petersburg Summit, will be a solid foundation to continue the work under the upcoming Australian presidency in 2014.

The principles of borrowing policy

Third, modernising public debt management is an issue of pivotal importance. The underlying principles of borrowing policy need to be revised. The process should involve not only G20 members, but also all the members of the International Monetary Fund (IMF). Assessing and amending the IMF and the World Bank Guidelines for Public Debt Management is intellectually and time demanding. Even if all may not be able to agree on concrete amendments to these guidelines by the time of the summit in St Petersburg, Russia will assert key provisions so that our Australian colleagues could promote and complete the work.

Tax evasion and avoidance remain a challenge. Tax base erosion and profit shifting (BEPS) threaten the sustainability of G20 members' budgets. They negatively affect the investment climate and competition, as businesses that operate across borders profit from BEPS opportunities. This issue requires a global solution. The G20 seeks to deal with it through two initiatives. The first is an automatic exchange of financial information as a new multilateral standard. The OECD is preparing proposals on the standard, taking into account country-specific characteristics. The second initiative on BEPS aims to develop a joint policy set to prevent the transfer and tax evasion by legal methods through offshore zones. A comprehensive global plan to provide countries with domestic and international instruments to address BEPS is being developed by the OECD. That discussion may become one of the central issues of the summit.

Labour supply and demand

We have prioritised an integrated approach to boosting employment by balancing labour supply and labour demand. On the demand side the St Petersburg Plan on Growth and Employment will focus on policies and actions that create an enabling environment for entrepreneurship, innovations, and small and medium-sized enterprises, which play a central role in enhancing productivity and generating jobs. On the supply side G20 members should ensure that education and training systems equip students with proper knowledge and competencies that meet the labour market demands. On both supply and demand sides the G20 must pursue structural reforms to reduce labour market rigidities, raise productivity, increase investment in human capital, and enhance labour mobility and citizens' participation in the labour market. These are comprehensive and formidable objectives, but they must be attained. And they can be attained with the dedication of the governments, working in collaboration with international organisations and in engagement with social partners from business, trade unions and civil society.

Trade, as a major driver of growth, remains at the core of the G20 agenda. We hope that the leaders will render their political support to achieving tangible outcomes at the ministerial conference of the World Trade Organization (WTO) in Bali. A successful outcome at Bali would be a stepping stone to further multilateral trade liberalisation and progress in the Doha Development Agenda negotiations and would provide new confidence in the multilateral trading system. The G20 will continue to honour its standstill commitment on protectionism and support

G20RUSSIA.RU

G20 sherpas meeting in preparation for the St Petersburg summit

the efforts led by the OECD, WTO and the United Nations Conference on Trade and Development to monitor protectionism. The main objective of trade and investment policies today is to ensure they are supportive not only of national, but also of global economic growth. The recent past has seen an acceleration of the trend towards the conclusion of regional trade agreements (RTAs). The Russian presidency put forward proposals to enhance transparency in RTAs to ensure that they do not fragment the global level playing field.

Inclusive growth

As a multilateral economic and financial forum bringing together leading advanced and emerging economies, the G20 bears the responsibility of making globalisation work for all, within its members and beyond. In that regard we welcome the proposal developed by the Civil 20 on the St Petersburg Initiative for Strong, Sustainable, Balanced and Inclusive Growth, affirming the value of equality and inclusion along with economic growth and efficiency. An inclusive growth model would imply the need to strengthen public policy and the role of the state to tackle inequality, through macroeconomic policies promoting employment and boosting aggregate demand; through fiscal and monetary policies encouraging productive investment; through stemming corruption; through progressive taxation systems; and through reducing tax evasion and improving the effectiveness of public expenditure. Inclusive growth is becoming a new, challenging topic for the G20.

In the run-up to the 2015 deadline of the Millennium Development Goals there is a big demand for the G20 to play a greater role in the new global partnership for development

Last but not least, in the run-up to the 2015 deadline of the Millennium Development Goals and the debate on the new goals, there is a big demand for the G20 to play a greater role in the new global partnership for development. Through the G20 development agenda, first agreed in Seoul in 2010, the G20 can make a valuable contribution to development. By the time of the summit in St Petersburg the G20 will present an implementation report on the Seoul Multi-Year Action Plan on Development.

Most importantly, we should develop and agree a new action programme for the next period of 2014-16. The plan should be clear on the G20 contribution to the priority transformative shifts for the post-2015 agenda proposed by the report of the High-Level Panel on the Post-2015 Development Agenda. Given the G20's core agenda, its development action plan should focus on the aim of transforming economies for jobs and growth.

By collaborating with the partner countries, international institutions, business, academia and civil society for implementation of the Framework for Strong, Sustainable, Balanced and Inclusive Growth, the G20 will perform its unique and natural role in forging a new global partnership. ■

Russian e-money:
innovations for financial inclusion

By Jane Zavalishina
Chairman of the Board of Directors
of Yandex.Money

The emergence of e-money and electronic payments in Russia reflects its contemporary society: a combination of weak development of traditional infrastructure and a comparatively tech-savvy population led to the rise and remarkably far-reaching spread of new payment methods.

The rapid maturation of the internet market in the 2000s also played an important role. This tech boom, coupled with inadequate advancements in banking services, necessitated the introduction of new payment services that would make it possible to 'digitize' cash, which, at that time, was essentially the only widely accessible payment medium.

Today, almost every Russian citizen regularly uses self-service devices to perform transactions. And their preference for making online payments using e-wallets, depending on which data you consider, matches or even exceeds their preference for bank cards.

The evolution of consumer payment methods is significant, because increasing non-cash payments and decreasing the share of cash in the money supply has persisted as one of the most crucial economic challenges of modern Russia.

Russian Minister of Finance Anton Siluanov has confirmed that cash currently makes up 25 per cent of Russia's total money stock, whereas this figure is typically 15 per cent in developing countries and between seven and 10 per cent in developed ones. Unaccounted for cash leads to growth of the shadow economy, which in Russia amounts to about 30 per cent of GDP.

In Russia, the ratio of cash to total monetary assets isn't falling, but is rising. According to Siluanov, "the share of cash in the money supply increases by about one point every year, and that's a serious problem, because it leads to liquidity outflows from the banking system".

Herman Gref, CEO of state-run Sberbank and former minister of economics and trade, estimates Russia's economic losses due to the ever-growing volume of cash in circulation to be 1.1 per cent of GDP – or $15.4 billion.

What's more, innovative payment methods that help people bypass cash pose significant challenges to legal and regulatory systems, on both the national and international levels.

It is important to remember that Russia's modern banking system is actually quite young. The first legislation on banking in Russia was adopted in 1990 – just 23 years ago. In that time, the banking system has grown by leaps and bounds. But these advancements have not been enough to extend financial inclusion to the majority of Russian citizens.

Decreasing the share of cash in the money supply has persisted as one of the most crucial economic challenges of modern Russia

Yes, the majority of Russians do have a bank card. However, more often than not, these are payroll cards issued by employers. Russians mostly use these cards for bimonthly ATM withdrawals.

Curiously, even surging growth in e-commerce hasn't led to a noticeable decline in consumers' use of cash.

Despite the size of Russia's e-commerce industry, which is worth around $12-15 billion, according to various data, 75 to 90 per cent of online purchases are paid for by cash on delivery – and this scenario shows only faint signs of changing.

Next to those statistics, e-money systems seem remarkably successful: 25 per cent of Russians use e-money, according to the Russian Electronic Money Association's assessment. This percentage is markedly higher among urban populations. The results of a TNS survey conducted in cities with populations above 800,000 revealed that around 36 per cent of residents aged 18-45 use e-money at least once every six months, while nearly all of this group (93 per cent) are at least familiar with the payment method.

Convenience and accessibility

E-money is most often used for purchasing digital goods, for remuneration of services, and for small transfers between users of payment services. Its relative popularity can be explained in large part by its convenience and greater accessibility compared to traditional banking, as well as by the quality of customer service associated with it.

You can open an e-wallet, use it, and access 24/7 customer support without leaving your home. And that is important for a country like Russia, with its massive territory, harsh climate and nine time zones.

Digital channels of communication are also easier for companies to control. All interactions with customers can be recorded and analysed to ensure customers are treated properly. Measures necessary for improvement can be implemented immediately, since they usually require mere changes in programming code, as opposed to broad changes in policy and re-training of regional staff.

The lean and flexible structures of such businesses make them very cost-effective, and thus enable these companies to offer their customers more affordable services. Most e-wallet transactions are entirely free for clients.

Advantages of this approach are also becoming evident for traditional banks, which have started actively expanding their remote infrastructures. Several banks, operating according to the model of direct banking, have already become fully or predominately branchless.

The rather noteworthy pioneering of electronic payment methods in Russia, anticipated by the internet boom and the scarcity of traditional banking services, has become the backbone for all financial innovation in the country. Of course, as a result, lawmakers have been faced with a tremendous challenge in how to adapt existing legislature to technology that was not anticipated decades ago. Recently, a new payment regulation was adopted, providing the market with an elaborate legal framework for this new sector. The legal clarity it has brought about represents a real breakthrough for Russia.

Nonetheless, new regulations of electronic payments have had only limited influence on the Anti–Money Laundering/Counter–Financing Terrorism (AML/CFT) regime. The existing AML regime underwent only minor changes when applied to newly established concepts.

Unfortunately, this is not just a local Russian issue; the European e-money industry is also familiar with the need to harmonise AML requirements, a process that often results in standards more suited to mainstream financial services than to low-risk, online payment services.

A conservative approach

Russia's case is rather unique, however, because it was included on the Financial Action Task Force (FATF) 'blacklist' at the outset of the 2000s. In the decade following, the government demonstrated tremendous dedication to improving the national AML/CFT regime, enabling Russia to become a full-fledged FATF member. Furthermore, as of July 2013, the FATF is headed by its first Russian president. Nevertheless, Russia has preserved a somewhat conservative approach to AML ever since its blacklisting.

Reservations remain. And this complicates the improvement of Know Your Customer methods, whose guidelines require automated enhanced customer due diligence for non face-to-face transactions, despite its removal from FATF recommendations.

Anti–money laundering issues are persistently present on agendas at G20 summits. But shell companies continue to exist while regular consumers suffer, because traditional players eagerly use AML to keep new, technologically modern contenders from competing in the market.

Innovation needs to address the barriers to financial inclusion by generating valuable, affordable and secure financial services. One of the best ways to encourage such innovation would be to establish universal principles for risk-based AML requirements, thus providing favourable conditions for low-value, low-risk online retail payments.

This is especially relevant for developing countries. While developed countries, such as the UK, Sweden, and Germany, have sufficiently comprehensive informational infrastructure or data to facilitate online verification, for developing nations this remains unfeasible. Applying strict customer identification and verification requirements across the board would result in the exclusion of a significant number of consumers from financial services, forcing them to continue using cash.

Globalisation only exacerbates the problem. Cross-border payment providers are simultaneously subject to different states' individual AML legal demands, a situation that creates operational difficulties and corresponding high costs. While this may not present a significant problem for large banks and wholesale payment providers, it curbs the development of businesses that offer low-value retail payments.

At Yandex.Money, we receive frequent requests from users abroad who want to access our services but are unable to do so due to regulatory restrictions. There are about 200 million Russian speakers living outside of Russia who might fit this category. For them it is strange, absurd even, that in today's era of globalisation a service offered on the world wide web could be so limited by physical national borders.

As if in response to these calls, new virtual currencies have been actively developing over the past few years, meeting customer demands that international retail payments be made as simple as payments at a local store. Regulators' inability to come to an agreement in this area inevitably gives rise to new ways of circumventing their rigid demands. This is exactly what BitCoin and its counterparts have done in facilitating the bartering of values that don't fall under regulated categories of money and payments.

Stan Stalnaker, co-founder of the self-regulatory body for virtual currencies Digital Asset Transfer Authority, commented: "Today, we're in the midst of another exciting arrival: digital assets to enable financial inclusion for all… Using these technologies, it is now possible for a college student in Iowa to deploy help directly to another student in Uganda, or for London professionals to fund clean energy retrofits with their lunch money."

While services such as BitCoin might find their market niche, in our opinion, for consumers, making payments in their national currency is much more comprehensible and convenient. It is only those antiquated limitations on payments made in one's own comprehensible currency that drive a consumer to search for alternatives, which explains the growing interest in alternative currencies.

In terms of striking a balance between financial inclusion and observance of AML measures, it would be much more efficient to propose reasonable methods of cross-border cooperation for services offering low-value retail payments than to facilitate the flooding of customers to alternative currencies. To achieve this, for example, the same principle used for passportisation in the European Union could be applied. AML supervision would be the sole responsibility of the home state authority, and member state financial intelligence units and supervisors would share information with their counterparts in host states, should an investigation demand it.

No one denies the importance of regulation in matters of financial security. But in our modern world, we need more than just one-size-fits-all solutions, so that consumers of all types can participate in the global economy.

The B20's contribution to G20 governance

The global business leaders of the B20 share the G20's aims for growth and have been influential in shaping the 2013 St Petersburg Summit agenda

By Alexander Shokhin, president, Russian Union of Industrialists and Entrepreneurs; chair, B20 2013

The B20-G20 dialogue, born in the run-up to the G20 summit in London in 2009, has been transformed into an ever more productive collaboration from Toronto to Seoul, Cannes to Los Cabos. The B20's authority rests on three pillars: representing business interests and priorities; sharing the G20's goal of generating strong, sustainable and balanced growth; and engaging the private sector in generating growth and jobs. Since its inception, the B20 has proactively engaged with the G20 to provide forward-looking recommendations responding to the key post-crisis challenges. The task forces, which have become one of the B20's key mechanisms, have gone through a series of transformations to address the changing economic environment and G20 agenda. The number of recommendations gradually increased, reaching a total of 262 by the time of the Los Cabos B20 Summit, with more than 35 per cent reflected in the G20 leaders' documents as commitments and mandates. Under the Mexican presidency, the B20 committed to establishing the Task Force on Advocacy and Impact.

Key features of Russia's B20 presidency

The B20-G20 Partnership for Growth and Jobs under the Russian presidency drew on this solid foundation and experience, as business leaders united to develop recommendations for the G20 St Petersburg Summit. The B20 guiding principles of transparency, collaboration, inclusiveness, continuity and consistency have become the cornerstones of the 2013 B20 process under the leadership of the Russian Union of Industrialists and Entrepreneurs.

The B20 shares the Russian G20 presidency's overarching priorities of generating growth through sound macroeconomic policies; productive investment and quality jobs; effective regulation; open, rules-based and beneficial trade; and transparency and trust. Thus the B20 focused on the topics of investment and infrastructure; the financial system; trade; innovation and development; job creation, employment and investment in human capital; and transparency and anti-corruption. The task forces brought together leading chief executive officers (CEOs) and representatives of business organisations from the G20 members, heads of international organisations and expert partners.

To support the work of the task forces, and to ensure continuity with the B20's established core agenda and consistency across the recommendations on the key policy areas, the B20 Task Force on G20-B20 Dialogue Efficiency initiated a review of all B20 recommendations made since Toronto and their impact on G20 decision-making, as reflected in the G20 documents. This review and a catalogue of B20 recommendations consolidated the B20 members' individual wisdom into institutional memory. For the first time in its history, the B20 produced a report that looks into how G20 members comply with their B20-related commitments, focusing on the decisions made in Los Cabos.

The debates on recommendations have been heated, open and multilevel. There was a great diversity of opinions. The B20 went through many rounds of consultations, with several milestones, such as the Russian Business Week in March 2013 and the release of the draft green book in April, in time for the G20 sherpas' meeting in May and the B20 summit in June, which brought together more than 600 CEOs from G20 members and beyond. Thus the B20's recommendations are based on consensus and draw on the results of the B20 members' intense deliberations.

The B20 has enjoyed a constructive engagement with the G20 throughout the Russian presidency. With the benefit of being able to share our early drafts with the G20 sherpas and members of the G20 working groups, we have developed responsible and actionable recommendations for G20 collective actions to steer the global economy towards sustainable and inclusive growth.

The B20's key messages to the G20

The B20's key messages to the G20 can be summarised as follows:

Balanced policies Macroeconomic stability is essential for business to develop confidence and invest. However, fiscal consolidation strategies should not adversely affect growth, business and consumer confidence, and global rebalancing. The G20 should prioritise instruments for managing public debt that can contribute positively to the productive potential of both advanced and emerging economies. Thus, corporate tax, social contributions and personal income-tax hikes should be avoided, as should cuts in public infrastructure spending, which helps to boost private investment.

Pro-growth regulation Financial regulation should be growth-friendly. The G20 should undertake an independent assessment of the results of the financial reforms – especially Basel 3 and the impact of reforms on other areas, such as trade financing, financing for small and medium-sized enterprises (SMEs), and infrastructure financing. Implementation of new financial regulation standards and requirements should not lead to a deterioration of financing conditions for the real economy, especially SMEs, which

For the first time in its history, the B20 produced a report that looks into how G20 members comply with their B20-related commitments, focusing on the decisions made in Los Cabos

need reliable access to credit in order to invest and create employment.

Securing investment In order to restart global growth, the G20 governments need to act in concert to enable the free flow of capital and to support major investments in infrastructure. To address these challenges, G20 governments should identify and remove restrictions on the free flow of capital to reinforce cross-border investment activities, to stimulate private investment in infrastructure and other real-economy assets across all countries, and to increase productivity of investments in infrastructure and green energy.

Efficient taxation Tax-base erosion and profit-shifting (BEPS) threaten the sustainability of G20 members' budgets and negatively affect the investment climate and competition. G20 members should address this issue through increasing the transparency of companies' financial flows, improving transfer-pricing rules and strengthening anti-avoidance legislation in the framework of comprehensive anti-BEPS plans. These plans should be subject to consultation with G20 business communities in order to ensure transparency and the confidence that business needs to make long-term investment decisions.

Private-sector-led job creation Employment should remain at the core of the G20 agenda. Sustainable jobs are best created by the private sector. Governments must ensure an enabling environment for entrepreneurship and job creation that promotes a variety of forms of employment and enables companies to create new jobs as rapidly as possible.

Trade facilitation G20 members should reinforce their resolve to promote international trade and resist protectionist pressures. As a matter of priority, the G20 governments should commit to the Trade Facilitation Agreement of the World Trade Organization (WTO) and call on all parties to finalise its text and conclude the final agreement at the WTO's ministerial in Bali in December 2013.

Innovation for development The global intellectual property regime is crucial for both innovation and development. The G20 should set a common agenda for enabling successful innovation and its dissemination by improving the global regime and balancing the strong need for stimulating innovation and development around the world with various societal and business interests.

Transparency and anti-corruption G20 governments should commit to ensuring fair and transparent public procurement, including through an agreement on transparency in government procurement in future global trade talks.

Looking forward

Russia's President Vladimir Putin welcomed the recommendations of the B20 summit and emphasised the imperative to work together to find effective solutions to the challenges facing the G20. The B20 appreciates the opportunity for a constructive engagement with the G20. We stand ready to support the G20 actions aimed at steering the 'three-speed recovery' towards more even and sustainable growth. We are committed to collaborating with the G20 to implement the proposed recommendations within the Russian and forthcoming presidencies. ■

JAKE LYELL/ALAMY

The B20 highlights private-sector-led job creation as a key growth pole that should remain at the core of the G20 agenda

The South Stream Offshore Pipeline:

Working Together for a Safe and Sustainable Energy Supply

As an efficient, low-carbon fuel, natural gas is widely recognized as the preferred partner for renewable energy sources as we strive for a more sustainable energy mix. With domestic production declining, secure and affordable gas supplies are a vital element of sustainable growth for Europe.

That is why four leading energy companies from Europe and Russia have combined their expertise to form South Stream Transport, a joint venture which will realize the South Stream Offshore Pipeline. Stretching 930 kilometres through the deep waters of the Black Sea, it will provide a key link between the world's largest supplies of natural gas in Russia and consumers in the heart of Europe.

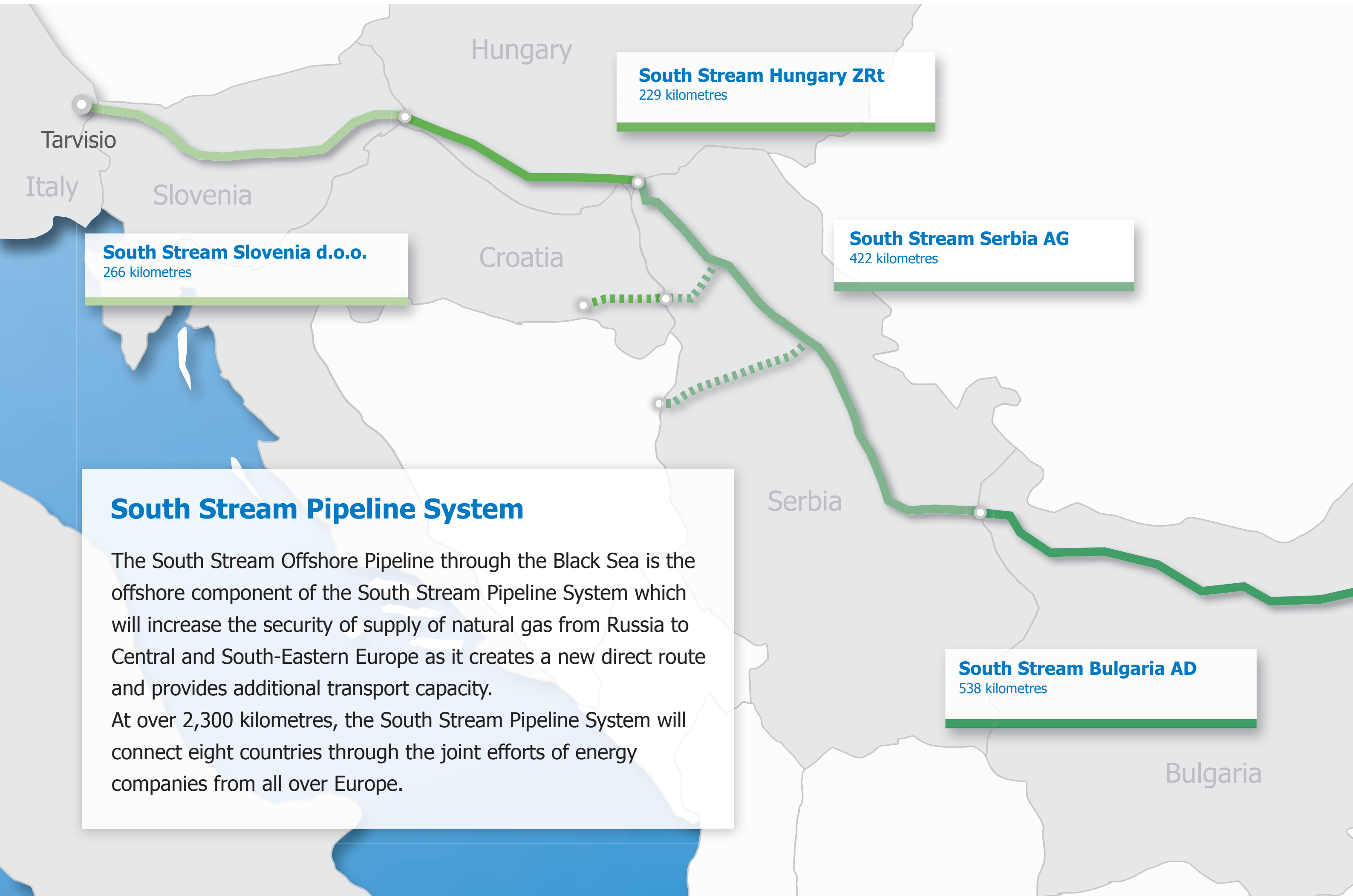
Environmental Responsibility from Start to Finish

South Stream Transport believes that reliable, affordable energy supplies and environmental responsibility can and should go hand in hand. This applies both to the choice of energy, such as natural gas, and to the design and construction of the related infrastructure.

An offshore pipeline is one of the safest ways of transporting energy. With a planned transport capacity of 63 billion cubic metres per year, the South Stream Offshore Pipeline can provide enough energy to supply 38 million European households. It would take 700 LNG tankers to transport an equivalent amount of natural gas.

South Stream Transport is working with engineering and environmental experts from all over the world to ensure that pipeline construction matches our ambitions with regards to safety, reliability and environmental responsibility.

As part of our Environmental and Social Impact Assessment, we study how the project could influence the environment so that we can find ways to avoid or minimize any potentially negative effects. The



South Stream Pipeline System

The South Stream Offshore Pipeline through the Black Sea is the offshore component of the South Stream Pipeline System which will increase the security of supply of natural gas from Russia to Central and South-Eastern Europe as it creates a new direct route and provides additional transport capacity.

At over 2,300 kilometres, the South Stream Pipeline System will connect eight countries through the joint efforts of energy companies from all over Europe.

assessments range from ecology to socio-economic matters and cultural heritage.
Activities include surveys of plant life, birds, reptiles and mammals, and developing appropriate measures to avoid unnecessary disturbance of habitats and protected species. Marine biologists are involved to study life at sea, including fish populations and mammals such as dolphins. The use of underwater robots even enables South Stream Transport to survey the bottom of the Black Sea at depths of over two kilometres.
The environmental reports are published and discussed during public meetings, so that views of local communities and public interest groups can be considered in the development of the project.
Together, we can develop a pipeline that will provide reliable energy supplies in an environmentally responsible way. To learn about the South Stream Offshore Pipeline and our Environmental and Social Impact Assessment visit www.south-stream-offshore.com.

South Stream Offshore Pipeline
930 kilometres

63 bcm Annual capacity

2,250 m Maximum depth

4 Number of pipelines

32 inch (813 mm) Pipeline diameter

South Stream Transport B.V.
Shareholders

Civil 20's contribution to G20 governance

By encouraging productive dialogue between global civil society and decision-makers, Civil 20 is influencing the agenda of the next G20 summit

By Alena Peryshkina, director, AIDS Infoshare and co-chair, G8/G20 Russian NGOs Working Group

For the first time in history, the G20 presidency – Russia – has organised a broad, constructive and results-oriented dialogue with the representatives of global civil society, called the Civil 20 (C20) summit.

The process of interaction with civil society to prepare recommendations for the G20 leaders was not only effective, but it was also completely accessible to all representatives of civil society (comprising the delegates of the G20, non-profit organisations and academia), as well as to concerned citizens from around the world. Russia's decision to make the C20 a formal institution of the G20 process this year was welcomed by all of the civil society participants and the United Nations. Australia, which will host the G20 in 2014, recently announced that it endorses and plans to organise a C20 summit under its presidency.

In order to ensure that the process of procuring recommendations was legitimate and inclusive, the following framework and procedures were established.

Online participation

First, proposals were collected using an online crowdsourcing platform, Dialogues, which was open to all citizens and organisations around the world. This process gave people the opportunity to submit recommendations, post comments, participate in discussions and vote on certain recommendations. More than 50,000 organisations from more than 25 countries participated in this process online.

Second, membership in the seven thematic working groups was open, so that each group consisted of about 200 representatives of various G20 members. Two co-chairs, one Russian and one of a different G20 nationality, were selected, and were responsible for collecting and compiling all of the recommendations.

Reaching a consensus

Third, recommendations on all seven areas were presented and discussed at the respective working groups of the C20 and in meetings with Ksenia Yudaeva, the Russian sherpa. This format was also the innovation of the Russian presidency. Furthermore, there was also a series of round tables in the public chamber of the Russian Federation to discuss the draft recommendations.

Reaching consensus on recommendations took place in three stages: first, a draft of a position paper was prepared by each group, led by its co-chairs; second, the draft was revised, following discussion on the online Dialogues platform; and, third, the draft was adopted on the basis of voting. Thus the final position papers reflected the recommendations that received the most support from civil society.

The result of these discussions, organised under the framework of the Russian chairmanship, is that about half of the C20's recommendations are likely to be incorporated into the G20's various documents, including the outcomes of the summit in St Petersburg. In some areas (for example, access to financial services and financial literacy), the position of civil society and government representatives of the G20 coincide almost completely. On other issues, civil society has made some bold new proposals that merit serious consideration.

Interacting with civil society to prepare recommendations for the G20 leaders was not only effective, but was also completely accessible to all representatives of civil society

Speakers at the plenary session of the G20 Civil Summit. Such dialogue has led to greater transparency and increased understanding of the G20 and its work

G20RUSSIA.RU

Without exaggeration, one can say that the Russian presidency's organisation of the dialogue between G20 leaders and civil society was not only innovative but also effective – an achievement that is celebrated by all of the participants of the C20 Summit.

Increasing trust

Thanks to this process, the G20 has become more open and transparent, thereby addressing the challenge that Russian president Vladimir Putin referred to in his welcoming statement to the C20 Summit, namely that measures are needed to avoid any harmful effects of the economic recovery at the level of the welfare and social security of all citizens. This approach increases the global public's understanding and trust of the entire G20 process and the institution itself.

It should be noted that the C20 could never have had a successful summit without the leadership and support of Ksenia Yudaeva as Russia's sherpa. Those of us who participated in the Civil 20 process hope that the experience of preparing for the C20 Summit – including the collection and approval of civil society's recommendations – will be used in the future, including during Russia's presidency of the G8 in 2014. ■

Trade as a driver for the next wave of global economic growth

Free trade between countries has delivered a wide range of benefits, but there is still much more that can be achieved to open up international markets

By Alexey Mordashov, chair, B20 Task Force on Trade as a Growth Driver

Trade has been a crucial driver of economic growth, employment and wealth creation over the past 60 years. In many respects, the development of international trade has been a great success, with trade growing faster than gross domestic product (GDP) (5.6 per cent versus 3.5 per cent from 1960 to 2010) and share of exports in GDP expanding from 25 per cent to 32 per cent in the past decade alone. Increased international cooperation and ongoing liberalisation within the framework of the World Trade Organization (WTO) played an important role in the acceleration of trade momentum: the global average for the "most favoured nation" tariff declined from 26 per cent in 1981 to eight per cent in 2010. Almost half of manufactured goods were traded in 2012 effectively without any tariff.

Numerous theoretical and empirical studies have demonstrated the multitude of benefits of free trade. Countries with access to the global marketplace are able to grow faster and have higher incomes, with free trade adding from 0.5 to 2.5 per cent to GDP growth, depending on the level of development. According to the Organisation for Economic Co-operation and Development (OECD), for every percentage point increase in the share of trade in national output, income levels rise by between one and three per cent.

Exploiting resources more efficiently

Openness to trade has another, less obvious yet very profound effect in increasing resource productivity and investment: as domestic producers face greater competition from their international peers, they have greater incentive to exploit resources more efficiently in order to remain competitive. From the broad economic perspective, international trade is a key mechanism for increasing the efficient use of resources by allowing countries to focus on the most productive industries, achieve higher productivity through scale and specialisation, and compensate for a deficit of domestic demand by trading with other countries.

Moreover, with the emergence of global value chains spanning multiple countries and industries, it becomes even more evident that today's competitiveness and success of domestic producers relies as much on the opportunity to import world-class goods efficiently from abroad as on the opportunity to export their own products. Growing fragmentation of production across borders highlights the need for countries to have an open, predictable and transparent trade and investment regime, because tariffs, non-tariff barriers and other restrictive measures affect foreign suppliers, as well as domestic producers.

The positive impact on the end consumer is another important, but often overlooked, benefit of international trade liberalisation. Consumers benefit by gaining access to a greater range of cheaper and higher quality products and services, which in turn reduce living costs and increase their quality of life. Maintaining this access is particularly important for the well-being of the least wealthy and most disadvantaged members of society in developing and developed countries alike.

> ***The G20 should not just keep its focus on preventing protectionism, but should also start viewing trade as a key instrument to jump-start economic growth and job creation***

Armed with the past successes and strong evidence for international coordination in the world of trade, the global community was successful in preventing the uncontrolled surge of protectionism in the wake of the 2008 financial crisis. The G20, in particular, demonstrated its commitment to counter protectionist measures by signing up to the standstill agreement and establishing an independent monitoring system. As a result, international trade volumes returned to pre-crisis levels within three years. Compare this, for example, with the last global crisis, when, three years after the crash of 1929, trade volumes dropped by 30 per cent. The world is learning from these lessons: there is hope that things can move forward.

Looking beyond protectionism

However, the time is ripe for more decisive action. The G20 should not just keep its focus on preventing protectionism, but should also start viewing trade as a key instrument to jump-start economic growth and job creation in the post-crisis environment.

Current economic data, however, does not paint the rosiest of pictures. In 2012, global economic growth contracted to 3.1 per cent and is expected to remain at a similar level in 2013 as the European Union economy remains in recession, and China's growth rate slowed to 7.6 per cent in the first half of 2013 and 7.8 per cent in 2012, from 9.3 per cent in 2011. International trade grew by just two per cent in 2012, while more than 700 protectionist measures have accumulated since monitoring started in 2008. The WTO's Doha Development Round has reached an impasse, with little sign of agreement in the near future under the single undertaking rule. Given renewed economic pressures, further structural steps should be taken in trade promotion that are consensus-based and can deliver concrete, practical results for the global economy. The G20 can play a leading role here: with the accession of Russia, all its members are now also members of the WTO, with significant influence on the global trade discussion.

Given this agenda, the B20 Taskforce on Trade as a Growth Driver prepared three specific practical recommendations for the governments of G20 members to be implemented during Russia's G20 presidency.

First, the G20 should extend the deadline for standstill and monitoring protectionism beyond 2014 and further strengthen the monitoring system. It should explore ways to roll back any new protectionist measures that may have arisen.

WTO Trade Facilitation Agreement

Second, G20 governments should commit to the WTO's Trade Facilitation Agreement and call on all parties to finalise the text by the time of the St Petersburg Summit. They should conclude the final agreement at the WTO's ministerial meeting in Bali in December 2013.

Third, G20 governments should encourage the WTO to take a leadership role in analysing the existing preferential trade agreements, identifying best practices and establishing principles to guide their design to make them more transparent and aligned with multilateral trade promotion goals.

One of the most important decisions to promote growth that will be soon made by the G20 and other governments concerns the signing of the Trade Facilitation Agreement. This agreement aims at reducing administrative barriers on import and export transactions to speed up cross-border trade. Pascal Lamy, WTO director general, underscored the importance of the agreement at the B20 Summit in St Petersburg in June 2013, noting that the cost of moving goods across borders today accounts for 15 per cent of the goods' value, where tariffs account for only five per cent and the remaining 10 per cent comprises non-tariff charges related to unnecessary delays, excessive documentation, customs inefficiencies and so on. The Trade Facilitation Agreement will help to reduce non-tariff costs by half, which would be equivalent to a total removal of all tariffs.

Furthermore, according to the Peter G Peterson Institute for International Economics, the completion of the Trade Facilitation Agreement could generate global economic gains of approximately $960 billion and support at least 21 million jobs, most of them in G20 member countries, by facilitating the expansion of trade and improving border management. The agreement will benefit all countries, with most gains flowing to developing and emerging economies.

The quick, efficient movement of goods across borders is also important for Russia's business development. According to the World Bank's 2013 *Ease of Doing Business* report, Russia is ranked 112th of 185 economies in terms of business regulations. This is eight places higher than the previous year.

Obstructions to trade

However, the same survey ranks Russia among the lowest (in 162nd place) in terms of the ease of cross-border trade. To export goods into Russia, eight papers must be prepared, while in OECD countries it takes only four. It takes 21 days for goods to cross borders, compared to as little as 10 days in the OECD.

Both the G20 and the World Trade Organization can play leading roles in facilitating trade and reviving the global market for goods and services

KOJI SASAHARA/AP/PA IMAGES

Now that the world economy needs a new push for growth, while capacity for further fiscal and monetary stimulus globally is increasingly exhausted, new ways are needed in order to boost economic growth. In this regard, budget-neutral, trade-related supply-side measures should be the most obvious policy responses on the global level. This will play a vital role in relaunching global economic growth and job creation over the rest of this decade. ■

ISPAT: Turkey's investment potential

Ilker Ayci
President, Investment Support
and Promotion Agency of Turkey

How does Turkey's international influence as a member of the G20 benefit business in the country?

Turkey has joined various international organisations that aim to provide a more secure investment environment for foreign investors, such as the World Trade Organisation, International Monetary Fund, and World Bank Group, as well as the G20.

Ensuring global economic and financial stability, reforming the global economic system according to the realities of today, and reflecting on the increasing weight of emerging economies are important issues for Turkey. As a member of the G20, Turkey, with its global and regional connections and dynamic economy, gives utmost importance to expanding and strengthening the competitiveness, effectiveness and visibility of its business environment.

In 2015, Turkey will assume the G20 presidency and host the leaders' summit. Turkey attaches the highest importance to this task. Turkey also aims to further develop the relationship and cooperation between the G20 and the countries and organisations in its region.

In addition, Turkey has signed various agreements to protect and promote investments and to avoid double taxation with specific countries. In other words, Turkey has internal as well as external checks and balances in place to ensure the efficiency of the business environment in Turkey.

Which industry sectors in Turkey are currently showing the most investment potential?

Abundant investment opportunities are available in Turkey, ranging from real estate, finance, automotive, ICT, energy, renewable energy, iron and steel to petro-chemicals. The national and local authorities in Turkey have been implementing numerous investment projects through public-private partnerships, and they are also keen to realise further opportunities in education, energy, defence, healthcare, transportation and other public services. Similarly, opportunities are also available in the privatisation projects.

It is also a national target for Turkey to make Istanbul an international finance centre. Having been tested by the global economic crisis, Turkey has one of the most stable and profitable financial sectors in its region. The Turkish government's Istanbul Finance Centre project offers global companies a chance to run their financial operations in the region through Istanbul, thanks to various incentives, a skilled workforce, and a global, cosmopolitan city with a vibrant local economy.

What are the key factors you would highlight to companies and investors considering Turkey as part of their future business strategy?

Turkey has set specific targets to achieve by 2023, the centennial celebration of the foundation of the republic, from healthcare to economy, and from defence to education. It aims to become one of the top-10 economies in the world with a GDP of $2 trillion, increase exports to $500 billion, upgrade the country's energy, transportation and healthcare infrastructure through the construction of hospital cities, more than double its electricity generation, and build new bridges on the Bosphorus and the Dardanelles straits.

What benefits have resulted from Turkey's status as an official European Union candidate country, and how do you envisage the country's future investment landscape once accession is confirmed?

Turkey has been an EU accession country since October 2005, when the negotiations started for full membership. The past speaks for itself; Turkey has attracted more than $70 billion of foreign direct investment from the EU over the past eight years since negotiations started. Today, there are more than 16,000 companies from EU countries with active investments in Turkey. Similarly, foreign trade between Turkey and the EU has tremendously increased. It is noteworthy to highlight that almost three quarters of FDI inflows to Turkey have come from the EU countries – a clear indication of our economy's de facto integration with the EU economy.

Turkey became a member of the European Union Customs Union in 1996, and since then trade between Turkey and the EU has more than quadrupled. Today, many EU companies are using Turkey as a manufacturing base for the EU and other markets surrounding Turkey. Most European business leaders choose Turkey not just because of its vast domestic market, but also to expand their businesses in the region through Turkey, using it as a hub for their regional operations. The EU accession negotiations have made Turkey one of the most attractive destinations for foreign investment, and an entry to the EU as a member country will serve both Turkey and other investing countries.

How does Turkey's strategic geographical position contribute to its appeal to investors, domestically and regionally?

Turkey has part of her land in Europe and part in Asia, and is referred to as 'the bridge between the East and the West'. It is indeed a source of sensation when you cross the Bosphorus Bridge, crossing between Europe and Asia at the same time. Yet, the phrase 'the bridge between the East and the West' does not quite explain the geopolitical benefit of Turkey and its location on the global map. Especially in the current difficult economic climate, when mature markets of the US and Europe are slow, the benefit of Turkey's location is its close proximity to North African countries, Middle Eastern countries, Iraq – with its tremendous demand for reconstruction – resource-rich Iran, Central Asian countries – which are also rich in natural resources and in an urgent need to upgrade their infrastructure – and Russia in the north. All of these countries have potential demands that are much stronger than mature markets. Of course, it is right next to the EU. Turkey has been a member of the EU Customs Union since 1996, and any product manufactured in Turkey can be shipped to Europe without paying customs duties. Most large-scale companies, however, have already done what they have to with regard to the European market, but very few activities are available in the Middle East. North Africa and Central Asia are even less developed as a market for large-scale companies, and when they try to establish a regional base to develop these markets, Turkey is often the answer.

What role does ISPAT play in assisting potential and existing foreign investors in Turkey?

Turkey strongly supports foreign investors through its public institutions. To this end, it established the Investment Support and Promotion Agency of Turkey, under the auspices of the Prime Ministry. Since its foundation in 2006, the agency has been providing assistance to global investors before, during and after their entry into Turkey. The agency's free services include, but are not limited to, providing market information and analyses, site selection, B2B meetings, coordination with relevant governmental institutions, facilitating legal procedures and applications, such as establishing business operations, incentives applications, obtaining licenses and work permits. Being attached to the Prime Ministry and directly reporting to the prime minister provides the agency with operational freedom and flexibility.

The agency serves as a reference and a point of contact for international investors by linking them with both the government and businesses in Turkey, working on a fully confidential basis and functioning as a private venture. We consider investors as clients, and client satisfaction is a top priority for us.

Of the many success stories of foreign and multinational companies expanding their operations in Turkey, which are your personal highlights?

Today, there are 32,000 foreign companies in Turkey, and they have invested billions of dollars in Turkey over the past nine years. In order to benefit from Turkey's unique advantages, such as a young population, skilled labour force, economic performance, strategic location, and its historical and cultural ties in the region, many global companies have either established their manufacturing bases in Turkey or moved their regional headquarters to Istanbul. For example, HP has recently inaugurated a manufacturing facility in Turkey to produce and export more than two million computers to the Middle East and North Africa. GE Healthcare has moved its regional headquarters to Istanbul to manage its operations in 80 countries in four major regions – Central Asia, the Middle East, Russia and Africa. Both Coca-Cola and Microsoft have their regional headquarters in Turkey, managing almost a hundred countries from Turkey.

Do you have a concluding message for potential investors?

As the president of the Investment Support and Promotion Agency of Turkey, I invite global investors to join Turkey's economic rise. The global economy is undergoing a profound transformation; the centre of the world economy is shifting toward emerging economies such as Turkey. In such a juncture, Turkey is differentiating itself economically with its robust and stable economic growth, hence it is the right time to invest in Turkey in order to seize the opportunity. Global investors will not only benefit from the opportunities in Turkey but also in emerging markets surrounding Turkey.

The contribution of young entrepreneurship to employment

Listening to the recommendations of young entrepreneurs is instrumental in fostering human capital for social and economic development

By Victor Sedov, Center for Entrepreneurship, Russia; Jeremy Liddle, G20 Young Entrepreneurs' Alliance Summit, Australia; Igor Maksimtsev, St Petersburg State University of Economics; and Archdeacon Andrey Kuraev, Moscow Theological Academy

"But who can say how much is endurable, or in what direction men will seek at last to escape from their misfortunes?" This question was formulated by John Maynard Keynes. His ideas have fundamentally influenced the theory and practice of modern macroeconomics and informed the economic policies of governments. It was 1919 when Keynes attended the Versailles Conference as a delegate from the British Treasury and argued for a much more generous peace.

Over the years, quietly, and often insensitively accompanied by toasts, similar international meetings and summits have taken place; events that have determined the fate of millions of people. Today, summits are not as quiet and subtle: all the world hears about them, and is party to the agenda and topics of discussion.

Since the G20's founding as a meeting of finance ministers and central bank governors in Berlin in 1999, leading developed countries have held a dialogue with the developing countries on key issues of economic and financial policy. Since the heads of G20 governments began meeting in 2008, there have been many G20 summits. The St Petersburg Summit will be the eighth, and next year's summit in Australia will be the ninth. The number nine involuntarily winds around the idea of the Muses – the patron goddesses of arts and sciences (scientific knowledge and crafts) – and Hesiod, author of *Theogony* and *Works and Days*, which offer the first European understanding of history in development.

Regardless of numerology and the sequence of the St Petersburg Summit just for the serial number, in order to achieve sustainable and balanced global growth, which is one of the G20's main goals, it is of prime importance to comprehend history in development.

In times of global economic systemic crisis there is a strong need for the development of a global action plan with a clear desire to implement it. It is important that the greatness and scale of the objectives do not crush the average person, but aim to protect that individual. The rational logic of global planning must leave room for personal projects and unpredictable human creativity.

The rise of technology

Recently, humanity has experienced the age of the masses, conveyors and standards. But technological development allows the individualisation of production, be it of goods or services, targeting it to specific consumers. Today's structural changes are associated with the emergence of new technologies that require a review of legal and institutional frameworks and, accordingly, an adjustment of the organisation of economic activity. There is a global shift taking place in relation to small and medium-sized business – if not in reality, then in public inquiry.

Rationally organised mass production still remains the basis of the global economy, but increasingly, people want to be heard in the uniqueness of their requests. Emerging technologies can already achieve this. It is time to be closer to customers, and not hide behind the thick walls of corporate apparatus and intermediaries.

These developments lead to the need to promote structural modernisation, provide high-tech jobs, support innovation and stimulate domestic demand – an increasingly important factor for investment decisions.

Government machinery and monopolies will not notice a unique person with unique

The young founder of a start-up company at work. The 2013 G20 Young Entrepreneurs' Alliance Summit identified access to digital infrastructure as central to growth

JENS KALAENE/DPA/PA IMAGES

needs. But there is free enterprise, which allows for the realisation of a free – and at the same time culturally determined – will of the individual. Entrepreneurs are very different, but always aim at finding effective solutions to pressing problems. Entrepreneurship, and especially youth entrepreneurship, describes the mobility of thinking and lack of stereotypes, which are qualities that play a crucial role in the development of economies.

Providing framework conditions

G20 members have different technological and institutional environments, geographical conditions, levels of consumption and trade, and monetary and credit systems. These differences serve as an incentive to entrepreneurs, stimulating cross-border cooperation, improvements and job creation. However, governments need to provide framework conditions for entrepreneurship to develop.

The hundreds of young entrepreneurs who attended the G20 Young Entrepreneurs' Alliance (YEA) Summit in Moscow on 15-17 June 2013 identified access to modern digital infrastructure as a necessary platform for growth, innovation and national and international cooperation.

One of the major concerns of the modern economy is structural unemployment, in particular among young people. Entrepreneurship is a tool that provides targeted support for those who are currently unemployed or underemployed and have high potential in the innovation economy.

Today, human capital is the basis of entrepreneurship and the main factor of sustainable development in the post-industrial economy that increasingly depends on continuous innovation for growth and prosperity. Therefore, it is an obvious priority for the social and economic policies of the G20. The country that will form a modern and efficient model of human capital development will receive a huge advantage in the post-industrial world, solving many acute social, fiscal, investment and political problems.

The young entrepreneurs who gathered in Moscow recommended that the G20 leaders should focus on education in order to provide knowledge, networks, innovation and entrepreneurial skills, in addition to giving focus to fostering an ethics-based entrepreneurial culture.

Other recommendations from the young entrepreneurs include the need to focus on revising the tax burden on labour to promote innovation and positive social impact, as well as improving digital infrastructure and education in order to foster the development of human capital.

Small and medium-sized entrepreneurship is an indicator of the 'boundaries of patience' that are defined by the sociopolitical and institutional climate. The promotion of youth entrepreneurship is a significant factor in reducing social risks and, therefore, in reducing the risks of the global economy.

The country that will form a modern and efficient model of human capital development will receive a huge advantage in the post-industrial world, solving many acute social, fiscal, investment and political problems

Voices heard at the highest level

Thanks to the 2013 G20 YEA Summit in Moscow, the opinions of hundreds of young people and their recommendations for improving the economic situation and developing infrastructure and education were heard at the highest level – G20 YEA member organisations represent one million young entrepreneurs. They sincerely hope that this will not remain a simple declaration, and that the world will be able to see steps taken in action for institutionalising these ideas of young entrepreneurs. They hope that the ninth G20 summit will be held under the auspices of Clio – the Muse of history. ■

Business and government: joining forces against corruption

A B20 taskforce is leading the G20's anti-corruption agenda by promoting and facilitating cooperation between the private sector and governments

By Andrei Bougrov, chair, B20 Taskforce on Transparency and Anti-corruption and Brook Horowitz, coordinator, B20 Taskforce on Transparency and Anti-corruption

At the beginning of its fourth year, the Business 20 (B20) was in some danger of being perceived as a 'talking shop' – yet another group of business leaders putting forward yet another set of recommendations that would be considered politely by governments before being shelved for another year.

That was particularly true of the G20/B20's anti-corruption agenda. After all, this year's G20 coincided with a wave of corruption scandals: LIBOR fixing, offshore tax havens, corporate tax avoidance that verged on evasion, exposure of politicians and the toppling of governments. And, all the while, a constant background noise of public concern directed at the lack of integrity of ruling elites, the untransparent and unfair use of public funds and the resulting discrepancy between rich and poor.

It is hardly surprising, then, that there was a certain scepticism about this high-level, multilateral dialogue about anti-corruption between business and government.

When the Russian presidency took over the B20 Taskforce on Transparency and Anti-Corruption at the beginning of 2013, the strong conviction among the participating companies, which belied the traditional attitude, was a pleasant surprise. It was a conviction that in fact something can and must be done about corruption, that business has a critical leadership role and that the B20, with its convening of developed and emerging economies, is an appropriate forum to jump-start this process. The B20 quickly shifted from talking-shop mode to implementation mode, setting itself an ambitious goal to move "from declaration to action".

The result is that the recommendations that have emerged from the taskforce for 2013 do indeed look more like an action plan than recommendations.

First, the agenda was restricted to issues that companies can actually do something about, for example, combating and resisting the solicitation of bribes – especially when bidding on public tenders – or guaranteeing the highest standards of integrity of their own employees, and building the capacity of their dealers, distributors and suppliers to aspire to similar standards. The recommendations for 2013 are directed as much at businesses as the G20 governments.

> ***The B20 taskforce recommends the establishment of a collective-action hub to stimulate the exchange of best practices and experiences of collaborative efforts***

Second, the taskforce focused on the concept and the practice of 'collective action'. Corruption cannot be combated by business or government alone. Promoting transparency and countering corruption require complex, multifaceted, cross-sector alliances that are aimed at reducing corruption, such as codes of conduct between companies in certain industries and integrity pacts between companies and governments on public tenders. This is collective action. It is a new approach, and extremely challenging to organise. However, when it works it is remarkably effective.

Therefore the B20 taskforce recommends the establishment of a collective-action hub in order to stimulate the exchange of best practices and experiences of collaborative efforts to oppose corruption by companies, governments and civil society.

In fact, the taskforce created the hub, to be managed by the Basel Institute on Governance in association with the United Nations Global Compact. It will 'go live' by the time Russia hands over the G20 presidency to Australia at the end of 2013. This may seem like a modest outcome for a group of powerful multinational corporations, but getting companies to pool their resources and deliver a concrete project in this area is no mean achievement.

Grassroots support

Third, the B20 experience in 2013 has shown that there are still monumental challenges to overcome in taking such new anti-corruption approaches to each G20 member. In order to make that happen, both the B20 taskforce and the new hub need local allies. So the taskforce has suggested setting up or supporting anti-corruption centres of excellence in each member. These centres of exellence would promote anti-corruption awareness in the business community, provide training in the latest compliance techniques and act as a neutral platform for collective-action initiatives. Several countries have already expressed an interest in setting up such centres, business is prepared to fund it, and the B20 taskforce is committed to channelling its companies' experiences in order to support these efforts. The taskforce hopes that the G20 governments will join forces with it by providing moral encouragement and, if and where possible and appropriate, financial support.

Other recommendations include more regular and in-depth exchanges between business and government, both at national and G20 levels, on practical ways to create level playing fields and more attractive environments for investment – for example, how to incentivise businesses to self-report, clean up public procurement and raise the standards of compliance in companies' supply chains. State-owned enterprises, export credit agencies and international financial institutions make an important contribution to achieving these goals thanks to their economic and social influence, especially in emerging and developing markets, both within the G20 and beyond. By the time the B20 under Russia hands over to Australia, the taskforce hopes to have initiated a series of meetings between the B20 and the G20 on these specific topics. It also intends to start a pilot project whereby private companies and government organisations such as public procurement agencies or state-owned enterprises exchange best practices and experience in the latest anti-corruption management techniques.

Beyond the developed world

A number of opportunities present themselves for enhancing cooperation between business and government in combating corruption.

This year, for example, the level of engagement from companies in the emerging markets was welcome, but more needs to be done to involve the so-called emerging multinationals. Traditionally, dialogue on anti-corruption has been dominated by global multinationals from the developed world. In 2013, however, additional efforts are being made to include – both directly and indirectly – companies or business associations from China, India, Turkey, Korea, South Africa, Saudi Arabia and, crucially, Russia. Indeed, so active were the Russian companies that they published their own recommendations to the Russian government, which mirror those published at the B20-G20 level. However, for B20-G20 cooperation to be truly representative, inclusive and relevant, both business and governments need to make every effort to involve companies from the emerging markets. After all, these companies are the major engines of global growth. They need to lead on the anti-corruption agenda just as they are leading on economic development.

Another opportunity is to include transparency and anti-corruption in the deliberations of other taskforces. This year, the anti-corruption taskforce focused on the anti-bribery agenda, which reflected the immediate concerns of its members. But what of offshore tax havens, money laundering, intellectual property, governance in financial services, infrastructural or major sports projects? Many of these issues were addressed by the other B20 taskforces such as those on investments and infrastructure, the financial system and innovation and development. If the B20-G20 dialogue can be structured to recognise the cross-cutting nature of transparency and anti-corruption, these issues will be given higher visibility and be discussed in a more methodical way, bringing together industry and business practitioners with anti-corruption experts. This will be an organisational challenge for the Australian G20 and B20 sherpas if they choose to pursue it, but it is one that should reap important rewards in terms of substance and impact.

From declaration to action

The B20 Taskforce on Transparency and Anti-Corruption's recommendations and the spirit in which they were made suggest that the move "from declaration to action" may be possible. The next few months will determine whether the recommendations will remain at a rhetorical level or whether the leading companies of the world, in cooperation with their respective governments, really do have the will to put their money into this, share resources and knowledge and contribute to a fundamental change of behaviour in the markets in which they are investing. ■

Transparent accounting is an important pillar of the anti-corruption agenda, which looks to restore trust in governments' use of public funds

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Strengthening energy infrastructure

G20 members have moved decisively to address the pressing issue of energy security, but major investment is needed to ensure sustainability

By Victoria V Panova, professor, Department of International Relations and Foreign Policy, Moscow State Institute of International Relations (MGIMO)

Since the most recent financial crisis, infrastructure – especially energy infrastructure – has attracted renewed and strengthened attention from politicians and economists worldwide as one of the most efficient drivers of economic growth and stability. Investment in infrastructure is considered among the most important instruments for realising Russia's priority for the St Petersburg Summit: growth through quality jobs and investment. It allows resources and human capital to be redistributed away from stagnant industries to provide for long-term economic growth. Also, state infrastructure investment increases private sector activities. In fact, the lack of such investment can lower a country's economic efficiency and productivity considerably, and can have a negative impact on the welfare of its population and the competitiveness of its industries.

Investments in infrastructure can therefore be seen as a direct factor of production and an additional incentive for other production factors that stimulate aggregate demand, as well as a tool for national industrial policies. Well-developed energy infrastructure, together with road, transport, social and other infrastructure, assure unimpeded economic growth for a country and for the world.

According to the International Energy Agency, up to $33 trillion in investment will be needed for energy-supply infrastructure by 2035, with half needed for power generation, and about 42 per cent for the transmission and distribution of energy. Countries that are not members of the Organisation for Economic Co-operation and Development require almost two-thirds of that sum, with China alone requiring up to 16 per cent. Russia needs about $700 billion of investment in energy infrastructure over the same period. Over a longer timespan, up to 2050, Russia would require around $500 billion alone for the Arctic to support sustainable energy production.

From the very start, the G20 has paid attention to energy security, because energy is the lifeblood of economic development. The importance of the G20, even as an informal group, should not be underestimated.

Achievements and future challenges

More than three-quarters of global energy consumption and about 84 per cent of global carbon dioxide emissions come from G20 members. In terms of energy-producing states, the G20 has less clout: although Brazil, Canada, Russia, Mexico, the United States and – most importantly – Saudi Arabia are members, several important players remain outside. It is therefore more difficult for the G20 to address concrete, issue-specific, short-term subjects such as oil-price volatility or fuel subsidies.

Since 2009, the G20 has organised four energy working groups to cover the issues of fossil-fuel subsidies, energy-price volatility, clean energy and energy efficiency. It also created a working group for protecting the global marine environment, as suggested by Russia at the 2010 Toronto Summit after the BP oil spill in the Gulf of Mexico. This last environmental issue has assumed renewed importance under Russia's G20 presidency, as a priority for the Energy Sustainability Working Group. Unlike the other working groups, which report to the finance ministers, this one reports directly to the sherpas.

With regard to fossil-fuel subsidies, at the Pittsburgh Summit in September 2009, the G20 leaders committed to "rationalize and phase out over the medium term inefficient fossil fuel subsidies that encourage wasteful consumption". This was stressed at the Toronto Summit in June 2010, with progress reviews set for future summits. The problem persists, mainly – as stressed by the Russian host – because of an absence of any enforcement mechanism and, therefore, weak compliance. Most G20 members presented national plans in 2010 with roadmaps for reaching stated goals, but

not much has so far been achieved. Given the uncertain situations in many parts of the world, as well as the ongoing economic problems, energy subsidies are likely to stay in place for the foreseeable future.

Such issues, however, require a cross-sectoral approach. The Seoul Summit in 2010 emphasised economic development. The *Seoul Development Consensus for Shared Growth* and *Multi-Year Action Plan on Development* singled out infrastructure, including energy infrastructure, as the highest priority for growth and development. The G20 appointed a high-level panel for infrastructure to

According to the International Energy Agency, up to $33 trillion in investment will be needed for global energy-supply infrastructure by 2035

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study private and public investments in infrastructure, to present to leaders at the Cannes Summit in 2011. Its recommendations were approved for implementation by the G20 leaders in Los Cabos in 2012.

Expectations for St Petersburg

For the 2013 St Petersburg Summit, the priorities chosen by the Russian presidency do not include energy security, specifically. However, issues relating to energy sustainability are among the eight areas covered by the three main topics of growth through quality jobs and investment, growth through trust and transparency and growth through effective regulation.

As such, energy sustainability will be addressed through the prism of reducing energy-market volatility, through the longstanding but still not realised commitment to phasing out inefficient fossil-fuel subsidies, through increased transparency by extending the Joint Organisations Data Initiative and through improving environmental protection in marine areas.

According to Russian officials, the challenge of energy infrastructure will be dealt with primarily through discussions of regulatory policies to ensure an appropriate balance between the interests of consumers and suppliers to maintain competition and market access. There will also be discussions of how to shift needed costs so that they are borne by the private sector rather than the state. While there is no one-size-fits-all approach, sharing experiences and best practice could further promote sustainable development and attract the necessary investment in energy infrastructure.

Russia as host of the G20 and the 2013 Business 20 Summit has presented a developed-country approach to promoting public-private partnerships (PPPs) as important for enhancing investment in energy infrastructure. Such a multi-stakeholder approach should be introduced. Norms, institutions and instruments that have been successful in developed countries may not necessarily bear fruit in low-income developing economies, however, so incorporating civil society and local communities into the design process would be beneficial.

While no breakthroughs on PPPs can be expected from the St Petersburg deliberations, the summit could be useful for the development of each G20 member's national policy, including Russia's. It should encourage the adoption and implementation of relevant domestic legal instruments to support PPPs where they prove necessary and feasible.

In 2012, Russian president Vladimir Putin approved legislation to realise the country's energy potential for the sustainable development of its national economy. A five-year plan was adopted by the Ministry of Energy to bring energy infrastructure supply in line with Russia's economic and environmental needs. The plan includes building up to 14.62 gigawatts of new power stations by 2017 and modernising existing facilities to reduce the risk of potential accidents to 8.8 per cent by 2020. While there is some concern about technical upgrades using public financing, there is an expectation of easier entry into the energy market, by reducing the number of days (from 276 in 2013 to 40 in 2018) and steps (from eight to five) necessary for businesses to get connected to electricity.

One very important step taken by the Russian Federation has been the declassification in July 2013 of data on hydrocarbon reserves. The Ministry of Natural Resources and Environment estimates that, as of early 2012, Russian reserves constituted approximately 28 billion tons of oil (both proven and estimated reserves) and 68 trillion cubic metres – enough for at least 30 years of unhampered development – of gas (both proven and estimated reserves). This has not yet led to increased investment, since investors are most interested in predictability and transparency for doing business. Another challenge with this undoubtedly positive move is adapting Russian reserves data to meet international standards.

All in all, Russia still has a very powerful and extensive energy infrastructure, which needs considerable upgrades to be able to function effectively and respond to the country's economic needs, as well as sustain its exports and thus strengthen its geopolitical position in Eurasia and beyond. Russia's economy needs to focus more on stimulating internal demand and investment, but external sources of financing will remain important. While the current steps taken by the Russian government are commendable and in the right direction, the process must be sped up for the country to occupy its proper place among leading systemically significant countries. ■

Given the uncertain situations in many parts of the world, as well as the ongoing economic problems, energy subsidies are likely to stay in place for the foreseeable future

St Petersburg welcomes the G20 and the world

Peter the Great's 'window onto Europe' is a thriving, rapidly modernising city that is perfectly placed to host major events and welcome international guests

By Georgy Poltavchenko, governor, St Petersburg

This year, when Russia holds the presidency of the G20, St Petersburg has the great honour and, at the same time, a great responsibility, to host the leaders of the world's largest economies and the leaders of the most authoritative and influential international organisations.

Our city has long experience in holding meetings and forums at the highest level. In 2006 we hosted the G8 summit and, last year, the UNESCO World Congress. Every year, dozens of world forums are held in St Petersburg, including the St Petersburg International Economic Forum. As hospitable hosts, today we do our best to welcome our guests and make them feel at home.

With a population of nearly five million, St Petersburg is the largest metropolis on the Baltic Sea, one of the most beautiful cities in the world and the cultural capital of Russia. Its magnificent architecture and unique monuments in the historical city centre and suburbs are all under UNESCO protection. World-famous museums and theatres, including the Hermitage and the Mariinsky Theatre, are situated in St Petersburg. Our cultural riches attract visitors from all over the world to this city on the Neva River: more than six million in 2012 (a 10 per cent increase on the previous year). I am confident that our city will leave a vivid impression on the participants of the G20 summit.

St Petersburg is the largest industrial and scientific centre of Russia. It was founded by Peter the Great in 1703 as a 'window onto Europe', to provide access to sea trade routes. We can say that it was Russia's first innovative project. In the 21st century, St Petersburg remains the country's gateway to Europe. Our city today maintains its historical purpose and pioneering spirit. It aptly earns the title of 'smart city', as the capital of innovation and a city with a high-tech competitive economy. Many global companies are choosing to host high-tech industries here.

St Petersburg is a large personnel training centre. Many people from our city now work in the country's highest public authorities and are the heads of leading companies. St Petersburg is the 'small motherland' of Vladimir Putin, president of the Russian Federation, as well as prime minister Dmitry Medvedev.

Investment and innovation

St Petersburg has a favourable investment climate. We have created all the conditions for investors. I personally head the Investment Council, which aims to promote close and effective cooperation between the city authorities and the business community. This includes assistance from the Investment Promotion Agency, which subscribes to the one-stop-shop principle for drawing up and approving the necessary documents.

Our collaboration is based on a long-term investment strategy, and the results have already made themselves known. In 2012, foreign investment increased by 1.8 times, up to $10.7 billion, compared with 2011. We forecast that this year the figure could reach $12.5 billion.

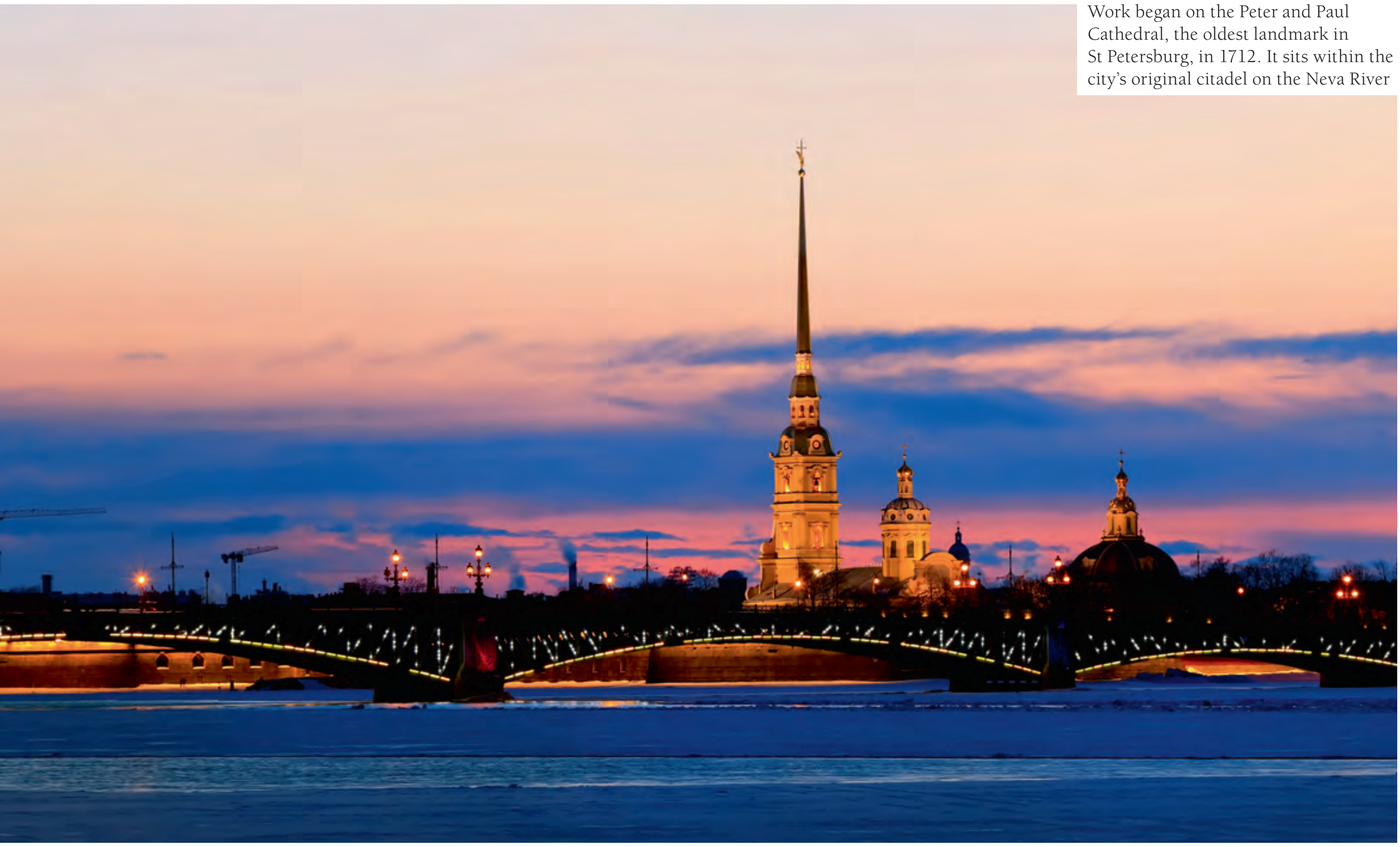
This is a good figure, especially when we consider that the global economic and financial crisis is still felt in different parts of the world. The portfolio of prospective investment projects developed by the city government comprises dozens of proposals beneficial for both the city and our partners.

St Petersburg has an advantageous geopolitical location at the crossroads of leading international transport routes. Our city develops and strengthens business and trade relations with more than 180 countries. In 2012, the city's foreign-trade turnover increased by 4.5 per cent and amounted to $56.5 billion. Thus, imports increased by

almost 10 per cent. China, Germany and Finland are our three top trade partners. Today, St Petersburg hosts 1,200 enterprises with foreign capital, which employ almost a quarter of a million people. The annual turnover of these companies is $73 billion.

St Petersburg is not only a major port with advanced facilities, but also a powerful logistics centre. The turnover of wholesale companies in 2012 exceeded $60 billion. The volume of retail sales increased by eight per cent and amounted to $3.6 billion in 2011. This is directly related to the growth in real incomes of the population. The average salary in St Petersburg increased last year by 11 per cent, reaching more than $15,000. In addition, St Petersburg has the lowest unemployment rate in Russia.

The St Petersburg economy reflects all of the world's economic processes. Safety factors



Work began on the Peter and Paul Cathedral, the oldest landmark in St Petersburg, in 1712. It sits within the city's original citadel on the Neva River

DONTSOV/ISTOCKPHOTO

Among all the regions of Russia, St Petersburg is a leader in the number of small and medium-sized enterprises

and strong industrial and investment potential allowed the city to withstand successfully the economic crisis in the difficult year of 2008. None of the investors or foreign partners left the city during that period. In 2012, the gross regional product increased by 4.5 per cent and amounted to more than $70 billion. The index of industrial production reached 104.3 per cent. These are the best indicators in Russia. The highest growth rates are in the production of industrial equipment and the development of automotive and pharmaceutical clusters.

We continue to set clear tasks for the St Petersburg economic and social development strategy on how to transfer our economy onto the innovation tracks. We have successfully implemented the Science, Industry, Innovation programme. The special economic zone for innovation implementation has more and more residents; the Ingria Technopark has been created in the high-tech sphere; and business incubators, which offer support for business start-ups, have been opened. Among all the regions of Russia, St Petersburg is a leader in the number of small and medium-sized enterprises. This prospective economic sector is important for social stability and social well-being, and employs more than 1.5 million residents.

Efficient use of resources

Much attention is paid to the protection of intellectual property rights, environmental security and efficient use of resources and energy. These are well known and typical of the entire world economy.

I am confident that the forthcoming G20 summit will be held at the highest organisational level. For its part, the St Petersburg government will make every effort to achieve this. I hope that in the warm September days of the G20 summit, this important international event will be favoured with good weather too. Welcome to St Petersburg! ■

Economic reform for good economic governance

Building on fragile economic growth and regaining public trust requires greater oversight, increased innovation and comprehensive structural reform

By Angel Gurría, secretary general, Organisation for Economic Co-operation and Development

As the G20 leaders gear up for their summit in St Petersburg, policy-makers in many advanced and emerging-market economies continue to face a fragile – albeit improving – economic outlook, persistent unemployment and stressed public finances. This backdrop underscores the need to address structural challenges while at the same time engaging in longer-term efforts to promote more inclusive, innovative and sustainable sources of growth.

Some recent activity indicators are encouraging, although many countries are still grappling with the social consequences of the recession. Prospects are good for continued expansion in the United States and Japan, and progress has been made on structural and fiscal adjustment in the euro area. However, unemployment remains alarmingly high in many countries. Among G20 countries, the jobless rate has dropped only marginally in half of the countries, while it has risen in the other half. There are now 93 million jobless people in the G20 countries, and some 30 per cent of these people have been unemployed for over one year on average. Jobs have been shed mostly in manufacturing and construction in advanced economies, whereas construction has been the leading job-creating sector in several emerging economies.

Together with high unemployment, many countries are faced with widening inequalities, a trend that started well before the crisis. Across the Organisation for Economic Co-operation and Development (OECD) members, the average income of the richest 10 per cent of the population is about nine times that of the poorest 10 per cent – up from seven times 25 years ago. Between 2007 and 2010 the average market income inequality across OECD members increased by 1.4 percentage points.

Restoring growth and jobs is therefore the key priority for Russia's G20 presidency. To meet this objective, it is essential to put in place appropriate policies to stimulate a sustainable recovery, improve people's prospects and tackle rising income disparities. With monetary policy well into unchartered territory and fiscal initiatives constrained by stretched public finances, G20 members need to implement ambitious economic and social reforms across a host of policy areas.

Making the system fairer

First, countries need to combine growth with inclusiveness. The OECD has recommended a comprehensive reform agenda to G20 members. This includes options for strengthening competition in network industries and harnessing new sources of growth, such as innovation or green growth; reducing restrictions on labour mobility and tackling labour-market dualism; and enhancing labour-market outcomes through incentives for participation, improvements in activation and investment in skills and education. Such comprehensive policy agendas must be tailored to each country's needs. Reforms are also targeted at improving public sector efficiency and making the tax system fairer and more labour-friendly.

The gains that can be made through comprehensive structural reforms are enormous. The OECD has simulated the effects of structural reforms on potential output across the OECD area. The results show that moving towards best practice across a number of policy areas – including product and labour-market regulations and education – could raise per capita incomes by some 20 per cent in the median OECD country by 2060. This is a tall order, for sure, but it is a powerful illustration of the benefits of taking decisive action, starting now.

Second, countries need to support the most vulnerable – the young, the low skilled, the long-term unemployed – and step up their efforts to up-skill the workforce. There must also be effective activation policies and institutions both in advanced and emerging-market economies, to build more inclusive labour markets. A recent OECD report to the G20, *Activation Strategies for Stronger and More Inclusive Labour Markets in G20 Countries*, gives some examples of successful activation policies in G20 members, adapted to specific groups. Different forms of hiring incentives, such as the Youth Contract in the United Kingdom or the Zéro Charges Jeunes in France and the tax incentives introduced recently in Italy, are examples of short-run measures targeted to provide job opportunities, especially for low-skilled youth. For women, opportunities to work, and to return to work after child-related breaks, must be strengthened by all G20 members. Some initiatives in emerging economies have shown that basic social-protection measures, such as the child-support grant in South Africa, can assist women in accessing earning opportunities. The promotion of gender-equal employment can also be reflected in regulation, as has been the case with the employment promotion law in China.

Better regulation

Third, more remains to be done to strengthen financial-sector regulation in order to deal with the risks of contagion and too-big-to-fail institutions. OECD studies show that banks that tend to be more heavily engaged in derivatives trading are more likely to default than banks abstaining from such activities. Separating global systemically important banks and a few of the traditional banks that focus on securities would have the added benefit of an adequate pricing of risk, which would encourage lending. Another important feature of the financial system is providing a basis for long-term investment. In order to increase efforts for institutional investors, the OECD has developed the first G20/OECD *High-Level Principles on Long-Term Investment Financing by Institutional Investors* under the Russian G20 presidency.

Fourth, G20 countries should not only resist protectionist pressures, but also engage in further trade-opening initiatives. The OECD, jointly with the World Trade

China, the world's second-largest economy, has been legislating to keep up with the employment law and workers' rights seen in much of the rest of the G20

REUTERS/CHINA DAILY INFORMATION CORP – CDIC

Organization and the United Nations Conference on Trade and Development, is taking a fresh look at international trade trends and patterns through the lens of global value chains, which have become a dominant feature of world trade, bringing together developing, emerging-market and advanced economies. The whole process of producing goods and services is increasingly carried out wherever the necessary skills and materials are available at competitive cost and quality. This has important implications for trade and cross-border investment and offers new prospects for growth, development and jobs. The OECD will present to G20 leaders in St Petersburg its first report on these issues, their impact and the opportunities they create.

Fifth, tax rules and systems need to be modernised and must be adjusted to the global, digital economy. Tax-base erosion through aggressive tax planning, as well as tax evasion and avoidance, constitutes serious risks not only to tax revenues but also to tax sovereignty and tax fairness in all G20 members. Tax rules have not kept pace with the way business operates, and continue to allow multinationals to report profits for tax purposes in locations different from where their operations take place. For the St Petersburg Summit, the OECD has developed, together with G20 members, a comprehensive and ambitious G20/OECD *Action Plan on Base Erosion and Profit Shifting*, which is aimed at revisiting the rules, standards and transparency of international taxation, including double (non-) taxation and transfer pricing. In order to tackle tax evasion, the OECD also promotes the automatic exchange of information on tax matters as the single global standard, and the Global Forum on Transparency and Exchange of Information for Tax Purposes is quickly moving ahead with its peer reviews; ratings for as many as 50 jurisdictions will be published later this year.

More remains to be done to strengthen regulation in order to deal with the risks of contagion and too-big-to-fail institutions

G20 members are required continually to improve policies to generate jobs, promote equality and instil trust. People must be at the centre of these efforts. Governments, institutions and international forums such as the G20 need to deliver fair and efficient solutions for the benefit of their citizens. Otherwise, there is little chance of restoring the trust that was lost during the financial crisis and that is so badly needed to address the challenges now facing the world. ■

America's economic prospects, challenges and opportunities

As forecasts of US GDP performance continue to be revised downwards, new policy initiatives and a reduction in global trade restrictions are essential

By Robert Fauver, former G7/G8 sherpa for the United States

US president Barack Obama will arrive at the G20 St Petersburg Summit leading an economy that continues to an exhibit a mixed economic performance. In every year of the recovery to date, the Federal Reserve Board and the presidential administration have overestimated how strong the growth rate would be. Annually, they have revised forecasts downwards over the course of the year.

Again in 2013, forecasts for real gross domestic product (GDP) growth have been weakening. Starting the year with a consensus forecast of roughly three per cent, the latest consensus for 2013 is now down to 2.3 per cent. On the more pessimistic side, forecasts prepared by the International Monetary Fund (IMF) for the July meeting of G20 finance ministers and central bank governors lowered the US GDP forecast to 1.7 per cent. This is not decreasing fast enough to create the new jobs needed to bring the unemployment rate below seven per cent by the end of 2013.

The inflation performance remains good. Expectations are that inflation will continue to be below two per cent over the course of 2013, although this figure is likely to see an modest upward trend towards the end of the year. Food and energy prices continue to trouble consumers, however.

On the bright side, job creation has begun to strengthen. While not strong enough to reduce unemployment rates significantly, it is an encouraging sign. The housing market has firmed and begun to recover from the losses of recent years. Interest rates continue to be historically low. The equities market has hit new highs and fully recovered the losses resulting from the financial crisis of 2007-08.

However, corporate investment continues to be low by normal recovery standards. This partly reflects the continued sizeable gap between actual GDP and potential GDP. Until that gap is narrowed, private investment is likely to remain below normal levels long after the end of the recession.

The costs of healthcare reform are becoming clearer and are higher than anticipated. And the fiscal situation – an unresolved debate in Congress regarding the medium-term budget outlook – overhangs both consumer and business confidence.

Perhaps the most important policy to improve the US economic outlook would be an approach to medium-term deficit reduction that would provide a path to sustainable national debt levels

Effects of liquidity injections

Largely because of the slow reduction in unemployment, the Federal Reserve remains committed to a policy of sizeable liquidity injections, at least until unemployment falls to the 6.5 per cent range. This means that two major G8 members – the United States and Japan – are simultaneously experimenting with massive liquidity injections into their domestic economies. While perhaps such injections are valuable in the short term – and have clearly stimulated equity market growth – they are likely to complicate monetary policy in the medium term. Removing such a level of liquidity in the future will be difficult and represents an untested policy tool. But, in the meantime, G8 liquidity levels will be historically high. This high level of liquidity could increase commodity prices on a global scale.

Obama faces challenges on several fronts in both the near and medium terms. First, the autumn of 2013 will bring another debate with Congress over the debt ceiling – and the uncertainly will undoubtedly hinder consumer and business spending. Second, continued difficulties implementing healthcare reforms cloud the horizon.

Third, debates over energy policy hold back potential production in the United States that could lower domestic prices and increase productivity. Fourth, job creation continues to be below historical standards this far into the recovery period. And, finally, growth outside the United States has slowed, which in turn retards the expected growth in US exports and their resulting job-creation forces.

Reforming the tax system

Perhaps the most important policy to improve the US economic outlook would be a policy approach to medium-term deficit reduction that would provide a path to sustainable national debt levels. In addition, fundamental reforms in the federal tax system are required. It has been almost 30 years since the last major reform of the federal tax system for both individuals and corporations. Over this period, the tax laws have become increasingly more complex, less efficient and less productive. Elimination of tax loopholes, preferences, deductions and exclusions would reduce the inefficiencies in the current code and increase tax revenues at the same time. Lowering marginal rates for corporations and individuals would also help to streamline the system and enhance federal revenues.

A second policy focus should be on excessive regulations that add costs and, in some cases, uncertainties to economic players – both individuals and corporations. Too often the administration has turned to regulatory changes when it failed to enact legislative changes in a variety of areas in the economy. For example, environmental regulatory changes affecting the coal industry threaten to add significantly to the cost of electricity for many businesses and consumers. G20 discussion and agreement

THEPALMER/ISTOCKPHOTO

Container ships docked in Miami. New and truly free trade agreements, encompassing all major sectors, can be a vital tool in revitalising the US and global economies

to streamline regulatory regimes in all members could add significantly to growth opportunities in the world economy.

A third major policy thrust should focus on liberalising international trade in goods, services and investments. If a global trade deal is unobtainable – and the G20 should make serious efforts at finding a global solution – then the G20 should actively support the use of regional and bilateral free trade agreements as a way to liberalise trade. It is important to emphasise in the G20 that these agreements should meet the standards of the old General Agreement on Tariffs and Trade of including all trade in their coverage. Too often recent agreements have excluded major sectors and thus are not truly free trade agreements consistent with global standards.

The US should follow through on existing negotiations, including the new Trans-Pacific Partnership, as soon as possible. In addition, the administration should embark on new free trade agreements – with South America and Asian countries – either bilaterally or regionally. Global trade restrictions continue to hold down potential worldwide growth.

It is important for the G20 to address the topic of freer trade in goods, services and investment flows in a clear and concise manner. The St Petersburg Summit communiqué should include a commitment to completing free trade agreements whenever and wherever possible. It should include a commitment that the agreements would cover substantially all trade and would not carve out sensitive areas.

A clear statement on trade liberalisation would strengthen the growth environment in the world economy. ■

The European Union at the G20: challenged by growth

The previous two G20 summits have been dominated by European economic turbulence, and the issues of high unemployment and low growth still loom large

By Paola Subacchi, research director, international economics, Chatham House

G20 summits seem to coincide with difficult times for Europe. In 2011, the G20 leaders at Cannes had to deal with a political crisis in Greece and contain the contagion from the sovereign debt crisis to other vulnerable countries in the euro area. In June 2012, at the time of the summit in Los Cabos, Greece was still on the brink and financial markets were betting on the break-up of Europe's monetary union.

Will Europe hijack the agenda this year too? This seems unlikely. The doctrine of 'whatever it takes' to save the euro expressed by Mario Draghi, president of the European Central Bank, a few weeks after Los Cabos seems to have worked some magic. Market volatility is much more subdued, and differences between bold yields in the euro area are less prominent. By June 2013, the spreads for Italy and Spain over German bunds were 2.85 per cent and 3.16 per cent respectively. In June 2012, they had been much higher, at 4.24 per cent for Italy and 4.76 per cent for Spain.

Elusive European growth

This does not mean, however, a better and brighter economic outlook for Europe. Economic growth continues to prove elusive, particularly in the euro area. The International Monetary Fund (IMF) expects the euro area to be in recession in 2013, with gross domestic product dropping by 0.3 per cent, while the European Union as a whole will experience zero growth. The outlook looks more positive, even if not particularly bright, in 2014, with the economy expected to expand by 1.1 per cent in the euro area and 1.3 per cent in the EU. China's economy, in the meantime, should grow at the rate of 8.0 per cent in 2013 and 8.2 per cent in 2014, while the United States will see its economy expand at 1.9 per cent in 2013 and 3.0 per cent in 2014.

Christine Lagarde, IMF managing director, has spoken of a "three-speed" world economy. Europe, together with Japan, is relegated in the group of economies that continue to struggle to find their way out of the crisis – five years after it broke out.

Enduring unemployment

Labour-market conditions are a particular concern. The number of people out of work has reached record highs in countries in southern Europe. In Spain, the unemployment rate has hit 27.2 per cent, from eight per cent in the first quarter of 2008 in the pre-crisis years. In Italy, it is now 12 per cent, while in Greece almost three out of 10 people are unemployed. The situation is particularly difficult for the new generation. Almost four out of 10 people under the age of 25 in Italy are without a job – almost six out of 10 in Spain. In Italy, the increase of financial fragility has particularly hit the young households (those under the age of 35), which have suffered from the highest reductions in the level of savings and find it hard to support themselves without help from their parents.

As protest and popular unrest have spread recently in countries including Turkey and Brazil, there are concerns among European leaders that economic hardships may fuel discontent and tensions. Populism is on the rise everywhere in Europe. The model of integration that has been pursued in the past 50 years seems increasingly at odds with a multi-speed, multi-ethnic and multicultural Europe. Now that public spending in many countries has been reduced in response to problematic fiscal positions and unsustainable public debt levels, many openly dispute how much a country should be open to immigrants from other European countries. Not surprisingly, across Europe parties and political movements that are anti-immigration are also fiercely eurosceptic.

The model of integration pursued in the past 50 years seems at odds with a multi-speed, multi-ethnic and multicultural Europe

The future of EU integration

This year's G20 summit will confront the scenario of a two-tier Europe. One tier, which groups together the euro-area members, sees more economic and eventually political integration as the way forward. The other tier would like to step back and, as in the case of the United Kingdom, even renegotiate the terms and conditions of its EU membership.

How these dynamics will play out, if at all, at the summit in St Petersburg it is not clear. It is, however, clear that Europe's monetary union could not stick together in its current form. If a fiscal union and, eventually, a political union are the way forward, it is critical to manage the transition and end the current deadlock.

There are, perhaps, lessons in policy coordination that the G20 and the EU can learn from each other. For instance, can the Mutual Assessment Process (MAP) be useful in promoting a broader implementation of macroeconomic coordination, not only at the level of the EU, but also at the global level? The MAP, together with other measures, was quite successful in the first years after the 2008-09 crisis for the improvement of policy coordination, but after the sense of urgency that dominated the first summits it would probably need to be strengthened.

With regard to the growth agenda, the G20 will have to show more than just good will. The pledge to support "strong, sustained and balanced growth" that was made at the Pittsburgh Summit in 2009 has remained an empty promise. Despite the good work in preparation leading up to each summit, the G20 has continued to act as a group of firefighters and a crisis committee. It is time to take up the role as the premier forum for economic and financial issues. ■

REUTERS/MARCELO DEL POZO

Two Spanish nurses seek work in the Netherlands. Record levels of unemployment have seen Spain's population fall for the first time on record as young people seek opportunities elsewhere

The evolution of Japan's economy: charting a new path

Having navigated the perfect storm of the Asian financial crisis, Japan has much to bring to the discussion about global financial structures

By Naoki Tanaka, president, Center for International Public Policy Studies

Japan's coalition cabinet led by the Liberal Democratic Party (LDP) has at last secured a majority in both the upper and lower houses of the legislature. This is the first clearly defined administration since Junichiro Koizumi won the post-privatisation snap election in 2005.

Prime Minister Shinzō Abe's economic strategy – Abenomics – may create sufficient momentum for a recovery in the Japanese economy. However, in order to resolve Japan's mid-term and long-term problems, two axes in the political sphere should be considered: conservativism and freedom.

With regard to conservatism, Japan has traditionally supported conservative values that protect its society. It used to be said that the LDP was represented by both conservatism and liberalism, with a general likemindedness of these two camps. But neither conservatism nor liberalism was defined in concrete policy issues, and the LDP has not revealed its vision for Japan.

However, in the future, there are two kinds of risks for Japanese society. One is related to fiscal discipline. The LDP's post-war victories were based on comprehensive combinations of vested interest groups. Debts have accumulated thanks to 'pork-barrel' policies, Keynesian economic strategies and wasteful expenditures. If confidence in Japanese government bonds collapses, the expectation of inflation will be difficult to control. Such a situation would create a crisis of the sustainability of Japan's society. For that reason, the term 'conservatism' should be redefined to protect Japanese values and society – particularly in consideration of government expenditure and economic policies. Prime Minister Abe's administration should make fiscal discipline and the redefinition of conservatism top priorities.

The second axis relates to the crisis of freedom of business and individuals. In Japan there exists asymmetry in the freedom of individuals compared with the freedom of business. In order to survive in the competitive marketplace, the supply-chain management of Japanese enterprises has become global. Business is free to design its production portfolios according to where costs are lower, for example in countries where corporate taxes are lower than in Japan. That means that domestic production is decided according to corporate considerations on profit making. Businesses must enjoy conditions that facilitate international comparisons, and this cannot happen in a closed economy.

Towards greater self-governance

However, almost all Japanese corporations stick to employment within Japan. And many small and mid-sized enterprises must rely on domestic production. Moreover, individuals do not have the freedom to move to where the good jobs and low taxes are. Consequently, the asymmetry between enterprises and individuals has become huge. Japanese people will not tolerate such gaps for long. The freedom of choice must be discussed in political circles as well as elsewhere.

In the very near future, these two axes of conservation and freedom should be discussed even at the parliamentary level, and two points must be stressed. First, the concept of self-governance must be refined; through redefining conservatism and restoring individual freedom, Japan can address the crude realities that exist in its society. Second, the government's activities must be redefined. The concepts of big government versus small government and the relationship between welfare levels and tax burdens do not work for Japan, with its aged society. Public support through taxes

Japan's advanced economy has bounced back from the financial crisis of the late 1990s, but the country must now ensure that it perseveres with fiscal prudence

CRISTIAN BAITG/ISTOCKPHOTO

will be necessary as healthcare costs continue to grow. Strategies for redefining the public good and self-governance must be carefully chosen and designed to cover activities that have traditionally been considered the government's responsibility.

In terms of global engagement, Japan has often relied on providing official development aid. In future, however, Japan should offer its services in consulting on managing structural reform at both the macro and micro levels. Having experienced failures in the past, Japan has acquired a large body of knowledge on rebalancing measures. Even within the G20, Japan can offer fruitful and effective lessons.

One such example is with regard to shadow banking in China. After the burst of the economic bubble in Japan and then the Asian financial crisis of 1997-99, Japan's economy was hit very hard. Assets in the banking sector deteriorated and capital's ability to absorb stocks became very thin;

Japan has acquired a large body of knowledge on rebalancing measures

small banks defaulted; and the monetary authority that supervises financial institutions had no experience in addressing such systemic risks. It took almost six years to recover. As a result, the country acquired the discipline to maintain prudence at the macroeconomic level as well as at the microeconomic level of managing its financial institutions. Rule-based surveillance systems were put in place and principle-based codes of conduct were implemented by the country's financial institutions.

Today, China has similar problems within its financial institutions, causing concern about possible impacts on the global economy. There are structural parallels between shadow-banking problems in China and the problem of sub-prime loans in the United States. Remedies and countermeasures should therefore be considered in the global context. Japan, with its history of failure, can contribute much to the discussion on the appropriate policies. ■

The changing nature of China's economy

With growth slowing, production costs increasing and inflation on the rise, China is facing difficulties caused by a prolonged period of acclerated growth

By Yu Yongding, Chinese Academy of Social Sciences

China's economic growth has shown a clear cyclical pattern over the past two decades: driven by expansionary policy, the economy grows rapidly. After a few quarters, inflation starts to surge. As soon as it surpasses a threshold, a brake is applied. Inflation eventually falls, but at the expense of economic growth. In response, the government ushers in expansionary policy again. As a result, the economy rebounds and the cycle begins anew.

In China's last economic cycle, growth started to accelerate in 2003, but inflation failed to worsen materially until the fourth quarter of 2006. Because inflation was rather benign during this period of high growth, the People's Bank of China tightened monetary policy only incrementally.

In response to the global financial crisis of 2008, the Chinese government introduced a stimulus package of 4,000 billion yuan (about $580 billion). The People's Bank of China loosened its monetary policy dramatically at the same time.

As a result, the economy rebounded quickly. In the first quarter of 2010, China's annualised growth rate was as high as 12.1 per cent. However, in order to rein in housing bubbles and pre-empt worse inflation, the People's Bank tightened monetary policy again in January 2010 and the growth rate fell to 8.9 per cent in the last quarter of 2011. In response to this rapid deterioration, the People's Bank loosened monetary policy in November 2011. Most people believed that the economy would soon be reinvigorated. However, the rebound unexpectedly happened only in the fourth quarter of 2012. Puzzlingly, at the beginning of 2013, the People's Bank set a rather tight monetary policy target of a growth rate of 13 per cent for M2, the supply of money that includes cash as well as short-term deposits and money-market funds. This was quite low by Chinese standards and would usually only be set when inflation was serious. To the surprise and disappointment of most pundits, the long-awaited strong growth lasted for just one quarter. The growth rate fell in the second quarter of 2013 and the growth momentum for the whole year of 2013 seems weak.

A shift in the Phillips curve

On the surface, the most important contributing factor to the lacklustre economic performance in the first half of 2013 is the government's reluctance to use expansionary policy to stimulate growth. But the deeper reason is that the government no longer enjoys the policy space to do so. In fact, even when the annualised growth rate in the first quarter of 2013 was far below the 10 per cent average growth rate of the previous 30 years, China's consumer price index had already risen by 3.2 per cent, a 10-month high, in February, and house prices were rising unabated.

The narrowing policy space is a reflection of fundamental changes in China's macroeconomic setting: China's Phillips curve has rotated leftwards. Empirical studies show that there is significant correlation between inflation and growth in China over the past two decades. Hence a trade-off between inflation and growth does exist for the government. For many years, China's Phillips curve was rather flat, which meant that when the Chinese government used expansionary monetary and fiscal policy to speed up growth, it did not worry too much about inflation. It was very rare for the government to face the stark situation of stagflation.

However, there is more and more evidence that there has been a structural breakdown in the Phillips curve since 2010. Now, for a given growth rate, the corresponding inflation rate is materially higher. In other words, inflation and house prices have become increasingly important constraints on growth, despite the fact that China's fiscal position is still strong and there is still room for the People's Bank to implement a looser monetary policy.

Climate changes

The leftward rotation of China's Phillips curve is a result of many important structural changes. First, due to demographic and social changes, the marginal labour cost of production has risen significantly. Second, due to the dramatic increase in the environmental concerns of the public, environment-protection expenditures by enterprises – especially by those with newly installed production facilities – are skyrocketing. Third, because of the relentless exploitation of resources, prices of energy and

With the the consumer price index increasing by 3.2 per cent in February 2013, rising prices are cause for concern for China's economists and shoppers alike

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raw materials are increasing strongly. Fourth, the feverish real-estate development that has swept across China is propelling land prices to new heights. Fifth, as a result of decades-long catch-up growth, China is approaching the technical frontiers in many areas and the latecomer's advantage is diminishing. As a result, the marginal productivity of its capital stock is also diminishing. In short, due to the changes in its microeconomic foundations and the weakness in its economic structure, China has to tolerate a higher inflation rate for a given proportional increase in its growth rate.

Due to the changes in its microeconomic foundations and the weakness in its economic structure, China has to tolerate a higher inflation rate for a given proportional increase in growth

Looking for a compromise

Will China's leadership tolerate a higher inflation rate so as to maintain a growth rate above eight per cent? The answer seems likely to be 'no'. Certainly, if the Chinese leadership deems it necessary, it still can use expansionary fiscal and monetary policy to obtain the growth target, if it is willing to raise the tolerable level of inflation. However, this could then serve to imply that China's structural problems will worsen further.

Under the current circumstances, the only feasible way to achieve a higher growth rate is to stimulate fixed-asset investment. The trouble is that the investment rate in China has surpassed 50 per cent of GDP. The growth rate of investment cannot be higher than that of GDP forever: eventually, the growth rate of investment must fall in line with the rate of GDP. When this happens, a hard landing is unavoidable, unless consumption demand shoots up to offset the negative impact on GDP growth, which is certainly not very likely.

In sum, after three decades' breakneck growth, the Chinese economic juggernaut needs to slow down somewhat so that the machine can be fixed for it to return to the fast lane and speed away. ■

Breaking the link between bank and government debt

The G20 needs to be more daring in defining monetary choices and the global banking structure, using lessons learnt from today's global market

By Paolo Savona, emeritus professor of political economy and chair, Italian Deposit Guarantee Fund

Some observers believe that central banks' independence of choice has been captured by the market, subjecting monetary policy to the requirements of addressing bank failure, sovereign debt burdens and unemployment. Seemingly, central banks are free to escape this condition, as the European Central Bank is doing by setting conditions on its intervention in support of government debts and bank recapitalisations. However, it has to do so in order to prevent the effects of either a soft or a hard default of government bonds from jeopardising banking stability and to avoid systemic risks. For the same reasons, quantitative easing has been put at the service of growth, even explicitly, as in the case of the United States Federal Reserve. It has assumed the commitment to continue such a policy until the unemployment rate dips below 6.5 per cent and promises to buy European sovereign bonds if necessary.

But the power of money creation to induce economic growth is modest. Non-performing loans increase, forcing banks to raise capital at a moment when doing so is difficult due both to low returns and to latent risks. Banks react by raising the level of creditworthiness required to loan to enterprises, when the crisis is pushing down their creditworthiness, with the consequence of a credit crunch. Therefore, there arises a vicious circle, which must be broken through accommodative monetary policy. Central banks thus have little alternative but to continue the policy that they are following – that is, they have been captured by the market.

Quantitative easing policies do not affect inflation trends because the modest growth of global demand leaves margins of unused capacity. This allows global supply to adapt to each single increase in global demand without the change being transmitted to prices. Global competition thus functions as a strong price control, even better than monetary restriction would. The effects of the increased quantity of money are especially reflected in the financial sector and less in the real economy; the injection of new money spontaneously flows to stock exchanges, increasing the prices of shares and bonds beyond the levels that the fundamentals of the economy would justify. The same happens when the injection of the monetary base is made directly to finance economic activity, as in the case of the US Federal Reserve buying mortgage-backed securities: the first impulse allowed the recovery of building activity, but the second flowed into stock exchanges, stimulating prices and lowering the return rates on financial activities. On the one hand, the spread for risks on government debts has decreased without controlling public budget deficits, letting the general public believe that the risk has been reduced. This is also as a result of the interpretation given by governments. On the other hand, the spread for risks induces investors and speculators to move towards riskier bonds, even those with a rating below market standards, worsening central banks' responsibilities for protecting the stability of the system.

Raising the real growth rate

Everybody knows that the only way to exit this situation is to raise the real growth rate over the market interest rates for the long run. Otherwise, a condition is created that some analysts believe can result in a 'perfect financial storm'. This would make financial savings, particularly those of pension funds, pay for the cost to exit the crisis. This would not be a novelty, since economic history shows that from every production crisis one exits with, as John Keynes stated, the euthanasia of the rentier. But the sociopolitical consequences would be very severe, for both the depletion of pension funds and the reaction of wealthy middle classes, which are out of the production processes (they are the rentier widely defined).

To request a rise in the growth rate is very easy, but in practice it is very difficult to achieve. The proposal with the same characteristics, put forward rather easily and difficult to implement, is to 'reform' the economies, but this is a magic idea that does not have the same meaning for all the political forces in action and for all individuals. For the right it means reorganising welfare, making labour markets more flexible and reducing tax burdens; for the left it means redistributing income and wealth from the rich to the poor and increasing public spending, even when in deficit. Those countries that are behind in the level of social guarantees, that

IMAGE BROKER/REX FEATURES

do not have tight labour markets and that have a modest tax burden, as in developing or emerging countries, are not under reformist pressures and can grow more. This is also because investment flows are directed towards such areas. More developed countries, usually characterised by democratic forms of government, struggle to succeed in implementing reforms affecting their competitiveness with emerging countries. The solution that these countries have identified to face the failure in adapting to the new real global conditions is to increase the amount of money and finance. This does nothing but create purchasing power over the real wealth produced by developing and emerging countries.

Coordinating policies

This issue will not likely be discussed by the G20 leaders at St Petersburg. But it is only right and fair to tackle it outside this context. Therefore, to deal with the problem of the vicious circle that leads to a new financial crisis, by breaking the link between banking activity and government debt trends, does not only mean taking a side road, but also means taking a dangerous one for the growth of income and employment. Europe will not exit the crisis if it does not coordinate the fiscal policies of members of the European Union, to solve its growth dualisms and give back independence to the ECB in its monetary choices. The world as well will not exit its contradictions if it pursues a global structure of trade without coordinating policies among the developed countries and taking into account the prospects of growth for the developing countries. The G20 has played a central role for heads of state and government to engage in consultation, but as such it has exhausted its stimulus capacity. It must therefore be more daring, not for the sake of mere ideology, but for the concrete interest that global governance must not be defined either by speculators or by countries bearing old ideologies, which are inconsistent with the logic and benefits of today's global market. ■

The world will not exit its contradictions if it pursues a global structure of trade without coordinating policies

Coordinating the fiscal policies of European Union members would help Europe to exit the crisis and return independence of monetary choices to the European Central Bank

Monetary policy: contributions and challenges

G20 members must consider the sustainability of monetary policy when looking for stimulus solutions to revive their economies

By Yang Li, director, Centre for G20 Studies, Shanghai International Studies University

Since the global financial crisis that began in 2007, emerging and developing countries have managed to maintain fiscal sustainability. Many have robust domestic demand, and interaction among them is increasing. Since 2011, developing countries have generated more than half of global economic growth, with China's contribution especially conspicuous. Against the backdrop of economic adversity in developed countries, the resilient economic growth in developing countries has become even more significant – especially as developing countries will continue to outperform developed countries.

In the international monetary system, based on the US dollar, the global economic imbalance was the product of the expansion of global demand. Ensuring global monetary stability is too much of a burden for one currency to bear. A US growth model based on high consumption and borrowing, with long-term twin deficits, will erode the dollar's international status and trigger a crisis in confidence.

Imbalances are also seen in the steep saving rates in some emerging countries, including China, where people are unwilling to consume despite high salaries. Exports are underpinned by low labour costs, and economic growth is driven by growing trade deficits and foreign reserves. These countries depend heavily on external demand and domestic investment. Furthermore, Russia and economies in the Middle East, which depend on resources for their trade surpluses, risk fluctuating resource prices. Countries with large foreign reserves seek safe assets with high liquidity and reserve values. However, with the dollar-based monetary system, the mismatch between external assets and liabilities of the dollar can easily mean a capital loss for these countries.

The recent financial crisis pushed the world's economy to the edge of collapse. Consequently, countries were more open to consensus. Within the G20, major powers adopted monetary policies to stimulate economies together. To rebuild confidence, central banks carried out large-scale unconventional monetary policies, including quantitative easing (QE) in the United States, the United Kingdom and Japan, and long-term refinancing and outright monetary transactions in the European Union.

Short-term thinking

Such policies stabilise the market and boost confidence in the short term. Market responses to QE include declining government-bond yields, refinancing in monetary markets, an end to a further credit crunch and decreased financing costs, and reduced risk aversion among investors. In particular, at the G20 Washington and London summits, countries agreed to implement stimulus policies simultaneously in order to manage the crisis, which helped to restore global confidence.

Central banks became the lenders of last resort. Although politicising monetary policy and monetising fiscal deficits cost some independence, central banks provided sufficient loans to organisations in financial crisis and loosened their monetary policies, which helped to stabilise the banking and financial systems internally and globally.

QE contributed to the economic stability of developed countries domestically and internationally. Although monetary policy restricted the effects of QE on economic growth, it supported financial stability in the short term.

On 17–18 June 2013, at their Lough Erne Summit, G8 leaders suggested continuing the existing stimulus, in stark contrast to the G20 finance ministers and central-bank governors. At the April G20 ministerial meeting, the Russian finance minister Anton Siluanov proposed setting specific targets for the ratio of debt to GDP, and Germany, Korea and China expressed concern about Japan's loosening of monetary policy, emphasising the risk of unexpected effects. However, the G8 recommended that stimulus policies differ according to economic conditions, thereby endorsing the policies of the US and Japan and the role of QE. The G8 communiqué reiterated that "monetary policy should continue to support the recovery … according to the respective mandates of central banks".

Aggravating imbalances

If developed countries fail to exit gradually from QE and stimulus, global financial imbalances will be exacerbated.

There are three possible outcomes. First, it may trigger competitive loose monetary policies. QE has long vastly expanded the balance sheets of the central banks. Nevertheless, the G8, led by the US, indulged Japan, with no opposition from the G20. Just as the US economy was beginning to recover, the yen gained some influence. Japan's monetary policy therefore has limited effect on the US economy, and the US still wants to take advantage of Japan strategically. The US attitude determined that of the G8. In the G20, some emerging countries disagreed with such actions, but none was willing to lead. Some countries resorted to retaliatory policies. In other words, competitive global competitive monetary policies cannot be avoided.

Second, emerging countries may encounter risks in capital inflow and outflow. Due to capital flows and exchange rates, developed countries' policies affect emerging economies including those of China, Brazil and India. These countries have been suffering spillover effects from QE. Since 2009, the surging price index in major emerging countries has dwarfed the increase in the US, Europe and Japan.

Excessive liquidity, meanwhile, has consumed the real purchasing power of foreign reserves in emerging economies, highlighting the imbalance of the poor subsidising the rich in the international monetary system. Now these countries must again deal with the consequences of the US withdrawing QE. The money that flooded into emerging markets during the crisis will flow

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Workers at a solar-panel factory in Jiangsu province, China. The country is seeing the negative effects of developed economies' fiscal-stimulus packages

swiftly out, creating turbulence in countries such as Indonesia and Thailand. In March 2013, international capital outflows peaked, with some countries experiencing larger outflows than in the European debt crisis in 2011. Many emerging countries reluctantly raised interest rates to curb inflation, avoid further depreciation and prevent rapid capital outflows. Yet the rising benchmark interest rate will raise financing costs, which may hinder economic development.

Third, there is a high risk of excessive capital flows. Loose monetary policies in major economies prompted excessive liquidity and pushed up inflation and asset prices, thus creating asset bubbles. Such policies can address the immediate problems, but with huge side effects, as seen in the eurozone. Over-reliance on QE without a growth strategy translates into short-term prosperity and long-term risks. If the economy of a country with huge debt stagnates or contracts, deficits and debt ratios will continue to grow. If loose monetary policy remains, it will boost liquidity within the economy, ignite inflation expectations and generate both domestic political turmoil and global social problems.

Emerging countries need to encourage more spending and less saving, and to reform social welfare and income distribution

Policies such as QE and central banks acting as lenders of last resort have brought some stability but have generated competition as countries adopt 'beggar-thy-neighbour' policies. Emerging countries face risks of both capital inflow and outflow. Excessive liquidity is also a concern.

Looking to the future

Nevertheless, QE remains a policy option, and it sheds light on how central banks can better address financial crisis. Three recommendations follow.

Firstly, central banks should avoid relying on QE. For strong, sustainable and balanced economic growth, the first step is to dump the old economic model of emerging countries producing while developed countries consume. Emerging countries need to encourage more spending and less saving, and to reform social welfare and income distribution. An improved fiscal system can also cushion the economy against external instability. Developed countries must conduct structural reforms and innovate in supply-chain management to improve productivity. Loose monetary policy can cure only the symptoms – not the disease. The longer such a policy lasts, the riskier the economy. So it is essential to understand how to implement monetary policy effectively to stimulate the economy without risking sustainability.

Secondly, international coordination of monetary policies should be improved. Globalisation has caused liquidity management, capital flow, shadow banking and financial risk control to move beyond the authorities' reach. Therefore, more attention should be paid to global financial governance, while respecting countries' governance mechanisms and sovereignty, in order to reinforce information sharing and policy coordination on common problems. For more balanced and sustainable development, developed countries and emerging countries should further explore financial governance, reduce friction and strengthen cooperation. Everyone benefits.

Finally, the G20 mechanism should be transformed from its role in coordinating stimulus policies and maintaining economic recovery to being a long-term governance mechanism for the global economy. ■

The G20, the financial crisis and the rediscovery of 'macro'

Since the global financial crash in 2008, the G20 has made a significant contribution to directing policy as the world realised the benefits of cooperation

By Andrew Baker, Queen's University Belfast

The word 'crisis' is an ancient Greek medical term. It refers to the critical turning point in a disease when the patient either dies or recovers from a condition. Crises are therefore associated with turning points or trajectory changes. In assessing the performance and role of the G20 as a governance mechanism that has emerged out of successive financial crises, it is important to consider what contributions it has made to any policy changes that have been made since the financial crash of 2008.

Since its promotion in 2009 to the premier forum for its members' economic governance, the G20 has operated as the 'apex policy forum' in the global system. It has powers of initiation, veto and endorsement that frame the wider machinery of global financial governance. The G20's most important role is thus to set policy trajectories, and its post-crash contributions should be understood in this context.

Dual policy directions

When historians evaluate the G20's record and success, two trajectories of relatively impressive policy learning are likely to stand out. As a whole, this policy learning amounts to a partial rediscovery of 'macro.' This has occurred along two different routes, with both emphasising the importance and value of G20 working groups.

First, in 2009, the G20 recognised that financial regulation needed to become more macroprudential. Constructing macroprudential regulatory regimes was made a political priority.

Macroprudential regulation is a set of new, or different, ideas about how to regulate the international financial system. At its core is the notion of systemic risk – the idea that the build-up of risk in the financial system has a systemic dimension that goes beyond individual institutional risk profiles. Containing systemic risk requires a macro policy stance to equip regulators (central banks) with policy instruments such as leverage ratios and countercyclical capital buffers, involving requirements that are adjusted to follow movements in ratios between credit and gross domestic product.

Contrasting regulatory approach

Such an approach contrasts with the pre-crisis regulatory status quo, derived from a simplified version of efficient market theory, which was micro in outlook and focused on whether individual institutions were safe and had sophisticated risk-management models. Greater transparency, more disclosure and more effective risk management by banks and investment funds were viewed as the best light-touch market-enhancing approach. Financial innovation was thought to be unambiguously positive, rather than threatening financial stability.

Macroprudential thinking, in contrast, revolves around the notion of the 'fallacy of composition': individual institutional incentives and the consequent courses of action do not necessarily result in desirable aggregate or systemic outcomes, and financial markets are inherently prone to instability, potentially threatening macroeconomic performance.

Before the crash, several macroeconomists and some staff at the Bank for International Settlements (BIS) tried unsuccessfully to push macroprudential regulation. After the crash, the G20 was much more receptive to their arguments. Pioneers of macroprudential thinking state that the G20's first working group on financial regulation, chaired by Tiff Macklem of the Bank of Canada and Rakesh Mohan of the Reserve Bank of India, cemented the macroprudential regulatory approach as the way forward and provided political support in 2009.

In 2009, the G20 effectively reconfigured the research machinery of the global financial architecture to prioritise the development of macroprudential knowledge. G20 leaders gave the new Financial Stability Board (FSB) a mandate to report on macroprudential policy development. Macroprudential research has since become a growth industry at international organisations and central banks. But the G20 cannot magically create functioning macroprudential regulatory regimes overnight. Developing macroprudential knowledge, including how to use adjustable capital requirements as a macro stabilisation technique, takes time. Experimentation, data collection and further research are required.

Nevertheless, in 2009 the G20 instigated an ideational shift that partially rediscovered macro and instituted a new way of thinking about financial regulation.

Lack of coordination

Second, more recently the G20 has performed a similar role in relation to macroeconomic policy and the question of global imbalances. In the so-called period of great moderation before the crash, great faith was placed in inflation-targeting by central banks. In fiscal policy, national deficit GDP targets were intended to convey a government's commitment to 'fiscal credibility'. This symbolic signalling was supposed to create an expectation of stability among a wide audience of individual rational actors and investors. This was a very micro approach to macroeconomic policy, derived from micro rational expectations of the world.

Internationally, these policy frameworks resulted in a non-aggression pact, where countries refused to openly criticise one another during the 1990s and the first part of the 2000s. The focus was on 'sound domestic policies'. While global imbalances, current-account deficits and exchange-rate protectionism were creeping onto the international agenda from the mid 2000s onwards, there was little sense of urgency. The macroeconomic framework and prevailing international norms were not particularly macro at all. Despite much talk of globalisation and interdependence, there was a failure to recognise how various parts of the globe were interconnected, thus creating coordination issues.

GEORGIOS KEFALAS/AP/PA IMAGES

Economists at the Bank for International Settlements in Basel, Switzerland, were among the proponents of macroprudential regulation prior to the 2008 financial crisis

After the crash, the G20 set up the Mutual Assessment Process (MAP). It is based on a recognition that global imbalances must be contained, because they can be – and were – a source of instability, evident in Chinese surpluses contributing to a giant credit and financial boom in the United States and other Western countries.

Unsustainable imbalances

After the G20's Seoul Summit in 2010, the G20 working group on the Framework for Strong, Sustainable and Balanced Growth conducted an in-depth study of persistently large imbalances. It used three statistical techniques and a model-based technique to identify that the United States, China, Japan, United Kingdom, Germany, France and India had unsustainable imbalances in relation to at least one of public debt, public deficits, private savings, private debt or the current account. This has resulted in the most structured and developed form of ongoing peer review and shared framework for addressing imbalances over the long term, and the most far-reaching attempts at economic policy coordination since the early 1970s and the breakdown of the mixed but adjustable exchange-rate regime.

If the MAP does generate national policy changes and reduce imbalances, it will be a slow, gradual process. The G20 can only do so much at an international level. Real obstacles to adjustment lie in the domestic political economies of countries such as the US and China. Nevertheless, participants value the MAP for providing an effective way of sharing information, analytical tasking and structuring dialogue. They point out it has not yet evolved into a means for negotiating packages of mutual policy trade-offs and specific deals, but that it could evolve further. G20 deputies recognise that, should the US move ahead with fiscal consolidation on its own, China would be substantially affected, given the size of the US as a trading partner. From China's perspective, lack of coordination to reposition towards internal demand could prove costly. Both countries would suffer economically. At the same time, joint action over the medium term would clearly benefit both.

Policy coordination, after nearly two decades of being out of fashion, is evidently back and recognised as having potential gains

Policy coordination, after nearly two decades of being out of fashion, is evidently back and recognised by the International Monetary Fund and G20 finance ministries and central banks as having potential gains in terms of sustainable and stable growth. Intellectually, institutionally and procedurally, the world has come a long way. The G20's framework working group has driven this process.

The G20 has thus imparted important changes in policy trajectory and presided over new modes of thinking. But regulatory and macroeconomic outcomes are often determined by politics at a domestic level, over which the G20 has limited control. Its role in this context is to maintain political pressure for the construction of functioning national macroprudential regulatory regimes and to encourage coordinated macroeconomic adjustment. ■

Moving the Mutual Assessment Process forward

Created as a forum for economic cooperation, the Mutual Assessment Process now needs to show that it can have a positive impact on jobs and growth

By Stephen Pickford, senior research fellow, international economics, Chatham House

As the fifth anniversary of the first G20 summit approaches, and with it the fourth anniversary of the launch of the Mutual Assessment Process (MAP) in Pittsburgh, it is a good time to take stock of what is seen by many as the G20's flagship project.

The MAP, underpinning the G20's Framework for Strong, Sustainable and Balanced Growth, was intended to demonstrate that the G20 could move from a crisis committee to a mechanism for international economic cooperation among the world's major economic powers in more normal times. It was to be a forum for mutual assessment, evaluation, discussion and coordination of national economic policies in order to deliver better global outcomes.

The MAP itself has evolved, and the issues it has addressed have also changed. At the outset, it was intended to help countries shift the balance of demand, both internally and externally, so that deficit and surplus countries could adjust imbalances relatively smoothly and avoid a 'hole in demand' globally. But as the crisis abated, the priority shifted to assisting those countries affected to manage medium-term consolidation of fiscal positions weakened by the crisis, without jeopardising economic recovery. And as the euro crisis flared up in 2011, the MAP again changed orientation.

The changing focus of the MAP

The MAP focused initially on the consistency of economic forecasts. It has developed into a process for countries to critique each other's policies and work towards better and more consistent policy settings, and to minimise negative spillovers from one country's policies onto other countries.

It is difficult to make an objective assessment of the impact of the MAP. Not only does nobody know how the world economy would have behaved in the absence of the G20 and the MAP, and how different policy settings would have been, but also the time lags for policies are notoriously long and variable.

Avoidance of protectionism

Nevertheless, the world now is a safer and more stable place than it was in the immediate aftermath of the crisis. The adjustment from crisis to relative normality has also been relatively smooth. Previous crises of the magnitude of the late 2000s have typically been followed by a retreat to protectionist and nationally oriented policies. Avoiding that path this time is almost certainly due, at least in part, to the existence of a forum where all the major countries, and the relevant international organisations, could discuss and debate how to respond, while avoiding policies that would damage each other. But it is difficult to point to specific examples where the MAP has made a real difference to economic outcomes.

In its four years of life, the MAP has responded to new issues. But, just as with the G20 agenda, the MAP has found it difficult to reprioritise

Compared to previous attempts at international policy coordination, the MAP has a number of strengths. It is 'owned' by the G20 members, since they drive the process and are responsible for its success or failure. But it is also able to access high-quality inputs and technical expertise, in particular from the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development and the World Bank. It involves the finance ministries and central banks from all the major economic players; and it is fully transparent, with the inputs from international organisations and the outputs from the process all made public.

But there are also weaknesses. There is no enforcement mechanism for policy changes, other than public embarrassment. This is reflected in the relatively modest nature of policy commitments made by G20 members. Also, it is not clear that it is possible to have detailed and comprehensive negotiations with 40-plus institutions represented in the room.

So what might be done to make the MAP more relevant over the next four years and establish itself as a key component of international economic policy coordination? Three factors are important: focusing on the right issues, developing better processes to deal with difficult issues and ensuring buy-in at the highest political levels.

In its four years of life, the MAP has changed its focus and responded to new issues as they have become more prominent. But, just as with the wider G20 agenda, the MAP has found it difficult to reprioritise, instead adding new issues without deprioritising others. As a result, the MAP agenda has grown, so that it now covers the entire range of fiscal, monetary, financial and structural policies.

To some extent this is unavoidable because these policy areas are interconnected. And it can be easier to make headway in multilateral negotiations if there are a number of dimensions in play, so that all parties can gain something from the overall package. But with limited political capacity to prioritise multiple issues, the MAP needs to focus on the most important issues of the day.

Shifting priorities

As advanced economies outside the euro area now seem to be gaining growth momentum, at the same time as emerging economies (led by China) are slowing, the priorities for the MAP need to change. If these trends continue, fiscal consolidation in advanced economies should become easier to achieve. However, inflation pressures may start to emerge, so the debate about when and how to exit from unconventional monetary policy measures – and the wider debate about the inflation-targeting model – could become more pressing.

Also, very high levels of unemployment in many countries will raise difficult questions about dealing with the long-term consequences, and the handover of demand from public to private sectors, and from surplus to deficit countries, is unlikely to be completely smooth. The MAP needs to be able to shift focus and address these issues.

None of these is easy, however, either at the national level or, even more so, at the international level, so finding ways to make the MAP function more efficiently will also be important. As the MAP was getting off the ground, it was politically important to establish clear country ownership of the process. But now that this has been achieved, there is a case for a more directive approach, in particular to allow effective reprioritisation. The IMF could play this role, if the biggest G20 members will allow it to do so.

Securing agreement

Without political buy-in, at the highest levels of government and especially in the largest countries, agreement on a cooperative set of policy measures will be difficult to achieve, and even more difficult to implement nationally. Most of the MAP's work is carried out at the technocratic level. Although the MAP reports to finance ministers and central-bank governors, and then to leaders, summit agendas tend to focus on the most pressing issues of the day. A central question for the future effectiveness of the MAP is how to secure the attention and focus of leaders, especially in more normal times.

One specific way for the MAP to establish its credibility with leaders is to work on a few issues where actions can be delivered speedily. Quick wins would demonstrate that the MAP can deliver.

Over the past four years, the MAP has shown that it can help countries avoid adopting policies that do harm to the global economy. This is no mean feat, but to realise its full potential it needs also to show that it can help the major economies cooperate on policy packages that positively benefit growth and jobs, and that make the global economy more stable and resilient. ■

EUGENE HOSHIKO/AP/PA IMAGES

A construction worker at a shopping mall in Shanghai. As emerging economies such as China start to slow, the Mutual Assessment Process can be instrumental in mitigating the negative effects

Tackling the global jobs crisis and boosting recovery

The effects of the global economic crisis are still being felt in labour markets worldwide, requiring increased international action on jobs and growth

By Guy Ryder, director general, International Labour Organization

Five years after the onset of the financial crisis, the global economy is not yet growing at the pace needed to create enough decent employment opportunities to restore pre-crisis employment levels and accelerate the reduction of extreme poverty. Worse, the pace of growth appears to be slowing.

The G20 leaders said at their 2009 Pittsburgh Summit that "We cannot rest until the global economy is restored to full health, and hard-working families the world over can find decent jobs." The Russian presidency recognised that this remains the priority when it set growth and jobs as a main focus for the St Petersburg Summit.

Troubling employment outlook

Over the past 12 months, unemployment has risen in half of the G20 members, and has fallen only marginally in the other half. It exceeds seven per cent in Canada, France, Italy, Turkey, the UK and the US, and is over 25 per cent in South Africa and Spain. In total, 93 million individuals are out of work across G20 countries, 30 per cent of whom have been unemployed for over one year.

Youth unemployment was above 16 per cent in the first quarter of 2013 in 10 countries, with levels at 20 per cent or more in five countries (France, Indonesia, Italy, UK and Saudi Arabia) and across the European Union as a whole, and a rate above 50 per cent in Spain and South Africa. Of particular concern is that nearly a quarter of jobless youth have been unable to find work for over a year.

Furthermore, many more workers have dropped out of the labour market entirely, causing the employment-to-working-age population ratio to fall below its pre-crisis level in 13 countries. Some 67 million jobs would have to be generated to restore the previous ratio in all countries.

In many emerging and developing countries, the expansion of quality formal employment lags behind the increase in the labour force and, consequently, informal employment remains very high, reaching more than 70 per cent in the cases of Indonesia and India. A further effect of the slowdown in growth in developing countries is that this high share has declined in only few countries, notably Argentina and Brazil.

Earnings inequality and falling wages

Wages have fallen in real terms in many developed countries and are growing more slowly than in most developing countries. High earnings inequality and differences across households in work intensity are reflected in both a high level of household income inequality and a high incidence of poverty in many countries.

Reversing these employment and social trends is essential to turning round G20 economic prospects. Strong job creation and improved livelihoods are indispensable means to eradicate poverty and establish a virtuous circle of expanding and inclusive economic growth. In today's highly integrated global economy, more effective international policy coordination is imperative to correct the current deficits of decent work opportunities in countries at different levels of development.

A jobs-oriented recovery strategy by a significant number of countries simultaneously will also ease pressure on public finances through increased tax revenues and reduced recession-related expenditures. Positive multiplier effects at country level would also have spillover benefits for the global economy. Policy initiatives relevant to a large number of countries include increased infrastructure investment with an emphasis on employment intensive options; easing of lending conditions to small and medium-sized enterprises (SMEs); strengthening social protection floors; introducing or raising minimum wages and promoting collective bargaining systems that align wage growth with productivity; and increasing training opportunities, especially for youth.

Increased employment opportunities, improving real wages and strengthened social protection are practical, achievable policy goals that will help fill the global aggregate demand gap widely recognised as the main cause of the slow recovery. A pickup in consumer demand, driven by a focus on raising the living standards of those at the lower end of the income spectrum, as powerfully advocated by Jim Yong Kim, president of the World Bank, will also improve business confidence and stimulate the investment in the real economy essential for sustainable recovery. Thus, focusing on employment, incomes and social protection can help put the global economy back on a sustained and sustainable growth path.

Action to halt a slide into a prolonged period of slack growth or, worse, renewed recession is urgent, given that global growth forecasts have been lowered for 2013 and 2014. This implies that the world economy will tick over at a rate unlikely to allow for significant improvements in the employment situation. This is gravely worrying after five years of persistent world economic downturn.

The need for urgent G20 action

It is not surprising that political tensions have risen and boiled over in several countries. Many can be traced back to employment challenges; in quantity and in quality, the jobs available are inadequate.

Since 2010, G20 members have been implementing a range of measures to boost employment, many of which have been recommended by their employment and labour ministers. In several countries, including Indonesia and South Africa, infrastructure investment leading to broad and immediate job creation has been prominent. Employment subsidies, particularly for young people, have been introduced in the UK and elsewhere. The European Union has adopted an ambitious programme on youth employment guarantees, and many have actively promoted reforms in vocational training and apprenticeships. Public employment programmes have been stepped up in India, and public employment services have been strengthened in many countries. Basic social protection coverage, in applying the concept of social protection floors put forward by the International Labour Organization (ILO), has been significantly expanded in China, India, Brazil and Mexico, among others.

Labour-market policies and skills development are typically areas in which design matters greatly to success. The G20 is proving itself a valuable forum for the collective review of experience in policy implementation. A particular focus has been vocational training and education, including dual learning and apprenticeships. Among the factors identified as contributing to success are a high degree of coordination with social partners and other actors aimed at reaching agreement on the occupational skills required for specific occupations and the related training programmes. It is thus particularly welcome that unions and employers, through the B20 and the L20, have jointly presented their Key Principles of Quality Apprenticeships. This provides a way forward to further social-partner cooperation.

Strengthening policy coherence

The initiative of the Russian presidency to organise a joint meeting of finance and labour and employment ministers was thus a welcome step in strengthening policy coherence internationally. In their communiqué on 19 July, ministers agreed that "coordinated and integrated public policies are crucial to achieving strong, sustainable and balanced growth, and restoring confidence in the global economy". They declared strong support for finding the right balance between labour demand and labour supply, and ensuring adequate social protection. They supported measures to improve access to financing, including for SMEs, tailored to national circumstances, given the relevance of long-term investment for growth and employment.

It is most welcome that G20 members have agreed on policies to improve conditions for accelerated growth and job creation. The recognition that, in addition to investment in the real economy of productive enterprises, labour-market policies (such as wage rises targeted on the lower-paid) drive aggregate demand and growth is a major step forward.

The experience of several countries suggests that high employment levels and inclusive growth can be achieved through a well-designed combination of supportive macroeconomic policies and employment, labour-market and social-protection policies. This requires a careful balance between providing adequate income support for those out of work and with low incomes and activation measures that help them to find rewarding and productive jobs. Social partners are important in shaping the design of policies to the characteristics of national and local circumstances.

The employment situation within G20 countries would improve considerably with a more supportive external environment

The employment situation within G20 countries would improve considerably with a more supportive external environment. This, in turn, requires the collective effort of all countries working towards the shared objective of strong, sustainable and balanced growth. The ILO stands ready to work with G20 and multilateral agency partners to lift the employment and income prospects of people the world over.

Increased multilateral cooperation

The G20 has requested contributions from international organisations frequently to support its work. This has stimulated increased cooperation within the multilateral system. The ILO has a distinctive mandate and expertise in the multilateral system, as well as a unique governance structure that includes representatives of employers' organisations and trades unions. It brings a different way of approaching shared policy challenges that countries and other multilateral organisations can draw upon. Among its core values are Fundamental Principles and Rights at Work, which include rights to freedom of association, the effective recognition of the right to collective bargaining and freedom from discrimination in employment.

In addressing the challenges of the global economy, the ILO's compass is its constitutional mandate to strive for social justice. As social tensions mount in many countries with the receding prospect of recovery, putting the highest priority on promoting the integration of decent work into the policies needed to shape sustainable global growth and development is ever more essential. Russia's presidency has rightly placed growth and jobs high on the G20 agenda. The test for the G20 governments is now on their capacity to deliver on the growth and jobs agenda. ■

IMAGE BROKER/REX FEATURES

Developing the skills of young workers is a key element in tackling youth unemployment. Apprenticeships and training schemes have been a focal point for G20 members

Making rights realities: does privatising educational services for the poor make sense?

By Keith M. Lewin, Professor of International Education and Development at the University of Sussex and Director of the DFID financed Consortium for Research on Educational Access, Transitions and Equity (www.create-rpc.org)

There has been a growing interest in the role that for-profit private providers of educational services can play in universalising access to basic education. The mechanisms include promoting low-cost private schools for the poor and public financing of privately managed schools through vouchers. However, the case for continued emphasis on public provision and financing of basic education to promote equitable development remains compelling. There are a number of questions that need to be addressed to help make rights to education realities.

Question 1. Can fee-paying and for-profit private provision make a central contribution to universalising access to education?

All children have had a right to free basic education since the UN Declaration on Human Rights in 1948 and the UN Convention on the Rights of the Child (1989). This right was reaffirmed at the Jomtien (1990) and Dakar (2000) Global Education Conferences, by the UNICEF School Fee Abolition Initiative, and most recently by the UN Secretary-General's commitment to 'Education First' in 2013. Thus, UN member states remain committed to providing fee-free schools that impose no costs on households, especially the poorest. States are the 'provider of last resort' and have to ensure that no child is excluded from quality education. Fee-paying private schools ration access by price and cannot therefore be central to delivering the right to education. Voucher schemes that are run for profit transfer scarce resources away from public benefits, and have yet to demonstrate that they enhance equity. States and public school systems should remain the main method of delivering rights to basic education to the poorest.

Primary school in Africa. Photo: GODONG / BSIP / Reporters

Question 2. Publicly funded and managed education systems have delivered massive increases in access to education and are now working on improved quality – why change a successful strategy?

The fact that some states will fall short of universalising access to basic education by 2015 should not overshadow widespread progress. The number of children out of school has halved over the past 15 years from about 110 million to 60 million. Those out of school are now less than nine per cent of the world's children. More than 50 per cent are in just 10 of the 200 UN member states, where conditions are especially challenging. Overwhelmingly, these gains have been financed and delivered through the expansion of fee-free public school systems. The largest gains since 2000 have been where there have been massive public programmes to support the growth of free public schools, such as in Ethiopia (by 160 per cent) and Tanzania (100 per cent), and through India's Sarva Shiksha Abhiyan programme. China's rapid development has built on near-universal access to public education. Where there have been much smaller gains, such as in Pakistan (30 per cent), and Nigeria (15 per cent), and progress has stagnated, private provision has not compensated for poor governance and lack of political will.

Question 3. Why should private school providers be subsidised if private provision does not increase access for the poorest and private schools do not consistently outperform public schools?

Research on 'low-fee' private schools in Ghana and India indicates that they predominantly enrol children who were previously enrolled in other schools, rather than reach out to those who have never, and never will, attend school. Low fees are often not low enough to allow for the participation of the poorest, as research in Uttar Pradesh shows, and may require 30 per cent or more of household income per child from the poorest households below the poverty line. There is evidence that in some countries, poor households favour paying fees for boys rather than girls if choices have to be made.

Unsurprisingly, one of the most common causes of dropout in the Punjab is the cost of schooling. Where poor households borrow to finance fees, as they do in Ghana, this can lead to debt with annual interest of 40 per cent or higher. Some fee collection is also known to be coercive. Every dollar spent on school costs by households below the poverty line is a dollar less spent on health, nutrition and shelter.

International studies of achievement do not produce consistent findings that privately financed schools outperform public ones when appropriate value-added controls are applied. In many countries, there is a long list of public schools that perform as well or better than low-fee private schools, and differences between school types after correcting for social background are small and not in consistent directions. The problem is that there are not enough fee-free high-performing public schools addressing the needs of low-income households, not that they do not exist or cannot be replicated.

Question 4. Can private-sector engagement fill the resource gaps needed to finance universal access to basic education?

The Dakar promise in 2000 that "no country with a credible plan would fail to universalise basic education for lack of resources" was reaffirmed in Dakar in 2013. It should mean what it says. All countries that commit more than 2.5 per cent of GDP to basic education, allocate more than 15 per cent of their government budgets to education, and operate schools at costs per child of less than 15 per cent of GDP per capita can afford universal access to education. If they do not provide it, the reasons are not a lack of finance but issues of political will, prioritisation, and productivity. If revenue generation and allocation is insufficient to support universal access to public schools, it is also insufficient to finance voucher schemes and subsidise fees in private schools. Successful fee-paying private schools need no subsidy because they can be very profitable, returning 30 per cent or more on capital annually. Village-level single proprietor family enterprises in dwelling houses may not be profitable, and usually have small and irregular enrolments and fee incomes and low levels of achievement. It is also not clear why they should be subsidised.

Question 5. What are the systemic risks associated with privatising educational services and are they acceptable?

If private fee-paying schooling is more than a small proportion of total enrolment, the systemic risks can be considerable. Fees may be raised to levels that price out segments of the population; margins of return on capital may fall, causing closure and migration of venture capital to other business opportunities; competition may lead to examination-orientated learning and institutionalised private tuition; large providers may establish collusive relationships with state bureaucracies; and socially exclusive groups may create separate school systems antithetical to national unity. In many countries, private contractors of services to states do not have to employ teachers who are qualified and paid above the minimum wage within a developmental career structure. If truly low-fee private schools require teachers to be paid at or below the poverty line, as is the case in parts of South Asia, this abrogates teachers' rights to a decent job. Most worryingly, private providers may ebb and flow with the business cycle and scale down private provision in economic recession as effective demand softens, leaving the State to pick up the pieces when schools close.

Conclusion

The arguments in favour of continuing to invest in the development of publicly financed and provided basic education school systems are compelling. First, public systems are the only guarantors of the right to basic education. Second, public systems have delivered much additional access at very low costs to households and include many schools of quality. Third, fee-free public systems reach children who would not otherwise attend school, and enrol the poorest who are of little commercial interest. Fourth, resource gaps can only be filled by public policy that adopts appropriate fiscal policy, projects political will to universalise access, and promotes pro-poor redistribution of educational opportunity. Fifth, systemic risks are real where there is increasing dependence on an array of private-sector providers, limited capacity to supervise, opportunities for rent seeking, and sensitivity to the business cycle.

Fee-free public systems are the mode of choice for basic education in almost all rich and middle-income countries for the valid reasons that they do deliver public goods more effectively and sustainably than the alternatives. They promote Rawlesian equity where investment of public resources results in pro-poor redistribution of opportunities. States need to deliver public services well because public goods that have collective benefits are at the centre of development. These are not best provided through markets and distributed by the ability to pay. Public services require public taxation that is equitable, progressive and socially just. States need to provide public goods that have quality, reach and impact on development to enhance social cohesion, legitimise democratic governance, sponsor social mobility, and make rights realities. The next generation of children deserve no less.

For the full version of this article including references: http://go.ei-ie.org/g20reality

The economic benefits of education and human capital

Investment in education has broad long-term benefits for economies, where the distribution of skills is closely linked to the distribution of incomes

By Harry Anthony Patrinos and Kaavya Ashok Krishna, World Bank Group

Ever since economists and other social scientists discovered the benefits of education for human development, there have been countless estimates of the economic payoffs to investments in schooling. These benefits include poverty reduction, equity enhancement, promotion of rights, gender equality, child education, health, fertility decisions, job-search efficiency, technological change, social cohesion and crime reduction, among many others.

Education systems help expand knowledge and promote skills that propel individual labour productivity. Economic growth is strongly affected by the skills of workers. As such, individual earnings are systematically related to cognitive skills, and the distribution of skills in society is closely related to the distribution of incomes. Education also encourages the development of well-functioning economic institutions, such as established property rights, open labour and product markets, and participation in international markets. A more skilled population almost certainly includes both a broadly educated population and a cadre of top performers that results in stronger economic performance for countries.

A measure of labour productivity at the individual level is the level of labour market earnings. In turn, the productivity of schooling can be measured by the differences in earnings between levels of schooling. This is conveniently summarised as the rate of return to schooling, which is typically estimated as the proportional increase in a person's labour-market earnings from an additional year of schooling completed. The worldwide average rate of return to another year of schooling is 10 per cent a year. Returns are highest at the tertiary level, at an average of 17 per cent, followed by primary at 10 per cent and secondary at seven per cent. The returns to schooling are particularly high in developing and emerging markets, given the growth of those economies and the scarcity of human capital in those countries.

Estimates of the returns to schooling are a useful indicator of the productivity of education and an incentive for individuals to invest in their own human capital. This evidence can be used to guide public policy in the design of programmes and crafting of incentives that both promote investment and ensure that low-income families make those investments.

While the average rate of return to another year of schooling is 10 per cent, according to *Returns to Schooling around the World* – a huge effort to compile more than 500 observations from 131 economies between 1970 and 2011 – returns are highest in sub-Saharan Africa, at 12.4 per cent. Healthy returns are also experienced in East Asia and Latin America. Below average returns are found in the relatively 'schooled' Eastern European economies and the much less schooled economies of South Asia. The latter is a particularly worrying fact.

In agrarian economies, such as Kenya, Myanmar and Senegal, the returns to schooling are high at all levels, probably as these are low-income economies with a scarcity of human capital. Meanwhile, in resource-rich economies, such as Botswana, Papua New Guinea and Peru, similar results suggest that human capital skills are a complement to resources. In conflict-affected states, such as Afghanistan, Liberia and Sri Lanka, the returns are relatively higher at the primary level, emphasising the need for basic skills in such countries.

By level of schooling, the returns to schooling are highest at the tertiary level, showing that the demand for higher levels of skills is increasing and that the demand for skills is global. At the same time, the returns to schooling are high at the primary level, signalling continued need for basic skills and improved quality of education at lower levels. Returns are also relatively higher in poorer economies. The effect of schooling on earnings continues to be greater for women, both absolutely as well as controlling for personal characteristics, despite the fact that women tend to earn less than men in absolute terms.

The average rate of return to another year of schooling is 10 per cent a year. Returns are highest at the tertiary level, at an average of 17 per cent, followed by primary at 10 per cent

Making the right investments

It is important to focus on the quality of education, because ignoring differences in quality can distort the way the relationship between education and economic outcomes is perceived. Decision-makers must not assume that an increase in funding for schooling will automatically produce high returns. It is necessary to ascertain how these investments translate into quality and how that quality relates to economic returns.

In many developing countries, the government is both the main financier and provider of education. While maintaining that basic education services remain a public responsibility, governments have several options at their disposal for ensuring that education is of an acceptable quality without actually being the main provider of education. Publicly financed but privately provided education is one way in which governments can do this, and private management of public institutions is another. An innovative way of financing education is via cash transfers to schools based on enrolments, or by providing cash to families to purchase schooling – in other words, through vouchers. Another way is to reach education providers directly and ensure they deliver the services by fulfillment of a contract, such as charter schools, in the United States, academies or free schools in the United Kingdom, or concession schools, in Colombia. The objective in these cases is to extend financial support from the government to providers and parents and promote access to quality education. Still, there is a need to invest in what works in education, and publicly financed programmes are based on rigorous evidence before they are taken to scale.

Developing education for growth

In order to foster sustained economic growth, it is important to make sure that young people entering the workforce are skilled and able to take advantage of the opportunities offered to them. In many low-income countries, educated young people face prolonged unemployment or perform very low-productivity activities. This contributes to a sense of dissatisfaction. It also represents a loss of human capital. Potentially, such misallocation of resources may even threaten social stability. The *World Development Report 2013: Jobs* finds that poverty falls as people work their way out of hardship. Jobs, through their ability to raise living standards, spur productivity and contribute to social cohesion, and drive development and prosperity.

At the 2012 G20 summit at Los Cabos, leaders from around the world agreed that quality employment is at the heart of macroeconomic policies and committed to urgently combat unemployment through appropriate labour market measures and fostering the creation of decent work and quality jobs, particularly for youth and other vulnerable groups who have been severely hit by the economic crisis. But skills levels, particularly in poorer countries and among disadvantaged groups, are inadequate; and mismatches of skills exist in the labour market. International organisations and the G20 economies work to provide knowledge and financing to inform and support skills and workforce development efforts within the context of an education system.

Education affects the lives of individuals, their participation in economic activities and their overall productivity in the labour market. It is a universal fact that, in all countries of the world, one's education is directly proportional to one's earnings. Knowing the empirical returns to schooling is useful for policymakers. Increasing returns as one goes from the lower to the higher end of the earnings distribution is a clear indication that ability and education complement each other, with more able workers benefiting from additional investment in education. ■

The views expressed in this article are those of the authors and should not be attributed to the World Bank Group.

BART VERWEIJ/WORLD BANK

Students in Laos, where a key development goal of the government is to keep more students in school. Education systems help expand knowledge and promote skills that drive labour productivity

Strengthening G20 social policy

While the G20 focuses most of its attention on its employment and labour agenda, there is a need for greater support for social policy initiatives

By Caroline Bracht and Julia Kulik, senior researchers, G20 Research Group

In the wake of the global financial crisis that began in 2008, the G20 emerged as the premier forum for its members' international economic policy coordination by working to ensure global financial stability, which is its core mission. Since the start of the crisis, G20 members and non-members alike have struggled to manage its effects.

Cutbacks in social spending in the name of fiscal consolidation, coupled with high rates of unemployment have led to social unrest in extreme cases but, more generally, to a growing recognition that financial stability cannot be maintained without investments in social policies that work towards greater social inclusion and equality. Despite increasing rates of inequality in most of its member countries, the G20 has yet to recognise that inequality is both a cause and consequence of economic performance. For the G20 to meet its second mission of making globalisation work for all and to remain a leader in global governance policy coordination, it must govern social policy in a much more substantial and supportive way.

Although many actors and institutions contribute to the governance of global social policy, there remains a governance gap that needs to be filled. There is no single coordinating body responsible for governing global social policy, defined as the policies and mechanisms of global redistribution, global social regulation and global social rights.

Since the leaders first met in Washington in November 2008, the G20 itself has, in practice, governed social policy and its four core distinct pillars of employment and labour, education, health and gender. It got off to a slow start, but its governance of social policy increased up until its most recent summit in Los Cabos in 2012. Moreover, G20 governance is still very limited in this sphere. It must do more to meet the needs of its own citizens, particularly those hardest hit by the financial crisis.

The G20 Research Group has assessed G20 performance on social policy since the summit's inception according to four dimensions of performance applied to social policy and the four core pillars mentioned previously. On the first measure of performance, deliberation, the G20 has addressed employment and labour policy more frequently than any other social policy pillar, referring to the issue in 30 paragraphs at the Los Cabos Summit. There have been fewer references to the second pillar, education, which was mentioned in seven paragraphs in the Los Cabos documents, an all-time high.

Deliberation on health, the third pillar, has been limited and has decreased consistently since the 2010 Seoul Summit. Finally, the fourth core pillar, gender, has received the least attention. It was completely absent from three of the G20's seven summits, with the most references coming in three paragraphs at Los Cabos. There were most references – five paragraphs – to social policy as an overarching issue at the 2011 Cannes Summit.

Policy commitments

The second dimension of performance is decision-making, which measures the number of collective, action-oriented commitments pledged by G20 leaders. Between 2008 and 2012, there were 64 employment and labour commitments, the most of any of the social policy pillars. The G20 made 16 commitments on education, which was the second highest of all four pillars. Health received 11 commitments, and gender received five.

The third dimension, delivery, measures how well G20 members comply with their commitments. Compliance data for social policy commitments is limited, as the G20's priority agenda has been more heavily weighted towards macroeconomic policy coordination than towards social policy. On the five employment and labour commitments assessed, G20 members achieved an average compliance score of 79 per cent, a score higher than the average of 65 per cent for all social policy pillars. In the area of education, the average for the two education commitments assessed was 68 per cent.

The social policy pillar of education was well covered in the G20 Los Cabos Summit documents, while gender issues received far less attention

CHRIS ISON/PA WIRE/PA IMAGES

On health, the G20 members achieved an average of 57 per cent based on an assessment of three commitments. To date, there have been no compliance reports completed in the area of gender.

The fourth dimension of performance, the development of global governance, measures the level of engagement between the G20 and other internal G20-created institutions and external international organisations related to the areas of social policy. Engagement between the G20 and international employment/labour institutions has been consistently strong, with frequent references to the International Labour Organization and the Organisation for Economic Co-operation and Development. In the area of education, the G20 has rarely referenced the United Nations Educational, Scientific and Cultural Organization, one of the main contributors to the global governance of education.

References to health-related institutions have been largely absent from G20 documents, with the exception of one reference to the

Although many actors contribute to the governance of global social policy, there remains a governance gap

UN High Level Plenary Meeting on Millennium Development Goals at the 2010 Seoul Summit. The G20 has also yet to institutionalise a meeting of its health ministers similar to its meeting of finance ministers and central bank governors – something that was done by Brazil, Russia, India, China and South Africa at their 2011 BRICS summit. There has been no engagement between the G20 and institutions dedicated to promoting gender equality and women's rights.

Thus, a much more substantial supportive social policy agenda is needed. The G20 has focused on the development of its employment and labour agenda and left underdeveloped the areas of education, health and gender – along with broader social protection policy. Furthermore, there is a glaring need for an overarching agenda to set a global social policy governor. The St Petersburg Summit provides an opportunity for the G20 to prioritise social policy and provide direction for its global governance through concrete, clear and comprehensive commitments. ■

Solving SIFIs, regulatory regimes and shadow banking

The global financial picture may have taken a more positive appearance of late, but robust regulation must still be pursued to avoid the risk of future crises

By Lida Preyma, director, Capital Markets Research, G20 Research Group

In recent months, the finance ministers and central bank governors of the G20 have acknowledged that financial risks to the global economy have receded and that financial market conditions have improved. But the recovery is fragile and uneven, and unemployment remains excessively high.

Before 2008, everyone talked about how globalised and interconnected the world had become. But it was not until the financial crisis that it became apparent how interconnected it was – both in terms of benefits and, especially, of downside repercussions. In the ensuing years, preventing a future crisis has been the crux of all new regulation.

Transparency and effective regulation would be the way to bring much-needed confidence to the markets and to rebuild economic growth. Such new regulation would need global cooperation and coordination in order to be effective and long-lasting. The G20 was thus the proper forum for decision-making because not only do its leaders have the political will to formulate consensus, but the finance ministers and central bank governors also have the ability to implement the decisions.

Avoiding taxpayer bail-outs

The use of taxpayer money has become an unacceptable means of bailing out the malfeasance of financial industry risk-takers. Citizens want a safer regulatory regime and do not want to pay for the mistakes of others. To that end, regulating systemically important financial institutions (SIFIs) and strengthening resolution regimes have become priorities for the G20. Regulating shadow banking, which could be argued to have exacerbated the crisis, is critical in order to prevent the future crisis that may now be looming. The challenge is finding the right mix between safety and operability.

In November 2011, the Financial Stability Board (FSB) listed 29 global SIFIs (G-SIFIs), which were considered too big to be allowed to fail. Global repercussions would reverberate if the orderly unwinding of these financial institutions did not take place. This list will be reviewed each November and, starting in 2016, a capital surcharge of up to 2.5 per cent will be applied to those on the 2014 list.

To be on the list means to be guaranteed a rescue. Not being on the list means having more free capital to generate revenue. This may lead to financial institutions that actively manage their business lines in order to avoid designation. Indeed, some may even retreat into their home countries. Such a trend would have clear business consequences for international finance activities.

Guidance on Identification of Critical Functions and Critical Shared Services and *Guidance on Recovery Triggers and Stress Scenarios*. By the time of the G20 leaders' meeting in St Petersburg, the methodology for selecting and applying a supervisory regime for domestic SIFIs (D-SIFIs) will have been introduced.

Review of resolution regimes

In order to resolve financial institutions in an orderly manner without taxpayer exposure, the FSB presented 12 necessary core elements in its *Key Attributes of Effective Resolution Regimes for Financial Institutions*, released in the autumn of 2012. It took into account different national legal systems, market environments and sector-specific considerations.

The FSB's first peer review, released in April 2013, found that, in many jurisdictions, resolution authorities still lack the power to transfer assets and liabilities rapidly and to write down debt or convert it to equity. Most also lack transparent and expedited procedures for effecting foreign resolution actions. There was also inadequate operational capacity in the national authorities that are responsible for resolution.

In July 2013, the International Association of Insurance Supervisors published a

The use of taxpayer money has become an unacceptable means of bailing out the malfeasance of financial industry risk-takers. Citizens do not want to pay for the mistakes of others

The most important next step, now that the criteria have been established, is to make sure that home and host countries have the tools in place to cooperate across borders to share information and resolve the institutions. To that end, FSB members have undertaken cross-border cooperation agreements, but the process is complex and no agreements have been completed. The agreements are meant to set out a process for information-sharing covering all G-SIFIs.

Coordinated global cooperation requires an overarching body to oversee the planning work and provide guidance. In July 2013, the FSB published three papers: *Guidance on Developing Effective Resolution Strategies*,

methodology for identifying globally systemically important insurers (G-SIIs). They also published policy measures endorsed by the FSB as they were consistent with the FSB's key attributes.

The association identified an initial list of nine G-SIIs, which will be updated each November from 2014. Higher loss absorbency and backstop capital requirements will be finalised by the G20 summit in 2014. Implementation of the requirements will start in 2019 for those on the 2017 list.

Such peer reviews prove valuable beyond simply shaming participating members. Work and progress need to be documented for regulatory adherence to actually take place. The FSB is considering developing guidance for the transfer of powers and the quick return of client assets. Further work is also being carried out on the financial market infrastructure, using the results from a public consultation held by the Committee on Payment and Settlement Systems and the Technical Committee of the International Organization of Securities Commissions in 2012. The FSB will report this progress to the St Petersburg Summit.

Regulation of shadow banking

One of the hardest areas to regulate is shadow banking, yet some progress has been made. This $67 trillion sector not only exacerbated the last financial crisis, but may in fact lead to the next one. The FSB is working on a two-pronged approach: the regulation of banks' interactions with shadow-banking entities (exposure/risk and indirect regulation) and the regulation of shadow-banking entities (hard rules for some activities and transparency in others).

Traditional banks have been selling assets to non-bank financial groups to improve their capital ratios and meet regulatory requirements to reassure their own lenders that they are resilient. The lack of regulation and regulatory requirements on non-banks provides much incentive to be a shadow bank.

China is currently criticised for the increased activity in its shadow-banking sector. Aside from curbside lenders and pawn-shop financiers, the biggest problem may be the regulated trust companies, whose trusts are sold as wealth-management products and regulated by the China Banking Regulatory Commission. Although the commission approves every product, the trust company must honour its commitment to investors to avoid losing its licence.

When projects default and payments cannot be made, trust companies create new products to sell in order to pay old investors. Curbside losses are absorbed by entrepreneurs, but funding often comes from personal lines of credit and internal financing. When loans are called, the reverberations will be felt in the traditional financial sector and the interconnected global economy.

Shadow banking is an important part of the financial system. It enables loans to be provided to those who are unable to borrow from traditional sources. The FSB will offer policy recommendations for oversight and regulation of this sector to the G20 leaders gathered at St Petersburg.

At the G20 summit, the leaders should commit to moving forward with legislation. They should not allow complacency, as a consequence of present non-emergency circumstances, to slow that movement down. It is easy not to adhere to timetables during periods of calm. The leaders must continue to push the priorities assigned to the relevant bodies to complete the tasks that they set out at previous summits. After all, the target of preventive, meaningful and appropriate regulation is never to have to find out how effective that regulation is – because it will never need to be called upon. ■

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G20 finance ministers and central bankers met in Moscow in July 2013. The focus on tighter regulatory regimes must continue in order to prevent future global turbulence

Why we continue to believe global standards are important

Christian Mouillon,
EY Global Vice Chair – Assurance

During and in the immediate aftermath of the global financial crisis, there was tremendous support for globally coordinated policy action and global standards. These were seen, rightfully so in our view, as necessary for the response to be effective. However, in the ensuing years and particularly as countries have struggled to address their national economic challenges, the appeal of global action and global standards seems to have diminished.

The momentum and support for International Financial Reporting Standards (IFRS) is one example at hand. Following the financial crisis, the G20 leaders called for a single set of high-quality accounting standards to be used around the world, and pressed the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) to complete their project to converge IFRS and US Generally Accepted Accounting Principles (GAAP). Nevertheless, despite the intensive efforts of the respective boards, the two standard setters have not been able to complete convergence, although substantial positive progress has been made.

The broader issue, however, is not about accounting standards, but rather it is about the tension that exists between national imperatives and globalisation more generally.

Globalisation, as a trend, is moving at a fast pace and seems likely to continue in most walks of life. We see it in capital market flows, trade and economics to name only a few. Although countries have adopted different approaches, the trend has been a strong one of increasing interdependence and integration and seems irreversible to us. It is market and demand led.

A globalised world demands greater coordination and consistency in financial regulation and corporate governance, and a single global language for accounting and auditing standards. Global business, global investors and global markets require global standards. They are inevitably both a need and consequence of globalisation. Global standards have developed to support many if not all market sectors, including accounting, auditing, banking supervision, and securities regulation.

Global standards are generally developed by international groups or bodies of standard setters, regulators, or others, working together to cooperate, share information, and oversee global market activity. For example, bank supervisors have long coordinated their activities through the Basel Committee on Banking Supervision. Europe's sovereign debt crisis has led to an increase in pan-European banking supervision. Securities regulators continue to work together through the International Organization of Securities Commissions (IOSCO). Indeed, it was IOSCO that first called for a set of global accounting standards to aid in making global markets consistent and comparable. The G20 has repeated this call many times since the financial crisis. And all of these groups now work together and with representatives of national governments and others in the Financial Stability Board.

Yet with the trend toward globalisation and perhaps in part because of it, we are seeing an opposing trend – a push or move for nationalism in these matters – as countries realise what they may stand to lose by being only a part of a larger, interconnected world.

An example of the global vs national dynamic in accounting standards was the recent House of Lord's inquiry into banking in the UK. At the heart of the inquiry was the question whether UK GAAP was better than IFRS and thus, in essence, whether UK banks failed because they moved from UK GAAP to IFRS. We submitted evidence to support our view that this was not the case. Indeed, in many respects, UK GAAP was the same as IFRS. It is also inescapable that certain countries that applied IFRS did not witness a failure of their major banks or banking system (such as Australia), while others that did not apply IFRS *did*.

But let's look beyond accounting. We have seen recent moves for countries to develop their own standards on auditing, fraud and ethics. In each case there is an international reputable body that sets such standards. For the same governance reasons as apply to the IASB, these international bodies undertake a deliberative process to reach consensus and consider how the standards they put forth can be applied around the world. They are frequently criticised for being slow. One response to this is to 'go it alone' and 'do it yourself'.

In the face of this trend towards nationalism, the question is whether the costs to individual countries and individual people of 'going it alone', and even perhaps of losing some national sovereignty, are worth the benefits of a more connected world even if it were realistically still possible to 'go it alone'.

Independent standard setters

In our view, the answer is a clear yes – provided those charged with setting global standards are both independent and accountable to the broad stakeholder communities they serve.

For people to have confidence in global standards, and for the standards to be accepted around the world, the standard setter must be independent, and the standards must be set following full due process, with appropriate governance arrangements. This necessarily involves considerable outreach, deliberation and consultation. A consequence and, therefore, a cost of globalisation, is that standard setting may take additional time. But, is it really more time than it takes many national standard setters each developing their own standards and the time for companies, auditors and others to assimilate the myriad of standards?

In the case of IFRS, the standard-setter is the IASB. In recent years, the IASB's governance has been modified substantially to take into account the responsibility it has to be both independent from undue political pressure on the one hand and accountable to the stakeholders who use the standards (investors, creditors, preparers, regulators) on the other. The governance model has been expanded to include an Accounting Standards Advisory Forum of regional and national standard-setters. It is evidence of the IASB's understanding that increased stakeholder involvement is essential for its standards to be accepted globally.

Another consequence of global standard-setting is that not every person, or country, gets what they want, even after their views have been heard. This is because global standard-setting is necessarily a process of compromise and consensus. The standard-setter, while taking all views into account, must, in the end, determine the highest possible quality answer for global applicability. Very few transactions are unique to any one country. There will always be some pragmatism, so that applying the standards is not overly burdensome, but in the end, the standards must be of a high quality.

Of course, quality means different things to different people. For some countries, quality means setting broad principles and sticking to those rigorously. For others, it means writing detailed application guidance on how to apply the principles. For others, it means 'we liked it the way we used to do it and we don't want to change'. This latter point is naturally prevalent and valid – changing from what one knows and believes to be good to something different and possibly unproven is a challenge for most people. It is simply a human reaction.

In many cases, being part of a global process enhances the impact that an individual country can have on the global standard

In our view, standards of good quality are those that are based on clear principles, incorporate adequate application guidance and can be implemented without undue cost or burden. In the case of accounting standards they should also ensure that the transactions upon which they report are reported faithfully and transparently. We do not support calls for changes to standards that would artificially smooth earnings, shield losses or create provisions as profit buffers for future periods. Financial stability is the role of prudential regulators. Transparent financial reporting is the role of preparers, using appropriate accounting standards.

Some countries resist moving to global standards because they worry about a loss of national sovereignty. In many cases, however, being part of a global process enhances the impact that an individual country can have on the global standard. In the case of accounting standards, most countries have developed safeguards to address their concern about a loss of sovereignty. However, the safeguards need to be at the highest possible level – not at the 'we don't like it because we always did it our way' level. Nor should they be for reasons of vested interest or to avoid transparency.

We acknowledge that global standards may not be perfect and may not always give everyone what they want. Accounting standards can be enhanced in certain areas – and the standard-setters are in the process of doing so.

In an interconnected world, however, we believe that global standards are ultimately beneficial, provided the governance surrounding the way they are set is appropriate in the circumstances and the output of the standards is of an acceptable quality.

The benefits of global standards include efficient capital flows between different markets, greater comparability and consistency of reported information, greater confidence in that reported information, efficient use of human capital (once a person is trained in a field in any country they can easily transport their skills to other countries), greater efficiency and lower costs – standards are set once – avoiding multiplication of effort; training can be developed anywhere in the world and used by anyone who has been accredited in the particular field where there are global standards – and so on.

Change is a difficult process but it can be appropriately managed. Economic and social times are tough. If ever there was a time to pull together and move forward rather than retreating to nationalism, it is now.

Dealing with derivatives

Controlling market volatility and cross-border financial flows has been a priority of G20 leaders since 2009, but areas of unhealthy risk remain

By Chiara Oldani, lecturer in economics, University of Viterbo 'La Tuscia'

Emerging and developing economies will largely be the drivers of global growth in 2013, and probably in 2014, because the United States is still recovering and the euro area is still slowing down. Since the global financial crisis turned into an economic one, the importance of financial stability has captured the attention of policy makers and leaders. G20 leaders have acted since 2009 to restore stability and enhance the soundness of financial markets, but further improvements are needed, especially in terms of standardising the rules for non-financial operators, strengthening the fight against money laundering and eliminating the tax evasion that fuels cross-border financial flows, renders macroeconomic policies powerless and helps unbalance public spending.

Managing financial flows

The unconventional expansionary monetary policies undertaken by many G20 members have contributed to sustaining financial trading and flows, but create the basic conditions for new financial risks in the future. Some financial sectors, such as the equity and credit markets, have been negatively affected by the economic downturn, by delays in reforms and by regulatory uncertainty. These sectors have strong relationships with growth, and thus should be helped to recover. The dramatic economic data recently registered on economic growth, employment, public spending and debt have confirmed the fact that when financial flows are mismanaged and poorly monitored, the entire economy is damaged, via investors' confidence. Emerging economies and Middle Eastern countries are financially fragile and exposed to the negative impact of excessive volatility of cross-border financial flows. G20 leaders at St Petersburg should coordinate their positions in order to overcome national limits. Their agenda should be filled with steps to eliminate regulatory asymmetries and create the conditions for stable economic and financial growth.

Improvements in derivatives trading

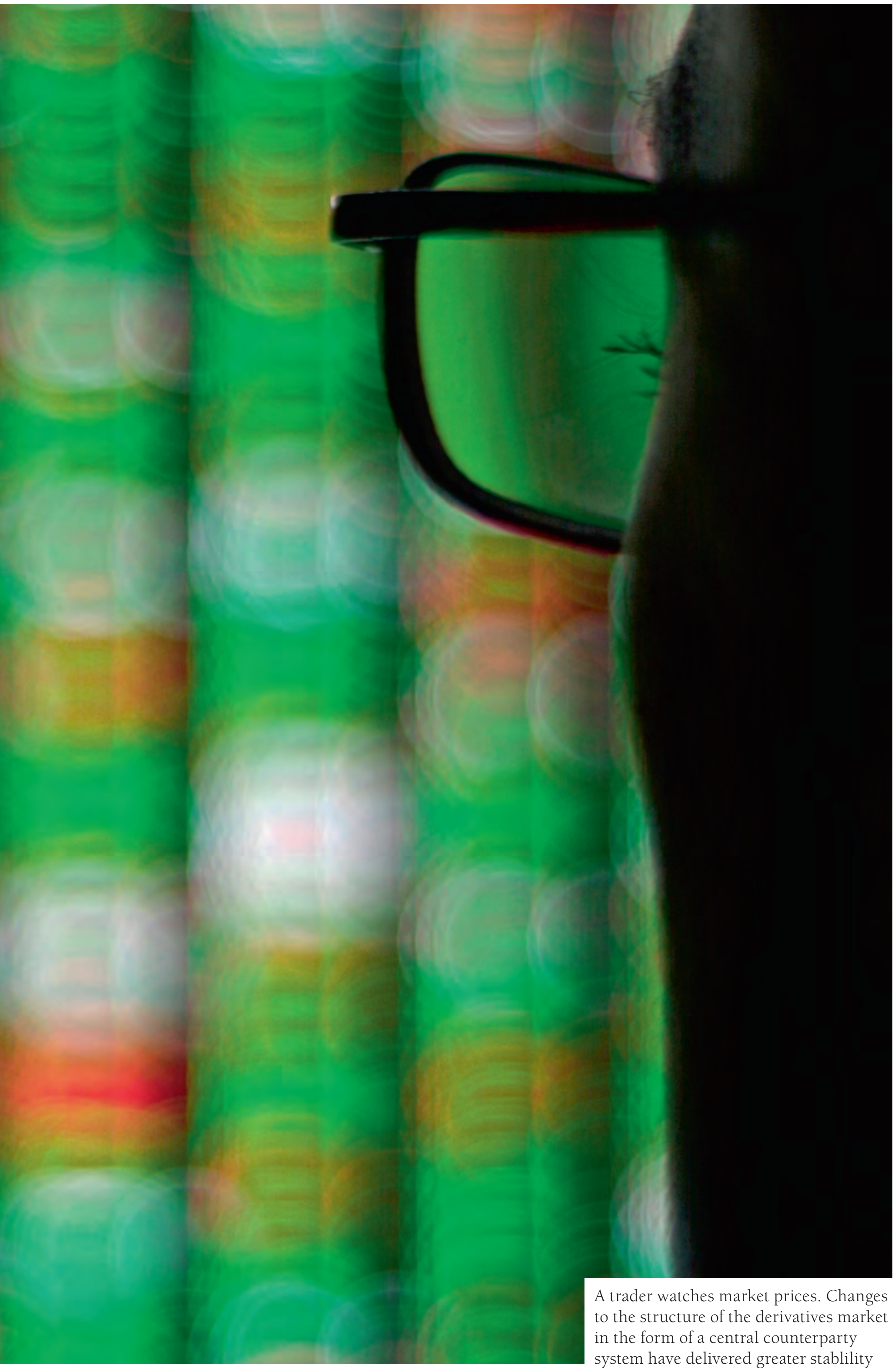
Nevertheless, the financial crisis did not hit the derivatives market in a lasting way. In December 2012, financial derivatives traded over the counter (OTC) reached $638 trillion, with no sign of contraction (see table). This nominal figure is still nine times larger than global gross domestic product, similar to the situation in 2008. A recent relevant structural innovation in the global derivatives market is the introduction of the central counterparty (CCP) system, which came into force in the European Union in 2012. It strongly reduces counterparty and liquidity risks, strengthening stability. Opaqueness, lack of data and unclear trading were responsible for the excess volatility and risks that damaged the global economy, and the CCP system will reduce such anarchy. The costs of the system will be more than compensated for by its benefits, but only if most of the global market is centrally cleared. However, in the coming years there could be asymmetric effects, because not all domestic financial systems have declared that they will adhere

Table: Over-the-counter derivatives, $ billion

	June 2010	December 2010	June 2011	December 2011	June 2012
National amounts outstanding	582,685	601,046	706,884	647,777	638,928
Gross market values	24,697	21,296	19,518	27,278	25,392

source: BIS Quarterly Review, June 2013

SIMON BELCHER/ALAMY



A trader watches market prices. Changes to the structure of the derivatives market in the form of a central counterparty system have delivered greater stablility

to it. Europe's biggest financial centre, the United Kingdom, will not clear OTC derivatives centrally, creating the conditions for unfair financial competition and reducing the effectiveness of the CCP system itself. The British position is difficult to manage for the European authorities that are working to create a common market, banking union and homogenous rules.

Global stability cannot be damaged further if leaders want to restore growth and employment. The G20 should address a source of asymmetry – and thus volatility – other than the one addressed by the CCP system: the uncontrolled growth of non-financial operators. Such non-financial operators include governments, corporations and, most of all, private investors whose funds are uncertain in terms of both origin and final destination. Their share of the derivatives markets had already reached 10 per cent in December 2012, according to estimates from the Bank for International

Opaqueness, lack of data and unclear trading were responsible for the excess volatility and risks that damaged the global economy

Settlements, yet monitoring and supervision are completely absent. Non-financial operators concentrate on the opaque swap market and prefer interest rate products; capital and collateral are not required for non-financial operators, but global players in the energy and industrial sectors can have larger portfolios than those of commercial banks. The weak monitoring of OTC transactions together with the lack of control and capital of non-financial players fuel volatility and damage confidence and growth.

With regard to the pathology of finance, the G20 has already called for a further reduction in tax evasion and an increase in efforts to fight money laundering, since those financial flows can boost market volatility and further impede fair competition, proper supervision and effective monitoring. Greater transparency in the OTC derivatives market would contribute to a large extent to achieving this broader goal, because increasing resources are invested there. ■

Improving foreign direct investment regimes for growth

Foreign direct investment is vital to developing countries as they seek further growth, and the G20 is well placed to ensure that inflows are sustained

By Supachai Panitchpakdi, secretary general, UNCTAD

Despite an 18 per cent drop in global foreign direct investment (FDI) flows in 2012, FDI remains the largest international capital flow, far outstripping remittances and official development assistance. Moreover, in 2012, for the first time, developing countries accounted for more than 50 per cent of total inflows. FDI is therefore a hugely important source of development capital in these countries. In addition, developing economies generated almost one-third of global FDI outflows, continuing a steady upwards trend.

FDI tends to be more stable than portfolio flows, as investors typically look for a long-term, often controlling interest in their acquisitions. In the case of greenfield investments, which still account for most global FDI, traditional direct investors such as transnational corporations make long-term commitments to the country in which they are investing through the establishment of new firms and operations there.

In addition to traditional investors, new global players – including state-owned enterprises, and fund investors such as private equity funds and sovereign wealth funds – have been entering the FDI scene, seeking to internationalise. While these new players tend to favour mergers and acquisitions (M&As) over greenfield investments, their investment horizons are nevertheless long term and are akin to those of traditional investors.

Global potential for local companies

FDI, however, is more than just a capital flow financing the development of key economic sectors and creating jobs: it also offers several valuable spillovers and the possibility for linkages with the domestic economy. The arrival of a global company, via the takeover of a local firm or a greenfield investment, creates the possibility for local companies to gain access to international markets through the global value chains of a transnational corporation, either directly as its affiliates or indirectly as its suppliers. In addition, direct investment by a transnational corporation can boost competitiveness and bring new technology and capital equipment, and skills and knowledge, with the possibility for training and upgrading.

Benefits are not automatic

In these ways, FDI creates the potential for economic spillovers in the host economy, which can lead to the creation of new productive capacities, and thereby to the long-term growth and development of the host economy. These spillovers and linkages are not automatic, however, and the environmental and social sustainability of FDI inflows will depend on the domestic and international policy environment, as well as on the conduct of the transnational corporations themselves.

Currently, countries face the challenge of re-establishing the rate of FDI seen before the global economic crisis. Recent policy developments confirm the great importance that countries give to attracting such investment. In addition, civil society and other stakeholders – including transnational corporations – are becoming active in discussing investment policies.

While investment liberalisation, facilitation and promotion remain dominant features of most countries' FDI policies, there is now a trend towards greater use of industrial policies in strategic sectors, tightened screening and monitoring procedures, greater scrutiny of cross-border M&As, and a strengthening of the general policy framework for FDI to address social and environmental concerns. Many of these policy measures address legitimate concerns, and can help to strengthen the impact of FDI on inclusive and sustainable growth. Nevertheless, there is a need for continued vigilance to ensure that this rebalancing of investment policies does not lead to investment protectionism.

Consolidating investment agreements

At the international level, there is a rise in regional investment treaty-making. This can contribute to a consolidation of the highly atomised regime of international investment agreements, and is also an opportunity to strengthen the sustainable development dimension of these treaties. Furthermore, the fact that many bilateral investment agreements have reached a point where they can be terminated provides a chance to replace and improve upon old treaties. Such revisions should also aim to address existing deficiencies in the system of investor-state dispute settlement. Another challenge facing countries concerns their integration into the global economy through international production processes. Today's international economy is characterised by global value chains, where inputs and products are traded in increasingly segmented and dispersed production processes across national borders.

Global value chains are often coordinated by transnational corporations, which determine trade and investment flows within their networks of affiliates and suppliers. Countries therefore confront the challenge of how to maximise the economic impact of global value chains on added value, job creation and growth of gross domestic

FDI creates the potential for economic spillovers in the host economy, which can lead to the creation of new productive capacities, and thereby long-term growth and development

product, while minimising risks in respect of negative environmental, social, safety and health impacts. If consistent with overall national development strategies, integration into global value chains can be an important tool for countries to diversify their economies and move into higher-value activities. The *World Investment Report 2013*, published by the United Nations Conference on Trade and Development (UNCTAD), provides an in-depth analysis of these issues, including policy recommendations.

The international community, including the G20, has been working hard to address these challenges. UNCTAD is the focal point within the UN system for issues related to investment. It has been at the forefront of efforts both to facilitate international investment and to promote FDI policies that encourage sustainable and inclusive growth.

Assisting developing economies

On the facilitation side, UNCTAD works in the area of investment promotion with governments and the private sector to create a business-friendly investment climate in developing countries. Examples of its work include implementing regulatory changes and streamlining the procedures for establishing a business, support to investment promotion agencies and the publication of investment guides, as well as enterprise development and the building of linkages between local small and medium-sized enterprises and transnational corporations.

On the policy side, UNCTAD provides national reviews of the investment policy regime in developing countries, as well as support at the international level in building the countries' capacity to negotiate investment treaties. It has also been instrumental in promoting the sustainable and inclusive investment agenda by developing the Investment Policy Framework for Sustainable Development, which is designed to provide policymakers with a comprehensive reference point when formulating national and international investment policies to foster inclusive growth and sustainable development. In addition, UNCTAD is working with the private sector in the areas of corporate social responsibility and sustainable stock exchanges.

As an active member of the international community seeking to resolve the current global investment challenges, UNCTAD has also provided support to processes such as the G8 and G20. The work it has carried out together with the Food and Agriculture Organization, the International Fund for Agricultural Development and the World Bank on Principles for Responsible Agricultural Investment is helping to shape future investment policy, as is its work in partnership with other agencies on measuring the impact of FDI on employment and added value. In addition, the efforts to monitor investment protectionism that UNCTAD has undertaken together with the Organisation for Economic Co-operation and Development have given governments and the international community a clearer picture of the international investment landscape.

The prospects for G20 support

The G20 is in an excellent position to promote both increased investment flows and the sustainable and inclusive investment agenda, in partnership with the wider international community. In particular, the G20 could lend its support to ongoing efforts at the multilateral level, such as the Investment Policy Framework for Sustainable Development, as well as UNCTAD's World Investment Forum, the largest global forum on international investment for sustainable development. G20 members may also wish to consider standards and best practices to build consensus on sustainable and balanced investment policies. This could include working towards greater balance between the protection of investors and of host countries.

Finally, the G20 could send an important message to support the investment climate. Global FDI needs a boost after 2012's decline. The actions outlined above are just a few ways in which the G20 could support efforts to promote FDI and make it work for long-term, strong, sustainable and balanced growth. ■

REUTERS/NGUYEN HUY KHAM

An assembly line at a Piaggio scooter and motorcycle factory in Vietnam's Vinh Phúc province. FDI inflow into the country rose an estimated 5.6 per cent in the first half of this year

Thales Alenia Space

NEWS

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Universum Space Technologies a Joint Venture between Thales Alenia Space & ISS Rechetnev

Jean Loïc Galle, President and CEO of Thales Alenia Space, and Nikolay Testoedov, General Designer and General Director of ISS – Rechetnev Company.

Thales Alenia Space and its long-standing Russian partner, ISS-Rechetnev, create a joint venture. The agreement was signed in Moscow during an official state visit by French President François Hollande in Moscow, on February 28, 2013.

The new company, incorporated under Russian law and with ISS holding a majority stake, will be based in Krasnoyarsk, Russia.

This company will initially focus on the production of equipment meeting the most demanding international standards for use on Russian telecommunications satellites.

It will then work on the development of new products for satellites, enabling the company to address the requirements of both Russian and international markets, where ISS, in collaboration with Thales Alenia Space, has already won several contracts.

Several joint programs with Russia took major steps forward recently:

- The communications modules for the Yamal 401 and AT2 satellites were shipped to ISS in Zheleznogorsk in December, enabling AIT operations to start on both satellites.
- The Express AT1 and Kazsat 3 communications modules have also been delivered to ISS for final satellite integration. Express AM8 will follow after completing assembly, integration and testing in Thales Alenia Space facilities.

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Realising the potential of the multilateral development banks

Multilateral development banks have long provided assistance to the developing world, but a new global environment may require a revision of their role

By Johannes F Linn, non-resident senior fellow, Global Economy and Development, Brookings Institution

The origins of the multilateral development banks (MDBs) lie with the creation of the World Bank at Bretton Woods in 1944. Its initial purpose, as the International Bank for Reconstruction and Development, was the reconstruction of war-torn countries after the Second World War.

As Europe and Japan recovered in the 1950s, the World Bank turned to providing financial assistance to the developing world. Then came the foundation of the Inter-American Development Bank (IADB) in 1959, of the African Development Bank (AfDB) in 1964 and of the Asian Development Bank (ADB) in 1966, each to assist the development of countries in their respective regions. The European Bank for Reconstruction and Development (EBRD) was set up in 1991, following the collapse of the Soviet Union, to assist with the transition of countries in the former Soviet sphere.

The MDBs are thus rooted in two key aspects of the geopolitical reality of the post-war 20th century: the Cold War between capitalist 'West' and communist 'East', and the division of the world into the industrial 'North' and the developing 'South'. The former aspect was mirrored in the MDBs for many years by the absence of countries from the Eastern Bloc. This was only remedied after the fall of the Bamboo and Iron curtains. The latter aspect remains deeply embedded even today in the mandate, financing pattern and governance structures of the MDBs.

Changing global financial architecture

From the 1950s to the 1990s, the international financial architecture consisted of only three pillars: the International Monetary Fund (IMF) and the MDBs represented the multilateral official pillar; the aid agencies of the industrial countries represented the bilateral official pillar; and the commercial banks and investors from industrial countries made up the private pillar.

Today, the picture is dramatically different. Private commercial flows vastly exceed official flows, except during global financial crises. New channels of development assistance have multiplied, as foundations and religious and non-governmental organisations rival the official assistance flows in size.

The multilateral assistance architecture, previously dominated by the MDBs, is now a maze of multilateral development agencies, with a slew of sub-regional development banks, some exceeding the traditional MDBs in size. For example, the European Investment Bank lends more than the World Bank, and the Caja Andina de Fomento (CAF, the Latin American Development Bank) more than the IADB. There are also a number of large 'vertical funds' for specific purposes, such as the International Fund for Agricultural Development and the Global Fund to Fight AIDS, Tuberculosis and Malaria. There are specialised trust funds, attached to MDBs, but often with their own governance structures.

End of the North-South divide

Finally, the traditional North-South divide is breaking down, as emerging markets have started to close the development gap, as global poverty has dropped and as many developing countries have large domestic capacities. This means that the new power houses in the South need little financial and technical assistance and are now providing official financial and technical support to their less fortunate neighbours. China's assistance to Africa outstrips that of the World Bank.

The future for MDBs

In this changed environment is there a future for MDBs? Three options might be considered:

1. Do away with the MDBs as a relic of the past. Some more radical market ideologues might argue that, if there ever was a justification for the MDBs, that time is now well past. In 2000, a US congressional commission recommended the less radical solution of shifting the World Bank's loan business to the regional MDBs. Even if shutting down MDBs were the right option, it is highly unlikely to happen. No multilateral financial institution created after the Second World War has ever been closed. Indeed, recently the Nordic Development Fund was to be shut down, but its owners reversed their decision and it will carry on, albeit with a focus on climate change.

2. Carry on with business as usual. Currently, MDBs are on a track that, if continued, would mean a weakened mandate, loss of clients, hollowed-out financial strength and diluted technical capacity. Given their tight focus on the fight against poverty, the MDBs will work themselves out of a job as global poverty, according to traditional metrics, is on a dramatic downward trend.

Many middle-income country borrowers are drifting away from the MDBs, since they find other sources of finance and technical advice more attractive. These include the sub-regional development banks, which are more nimble in disbursing their loans and whose governance is not dominated by the industrial countries. These countries, now facing major long-term budget constraints, will be unable to continue supporting the growth of the MDBs' capital base. But they are also unwilling to let the emerging market economies provide relatively more funding and acquire a greater voice in these institutions.

> ***The multilateral assistance architecture, previously dominated by the MDBs, is now a maze of multilateral development agencies, with a slew of sub-regional development banks***

Finally, while the MDBs retain professional staff that represents a valuable global asset, their technical strength relative to other sources of advice – and by some measures, even their absolute strength – has been waning.

If left unattended, this would mean that MDBs 10 years from now, while still limping along, are likely to have lost their ability to provide effective financial and technical services on a scale and with a quality that matter globally or regionally.

3. Give the MDBs a new mandate, new governance and new financing. If one starts from the proposition that a globalised 21st-century world needs capable global institutions that can provide long-term finance to meet critical physical and social infrastructure needs regionally and globally, and that can serve as critical knowledge hubs in an increasingly interconnected world, then it would be folly to let the currently still considerable institutional and financial strengths of the MDBs wither away.

Globally and regionally, the world faces infrastructure deficits, epidemic threats, conflicts and natural disasters, financial crises, environmental degradation and the spectre of global climate change. It would seem only natural to call on the MDBs, which have retained their triple-A ratings and shown their ability to address these issues in the past, although on a scale that has been insufficient. Three steps would be taken under this option:

- The mandate of the MDBs should be adapted to move beyond preoccupation with poverty eradication to focus explicitly on global and regional public goods as a way to help sustain global economic growth and human welfare. Moreover, the MDBs should be able to provide assistance to all their members, not only developing country members.
- The governance of the MDBs should be changed to give the South a voice commensurate with the greater global role it now plays in economic and political terms. MDB leaders should be selected on merit without consideration of nationality.
- The financing structure should be matched to give more space to capital contributions from the South and to significantly expand the MDBs' capital resources in the face of the current severe capital constraints.

In addition, MDB management should be guided by banks' membership to streamline their operational practices in line with those widely used by sub-regional development banks, and they should be supported in preserving and, where possible, strengthening their professional capacity so that they can serve as international knowledge hubs.

A new MDB agenda for the G20

The G20 has taken on a vast development agenda. This is fine, but it risks getting bogged down in the minutiae of development policy design and implementation that go far beyond what global leaders can and should deal with. What is missing is a serious preoccupation of the G20 with that issue on which it is uniquely well equipped to lead: reform of the global financial institutional architecture.

What better place than to start with than the MDBs? The G20 should review the trends, strengths and weaknesses of MDBs in recent decades and endeavour to create new mandates, governance and financing structures that make them serve as effective pillars of the global institutional system in the 21st century. If done correctly, this would also mean no more need for new institutions, such as the BRICS development bank currently being created by Brazil, Russia, India, China and South Africa. It would be far better to fix the existing institutions than to create new ones that mostly add to the already overwhelming fragmentation of the global institutional system. ■

A newly built highway in Dakar, Senegal. The African Development Bank will be instrumental in further expansion of the country's road network, having recently approved a $22.56 million loan for Senegal's Community Roads Project

ART DIRECTORS & TRIP/ALAMY

The market for infrastructure financing

Founded in 2009, the Long-Term Investors' Club has grown in the past two years from 14 to 19 major financial institutions and institutional investors from all over the world – in particular from the G20 countries – representing a growth of the combined balance sheet total from US$3.2 trillion to $5.4 trillion. The Club aims to bring together major worldwide institutions – including sovereign wealth funds, public- and private-sector pension funds and development banks – to assert their common identity as long-term investors, to promote long-term investment among international regulators and political stakeholders, and to facilitate greater cooperation between members. The members are convinced that long-term investors play an essential role in contributing to economic growth in infrastructure, urban development, renewable energies, small and medium-sized enterprises and innovation.

The contribution of the Long-Term Investors' Club

The Club has contributed to the discussion around the Green Paper on long-term financing of the European Commission and the high-level principles of long-term investment financing by institutional investors, drafted by the OECD in the framework of the G20 to adapt the international and European regulatory framework of accounting and prudential standards to the specificities of long-term investments. Investors and governments need to modify their behaviour in favour of long-term investment:

- Governments should better consider the impact of regulatory decisions on long-term investments. They also have a fundamental role in creating the conditions to encourage the flow of capital from savers to long-term investments; and
- Investors have to promote long-term strategies and align their decision-making structures with their long-term mandates, as well as actively cooperating with other long-term investors.

The proposed revision of the IORP Directive and the currently proposed punitive (initial) margin requirements for uncleared OTC derivatives could limit the ability to invest in illiquid assets, such as infrastructure. The support of the G20 members to promote long-term behaviour is critical.

The activities of the Long-Term Investors' Club are notably focused on fulfilling the conditions for a well-functioning market for infrastructure finance. The Club has already developed an active cooperation strategy in this field and launched two infrastructure investment initiatives:

- The EU 27 Marguerite Fund[1], to support strategic investments in the fields of energy, climate change and transport infrastructure in the 27 member states of the EU; and
- The Mediterranean InfraMed Infrastructure Fund[2] is dedicated to long-term investments in sustainable transport, energy and urban infrastructures in the countries of the Mediterranean's southern and eastern shores. These funds are prototypes of new platforms that allow public investors to join the private sector to finance long-term investments.

The Long-Term Investors' Club is contributing to finance jobs and economic growth

Currently, databases on infrastructure finance are underdeveloped, making infrastructure difficult to value as an asset class by investors and the rating agencies. The Long-Term Investors' Club addresses this last point in a joint project with the OECD, spearheaded by APG. Here, we analyse the risk-return profile of the infrastructure portfolios of the Long-Term Investors' Club members. The results of this project can provide an important contribution to improving the functioning of the market for infrastructure investments.

The importance of infrastructure financing

The Long-Term Investors' Club puts great effort in to these activities, because infrastructure projects are important for the creation of jobs and growth. Infrastructure can be a very interesting investment for long-term investors due to its long-lasting characteristic and the illiquidity premium that raises the return on these investments. With the retreat of banks from long-term investment, the role of institutional investors has become more important than ever before. However, to be able to raise capital for this type of long-term investment, the market for financing infrastructure projects needs to be improved, especially in the Eurozone.

In general, the regulation of new prudential and financial markets should provide long-term investors the opportunity to invest more with a long-term perspective. This issue is key.

More specifically, there are four conditions that need to be fulfilled in order to develop the market for infrastructure investment finance.

The first condition is that public-private partnership contracts, which stipulate the obligations and rights of the participating parties, are standardised. This would make the market more transparent for its participants and would reduce costs of negotiation and acquiring information.

Secondly, procurement procedures among the member states of the EU should be harmonised.

Thirdly, there should be a pipeline of deals that are coming to the market. A volume of future deals makes it possible to do the investment in knowledge that is necessary to do the deals in the first place. If the investment in infrastructure is a unique event, negotiating the deal would be costly, because what is learnt cannot be put to practice a second time. Furthermore, a repeating game of negotiating infrastructure projects diminishes the risk that lemons are sold, due to the reputations of the negotiating parties that are at stake.

Finally, there should be databases developed to analyse the properties of infrastructure on which potential investors and rating agencies can base their opinions. This would make this market more transparent and accessible for both small and large long-term investors.

By pooling the resources of its members and facing the challenges across our border, the Long-Term Investors' Club is contributing to finance jobs and economic growth.

1. *www.margueritefund.eu*
2. *www.inframed.com*

CAISSE DES DÉPÔTS (CDC)
CEO: Jean-Pierre Jouyet
Location: Paris
Global assets (2012): EUR 287 billion
www.caissedesdepots.fr

BANK GOSPODARSTWA KRAJOWEGO (BGK)
CEO: Dariusz Daniluk
Location: Warsaw
Global assets (2012): PLN 48.6 billion
www.bgk.pl

CASSA DEPOSITI E PRESTITI (CDP)
President: Franco Bassanini
Location: Rome
Global assets (2012):
EUR 305 billion
www.cassaddpp.it

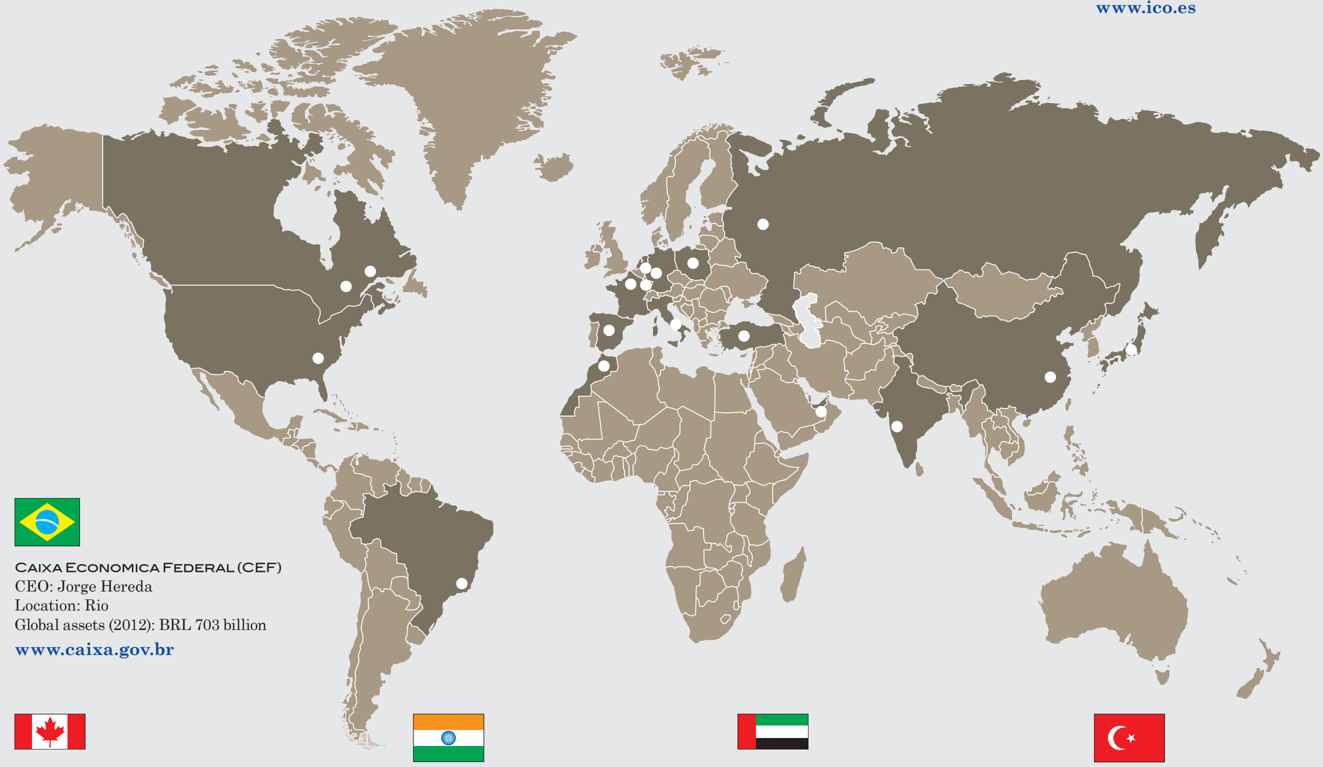
KFW BANKENGRUPPE
CEO: Ulrich Schröder
Location: Frankfurt
Global assets (2012):
EUR 518 billion
www.kfw.de

TIAA-CREF
CEO: Roger W. Ferguson
Location: Charlotte (USA)
Global assets (2012): USD 502 billion
www.tiaa-cref.org

ALGEMENE PENSIOEN GROEP (APG)
CEO: Dick Sluimers
Location: Amsterdam
Global assets (2012): EUR 342 billion
www.apg.nl

EUROPEAN INVESTMENT BANK (EIB)
President: Werner Hoyer
Location: Luxembourg
Global assets (2012): EUR 508 billion
www.eib.org

INSTITUTO DE CRÉDITO OFICIAL (ICO)
CEO: Roman Escolano
Location: Madrid
Global assets (2012):
EUR 115.2 billion
www.ico.es



CAIXA ECONOMICA FEDERAL (CEF)
CEO: Jorge Hereda
Location: Rio
Global assets (2012): BRL 703 billion
www.caixa.gov.br

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC (CDPQ)
Chairman: Robert Tessier
Location: Montréal
Global assets (2012):
CAD 176.2 billion
www.lacaisse.com

IDFC LTD
CEO: Dr Rajiv Lall
Location: Mumbai
Global assets (2012):
INR 690 billion
www.idfc.com

MUBADALA DEVELOPMENT COMPANY
CEO: H.E. Khaldoon Khalifa Al Mubarak
Location: Abu Dhabi (UAE)
Global Assets (2012): AED 202.8 billion
www.mubadala.com

TÜRKIYE SINAI KALKINMA BANKASI A.S. (TSKB)
CEO: Özcan Türkakin
Location: Istanbul
Global assets (2012):
TRL 10.3 billion
www.tskb.com.tr

ONTARIO MUNICIPAL EMPLOYEES RETIREMENT SYSTEM (OMERS)
CEO: Michael Nobrega
Location: Toronto
Global assets (2012): CAD 60.8 billion
www.omers.com

VNESHECONOMBANK (VEB)
CEO: Vladimir Dmitriev
Location: Moscow
Global assets (2012):
RUB 2,919 billion
www.veb.ru

CHINA DEVELOPMENT BANK (CDB)
Chairman: Chen-Yuan
Location: Beijing
Global assets (2012): RMB 7,520 billion
www.cdb.com.cn

CAISSE DE DÉPÔT ET DE GESTION (CDG)
CEO: Anass Houir Alami
Location: Rabat
Global assets (2012):
MAD 169.7 billion
www.cdg.ma

DEVELOPMENT BANK OF JAPAN
CEO: Toru Hashimoto
Location: Tokyo
Global assets (2012):
JPY 15,563 billion
www.dbj.jp

JAPAN BANK FOR INTERNATIONAL COOPERATION (JBIC)
Governor: Hiroshi Okuda
Location: Tokyo
Global assets (2012):
JPY 12,693 billion
www.jbic.go.jp

Unlocking private financing for infrastructure

Infrastructure can be a key engine of growth, and governments must find new, innovative sources of funding to get capital projects off the ground

By Hans-Paul Bürkner, co-chair, B20 Task Force on Investments and Infrastructure

Infrastructure projects – whether roads, rail, airports and ports or water-supply systems and power plants – remain in high demand throughout the world, with their promise of wide-ranging economic, environmental and social benefits.

In emerging countries, the demand is driven by growing populations, surging economies and rapid urbanisation; in many developed countries, the impetus might be to upgrade an ageing asset base with newer or greener facilities. Either way, the investment required is vast. At a rough estimate, the global infrastructure-investment gap – the difference between the demand for and supply of investment funds – now amounts to more than $1 trillion per year.

Infrastructure investments represent a key lever for strengthening the world economy. They help increase the productivity of the local and global economies; they can stimulate growth in both developed and developing countries; and they can provide significant employment opportunities for millions of unemployed and underemployed across the world.

Securing finance

Financing for countries' infrastructure needs is increasingly difficult to secure. Governments are under fiscal pressure to rein in their public budgets, multilateral development banks are facing capital constraints and many of the standard private financiers can no longer be relied upon in the wake of the global financial crisis.

Monoline insurers, which traditionally enhanced the credit rating of infrastructure project bonds and thereby facilitated institutional investment, have effectively disappeared from the market. In addition, many banks are reducing their activities in long-term project finance, or even exiting those markets altogether. Underlying this new cautiousness are such factors as the upcoming Basel 3 regulations and the pressure to deleverage.

For low- and middle-income countries, there are additional challenges: the tendency of banks to offer only short-term loans, the low liquidity of local capital markets and the low level of domestic savings.

Potential new sources

Who could fill the financing gap? The likeliest candidates are institutional investors such as pension funds, insurance companies and sovereign wealth funds. With assets under management of about $71 trillion, these institutional investors are keen to find new long-term investment opportunities, especially as real fixed-income returns are currently near zero. Infrastructure projects could be just what they are looking for, as the projects offer a very suitable investment profile: low risk, stable returns, portfolio diversification, inflation hedging and long-term asset-liability matching.

> ***Infrastructure projects offer low risk, stable returns, portfolio diversification, inflation hedging and long-term asset-liability matching***

Large pension funds in Canada and Australia have taken the lead, and other investors are now planning to increase their infrastructure allocations likewise. For example, pension funds globally are poised to raise their current allocation of 2.8 per cent of assets under management to 5.0 per cent.

A matter of policy

To unlock these new sources of private long-term finance (and revive some existing sources), governments need to undertake various policy initiatives:

1. Develop a continuous project pipeline. For investors to favour a specific market, they need various assurances – that it is worth making the effort to understand the country's legal framework and risks, that there will be enough bidding opportunities and that there is adequate market liquidity. Nothing provides these assurances better than evidence of a visible and deliverable pipeline, guaranteeing continuity and consistency across projects and sectors. So the government should concentrate on developing such a pipeline, rather than simply initiating individual projects opportunistically. Such a programme enables the government to prioritise projects, realise synergies, incorporate lessons learned, develop public sector capabilities and build trust in the private sector.

   To credibly deliver the pipeline, the government must refine the project preparation and procurement processes in keeping with established best practices. For example, proper project preparation facilities can ensure high-quality project structuring. Standardised feasibility-study and procurement procedures (for example, demand-forecasting guidelines, clear rules for land acquisition, model concession clauses and standard requests for proposals or quotes) will make the process predictable and reduce transaction costs.

   However, although a pipeline might attract financiers, it will not retain them unless it delivers. A positive track record – proof of historical performance – is what really secures commitment from investors.
2. Reduce barriers in financial regulation. Even if the market is appealing, institutional investors might fail to enter it on account of regulatory barriers. Some measures that governments could take, in order to facilitate access, are as follows:
   - Reconsider any current regulations aimed at limiting institutional investors' allocations to the infrastructure asset class, and revise any government procurement rules that prevent innovative financing.

- In order to bring banks back into the project-finance market, consider adjusting the classification of infrastructure from alternative asset to its own asset class in banking and insurance regulations.
- In order to ease cross-border flows of capital, reduce caps on foreign direct investment, loosen capital and foreign exchange controls, and resolve taxation issues; these measures are particularly important for countries with low domestic-capital accumulation.

Only a few large-scale institutional investors have the expertise and scale to invest directly in infrastructure projects. Most investors rely on financial intermediaries, and for that arrangement to work properly, the right regulatory framework needs to be in place. There is another interesting approach – cooperation among institutional investors to crowd in small and medium-sized investors. A case in point is that of the Australian investment manager IFM, which is jointly owned by 30 Australian pension funds.

3. Address financial-market concerns via risk-mitigation products. Despite an abundance of private finance globally, many infrastructure projects just do not offer a risk-return profile that is sufficiently attractive for institutional investors. Investors might fancy brownfield projects proposed by the Organisation for Economic Co-operation and Development (recent transactions even suggest a ‘money-chasing-deals’ phenomenon), but greenfield assets arouse little enthusiasm, owing to their perceived risks – notably construction, political and demand risks. The following incentivising measures could make a difference:

- Use credit enhancement. For example, the Europe 2020 Project Bond Initiative aims to reopen the bond market to greenfield projects in the European Union by credit-enhancing senior debt to an A-rating, for which institutional investors have the greatest appetite.
- Develop (re-)financing facilities and a broad portfolio of possible exit channels (including local equity and bond markets), thereby enabling greenfield developers to free up capital for new projects.


Large infrastructure projects offer far-reaching benefits to society, including the creation of significant employment opportunities

RAFIQ MAQBOOL/AP/PA IMAGES

- For low- and middle-income countries, encourage multilateral development banks to develop more standardised solutions for political and regulatory risk as well as for exchange-rate and currency-convertibility risks – for example, by accelerating the procedures and extending the scope of existing instruments.

4. Improve project-level economics by strengthening project preparation. Addressing the financial-market issues is certainly important, but often the lack of financing is simply due to the perceived unattractiveness of the underlying asset. So if a government can convincingly show high and reliable project-level cash flows and mitigate some of the project risks, it will enhance the bankability of any individual project. That involves very conscientious project preparation, including the following imperatives:

- Structure the project so as to take maximum advantage of every possible revenue source – user charges, land-value capture, ancillary revenues and government payments.
- Mitigate unmanageable risks – particularly demand risks. To that end, make use of any of these options in drafting regulations: availability-based concessions, revenue guarantees and caps and profit-sharing models.
- Consider taking risk-management measures beyond contracts and financial instruments. Governments might reduce political and regulatory risk by introducing an independent dispute-resolution process with an expert panel, as in Chile. Alternatively, investors can avert political interference by ensuring responsible service delivery, minimising environmental damage and engaging proactively with stakeholders.

The global infrastructure investment gap is too wide and too complex to be bridged by any single financing source. It will take a combination of different financing solutions, each suited to some part of the diverse infrastructure space.

By unlocking these innovative sources, policy-makers can increase competition for assets and so eventually drive down the costs of finance and hence the overall economic costs of infrastructure. And society will benefit accordingly. ■

The contribution of customs to strengthening trade

Customs administrations are a vital tool available to G20 members seeking to stimulate trade and stem the flow of illicit goods that weaken economies

By Kunio Mikuriya, secretary general, World Customs Organization

The World Customs Organization (WCO), which is headquartered in Brussels, Belgium, consists of 179 customs administrations across the globe. As an inter-governmental organisation, the WCO is a centre of excellence that provides leadership in customs matters at the international level and advises customs administrations worldwide on management practices, tools and techniques to enhance their capacity to implement efficient and effective cross-border controls, along with standardised and harmonised procedures to facilitate legitimate trade and travel and to interdict illicit transactions and activities. Two key roles of customs – strengthening legitimate trade and deterring illicit trade – stand out.

Promoting economic growth

International trade liberalisation contributes to national competitiveness, job creation and income opportunity, sustainable economic growth and poverty reduction. With the decline in tariff rates seen over the last decades, improving the efficiency of border procedures has become a policy priority for free trade advocates. Fortunately, modern customs procedures can significantly reduce border control inefficiencies and transaction costs for traders. This entails the simplification of regulatory procedures, especially streamlining the formalities for the collection, presentation, communication and processing of the information required for the movement of goods, conveyances and people across borders.

The WCO has launched to great acclaim the WCO Economic Competitiveness Package (ECP) to better meet these objectives. The central component of the ECP is the WCO's Revised Kyoto Convention, which is the world's 'trade facilitation international convention'. The Revised Kyoto Convention outlines the principles of simplification and harmonisation of customs procedures – namely how customs can reduce red tape and make their controls more efficient.

The implementation of the ECP by customs administrations is another challenge. It needs to be applied globally in countries on the ground. The WCO provides capacity-building assistance that has enabled many members to make considerable progress with their customs reform and modernisation.

The WCO is following very closely the negotiations at the World Trade Organization (WTO), especially in the run-up to the ministerial meeting in Bali in December.

The economic, political and social effects of illicit trade are highly detrimental to countries, businesses and the public

It supports the conclusion of an agreement on the WTO's Doha round, especially the possible agreement on trade facilitation. Once such an agreement is struck, the WCO is ready, able and willing to provide the assistance needed to support the implementation of new WTO measures.

With respect to regional integration, there are, of course, a number of new and ongoing initiatives in various parts of the world. There are different degrees of regional integration, ranging from the free trade agreement to full fiscal union. For customs in particular, there are three areas requiring consideration in the context of regional integration, namely border control and facilities, revenue management, and institutional arrangements. It is crucial that customs be involved in regional integration discussions from the outset.

Customs administrations also contribute to the fight against smuggling and illicit trade. Whether it is the sale of fake goods on the internet, the trade in endangered species or the smuggling of high-tax goods, or whether it is banks laundering money, museums purchasing stolen artifacts or traffickers running drugs, illicit trade manifests itself in many forms. There is one recurring theme: the economic, political and social effects of illicit trade are highly detrimental to countries, businesses and the public.

Combating illicit trade

The complex nature of the regulatory environment, red tape, corruption and the high tax burden can incentivise legitimate traders into re-thinking their business models, and smuggling goods across borders. The more complex and obscure the trading system is, the higher the chance that a business may develop an illicit component that, in time, if not targeted, could develop into a criminal system.

How do customs administrations counter smuggling and illicit trade? A deep knowledge of the risks presented by illicit networks is critical in order to understand the interaction between illicit and legitimate flows of goods, people, money and information. This is why the WCO organises research conferences where academics, practitioners and others can debate and reach a better understanding of border realities and appropriate policy responses. Moreover, strengthening compliance and regulatory frameworks through enforcement harmonisation and cooperation is another area that should receive some priority, as should enhancing cooperation with businesses and other market actors to enable targeted interventions on both the supply and demand sides of illicit trade. More cooperation between like-minded regional and international organisations can also make a difference.

The WCO is a unique forum for the global customs community to share experiences, and an excellent platform for WCO members to access experts that

World Customs Organization officials visit a port facility. The WCO has been helping customs administrations globally to reform and modernise their systems

PFUS COLLECTION/ALAMY

can provide various forms of advice and operational assistance in combating illicit trade. More sophisticated knowledge on current smuggling and cross-border criminal activities is required in order to better target evolving and emerging risks. The WCO Customs Enforcement Network (CEN), a database of customs seizure records worldwide, is particularly important because it allows for the tracking and analysis of the latest trends and patterns in illicit trade.

The problems of illicit trade, smuggling and the shadow economy will not be solved over night. That is why everyone, including policymakers, customs professionals, other border agencies, researchers and the private sector need to cooperate closely to make further progress on this challenge.

It is useful to have an opportunity to share with the G20 and relevant stakeholders the importance of WCO tools and the efforts of customs administrations around the world to promote international trade by both facilitating legitimate trade and deterring illicit trade. The G20 should make further use of these resources, which are at their disposal for supporting international trade. ■

SUPPORTING GOVERNMENTS TO PROTECT TAX REVENUE AND FIGHT ILLICIT TRADE

The positive impacts of modern Tracking and Tracing technology

**By Philippe Amon,
Chairman & CEO, SICPA**

As the G20 meets in Saint Petersburg, governments across the globe continue to grapple with high fiscal deficits. These deficits constrain governments in their economic policies and are a challenge to the achievement of the G20 global goals to promote sustainable, inclusive and balanced growth and jobs creation. Through its secure track and trace systems SICPA offers much-needed solutions and services that can support governments to reduce their deficits by boosting tax revenues, as well as enhancing multilateral trade through enabling trust and transparency.

The World Customs Organisation (WCO) Databank on Advanced Technology describes SICPA's offering as follows: *"Building on the heritage and the global experience of its security ink business, SICPA Government Security Solutions has established itself as the provider of a new security standard that integrates ink-based covert features and sophisticated track and trace technology for product authentication and excise tax enhancement. SICPA has Product Security operational centres in Switzerland, the United States, Turkey, Brazil, Malaysia and Spain. To date, it is the only organisation in the world to have successfully installed secure track and trace systems that are independently run and controlled by governments only. These systems monitor hundreds of tobacco and beverage production lines worldwide, which results in more than 77 billion individual consumer products secured by SICPA Government Security Solutions S.A. every year."*

The protection of tax revenue and the fight against illicit trade and counterfeiting are among the priorities of most governments today. To optimise tax collection, governments need to be able to exercise effective control over the production and importation of products – especially over products that have high tax value such as excisable goods. The strategic goals of secure Track and Trace technology to assist governments to enhance revenue collection are straightforward. They are all focused on preventing tax fraud. Each nation has its own social organisation and tax system reflecting its historic development. But whatever the structure and form of the fiscal system, any government has to protect the integrity of the system, since it is crucial to the maintenance of public order and the existence of the state. Preventing tax fraud is thus at the heart of any state's mission, especially in the current economic conditions.

Track and Trace technology can be used by industry and business, but also to support government in its mission to tackle tax fraud, be that in the customs arena or in excise. The past ten years have seen a growth in the efficiency of Track and Trace technologies across the globe, and especially in the field of assisting governments to enhance their tax collection. The impact of this technology is threefold. The first benefit is to capture the undeclared market, leading to an immediate proportional increase in tax collection. This is followed by ongoing benefits to tax policy support and reduction of the incentives for under-declaration. Thirdly, there are a number of non-tax benefits associated with this technology. There are benefits in the area of public health policies, such as reducing tax fraud levels on the playing field for honest producers by reducing the flow of illegal untaxed products onto the market (which represents unfair competition for legitimate and legal producers), which is also a means to combat organised crime. Governments are losing revenues from both non-declaration and misdeclaration. Based on our proven experience providing secure Track and Trace services to a number of states, we at SICPA have developed a tax remediation model.

ABOUT SICPA

Founded in 1927 and headquartered in Lausanne, Switzerland, SICPA is a trusted provider of secured identification, traceability and authentication solutions and services to central banks, governments and high-security printers around the world. High-technology security inks are at the core of the company's expertise and for more than 60 years SICPA has been at the forefront of research and innovation in this area. SICPA inks and security features protect the majority of the world's banknotes, security and value documents from counterfeiting and fraud. They range from inks developed for specific printing processes to solutions adapted for varnishing and theft deterrence systems.

SICPA also integrates ink-based covert features and sophisticated traceability technologies to offer solutions and services to governments, ensuring product authentication, traceability and protection as well as tax reconciliation.

Operating on five continents, SICPA is a global company providing technologies and services in more than 200 countries.

Introducing secure traceability systems has been shown to consistently boost tax receipts

This model estimates the tax lost through non-declaration and misdeclaration. The accuracy of the model relies mainly on the quality of four key inputs: the market volume, the tax scheme, the estimate of the undeclared market and the undeclared market recovery rate, which depends of course on the level and efficiency of enforcement. A system based on advanced and secure Track and Trace technology assures maximum benefit from any tax increase – it deals with the higher incentive for under-declaration which is often the result of a tax rate increase. The advanced traceability features provided by a comprehensive system like our platform significantly reduce the additional under-declaration and consequent tax fraud that result from a tax increase. It serves as a tool to continuously capture and trace as excise products are uniquely marked at production or importation, their logistical and fiscal life can be reliably tracked and traced. To do this it is necessary to capture events along the distribution chain from the manufacturer or importer to the point-of-sale. The third pillar consists of **auditing and authentication** tools to detect if excise products have valid marks or stamps. The fourth pillar is the consolidation of excise trade data to provide meaningful **business intelligence, risk profiling** and powerful reporting tools. Excise trade data is transferred seamlessly from the marking, tracking and tracing systems mentioned above. As long as all excise products produced in a country or imported are marked, and as long as their distribution and authentication are controlled in a reliable way, the government, the

Preventing tax fraud is at the heart of any state's mission

market size, allowing volume reconciliation and enhancement of tax revenues. On the basis of figures published by governments in different regions of the world, introducing our traceability technology in conjunction with tax hikes has resulted in an average incremental increase of 14% in taxes collected.

Secure Track and Trace technology is based on four essential pillars. The first pillar is the marking of legitimate production. **Marking** is the application of a means to authenticate that the product is genuine or show it is fake, and also to record production details. The second pillar relates to the **Track and Trace functionalities**. As soon Ministry of Finance and the customs services have the means to tackle excise fraud.

According to the World Customs Organisation (WCO) Databank on Advanced Technology: *"To reach its fiscal policy and public health objectives, Finance Ministries in the world can count on an integrated system of acquisition and management of data on the production and import of relevant products."*

The SICPATRACE® security platform can accommodate numerous products, as determined by government, so as to protect licit industries and help promote the conditions suitable for economic development and the investment climate.

SICPA

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Strengthening trade through tourism

With uninterrupted growth and a vital role in driving international development, tourism should be right at the heart of global economic strategies

By Taleb Rifai, secretary general, United Nations World Tourism Organization

Last year, the world celebrated a historic milestone as more than one billion tourists travelled in a single year. This is especially extraordinary considering that, just over 60 years ago, international tourists numbered a mere 25 million.

Enjoying uninterrupted growth over the past six decades, tourist numbers are forecast to swell to 1.8 billion by 2030. As more and more people cross international borders, immerse themselves in other cultures and take an active part in global dialogue, tourism increasingly becomes a relevant force on the global agenda.

Tourism is one of the fastest-developing sectors in the world economy, having experienced continued expansion and increased diversification over the past decades. As it stands, the sector accounts for nine per cent of global gross domestic product (direct, indirect and induced impacts) and six per cent of the world's exports. It employs one out of 11 people across the world. Receipts from international tourism, including air transport, hit a record of $1.3 trillion in 2012.

Today, tourism is also a key sector in promoting a more balanced and sustainable future. Tourism is one of the 10 economic activities identified by the United Nations to lead the transformation to the green economy. It was recognised in the Rio+20 outcome document as one of the sectors capable of making a significant contribution to sustainable development, having close links to other sectors and being able to create decent jobs and trade opportunities.

A key trade category

With many of the world's countries today looking for solutions to address the global economic challenges, tourism is increasingly a strong option, being a key contributor to balancing trade deficits and creating much-needed jobs. For example, tourism is crucial to Europe at this juncture; in spite of the lingering economic difficulties, Europe is still the most visited region in the world, growing by three per cent in 2012 to reach 535 million tourist arrivals – more than half of all international arrivals worldwide.

In economic terms, international tourism is a traded service, where the money earned by destination countries counts as an export and the money spent by visitors to those destinations counts as an import for the markets from which they originate.

Except for international tourism receipts (the travel item in the balance of payments), tourism also generates export earnings through international passenger transport. Overall export income generated by international tourism in 2012, including passenger transport, totalled $1.3 trillion.

By 2015, emerging economies will, for the first time, receive more international tourist arrivals than advanced economies

Representing as much as 29 per cent of the world's exports of commercial services and six per cent of overall exports of goods and services, international tourism has thus become one of the world's major trade categories, ranking fifth after fuels, chemicals, food and automotive products.

Trade income from international tourism is particularly relevant for developing countries, where it is a major source of foreign exchange and investment, creating employment and providing business opportunities. For the emerging economies as a group, tourism ranks as the fourth-largest export category. However, only a comparatively small number of countries benefits from the latter three categories.

Tourism is also the lead export for at least 11 least-developed countries (LDCs). It is an important sector of economic activity in all LDCs that have managed to or are about to graduate from LDC status.

In 2011, total exports from tourism (including travel and passenger transport) in the 49 LDCs amounted to $14 billion, representing six per cent of the total exports of this group of countries and more than 56 per cent of the exports of traded services.

Propelling development

The role of tourism in socioeconomic development is becoming increasingly evident. As one of the world's top job creators and a lead export sector – especially for developing countries – tourism plays a significant part in the achievement of the UN Millennium Development Goals, namely in eradicating poverty, promoting gender equality and environmental sustainability, and forging global partnerships for development.

If the distribution of international tourism is considered an export category by region, it is clear that tourism can be a major catalyst for development in Africa, where it already represents seven per cent of all exports, or in Central America, where it accounts for as much as 13 per cent of the sub-region's exports.

Furthermore, tourism is the most important export category in the Caribbean and in Southern and Mediterranean Europe, and the second most important category in Northern Africa. For Central America, the Middle East and Northern Europe, tourism is the third most important export.

As positive trends in world tourism continue, it is the developing and emerging economies that stand to see the highest rate of growth. Tourist movements towards emerging and developing countries already accounted for 47 per cent of international tourist arrivals in 2012. According to the long-term forecast published by the UN World Tourism Organization (UNWTO) in *Tourism Towards 2030*, by 2015, emerging economies will, for the first time, receive more international tourist arrivals than advanced economies.

Yet, in spite of tourism's clear contribution to development, with important spillovers into the rest of the economy, a joint study by the Organisation for Economic Co-operation and Development, the World Trade Organization and UNWTO released in June 2013 has shown that there is still a significant disparity between the sector's high potential for development and the low

A UNESCO World Heritage Site, Dubrovnik's old town is the most visited place in Croatia, which in 2013 became the 28th member of the European Union

GRGO JELAVIC/PIXSELL/PIXSELL/PA IMAGES

A view of the Etosha Pan in Namibia. The UN World Tourism Organization is calling upon G20 leaders to assess the contribution of tourism in promoting strong and sustainable growth

THOMAS SCHULZE/DPA/PRESS ASSOCIATION IMAGES

priority it has received so far in terms of aid to development – namely official development assistance (ODA). Indeed, there is a striking contrast between the weight and potential of the tourism sector and the fact that tourism is allocated only 0.13 per cent of total ODA and 0.5 per cent of total Aid for Trade, with projects averaging $300,000 in aid support.

Opportunities for G20 economies

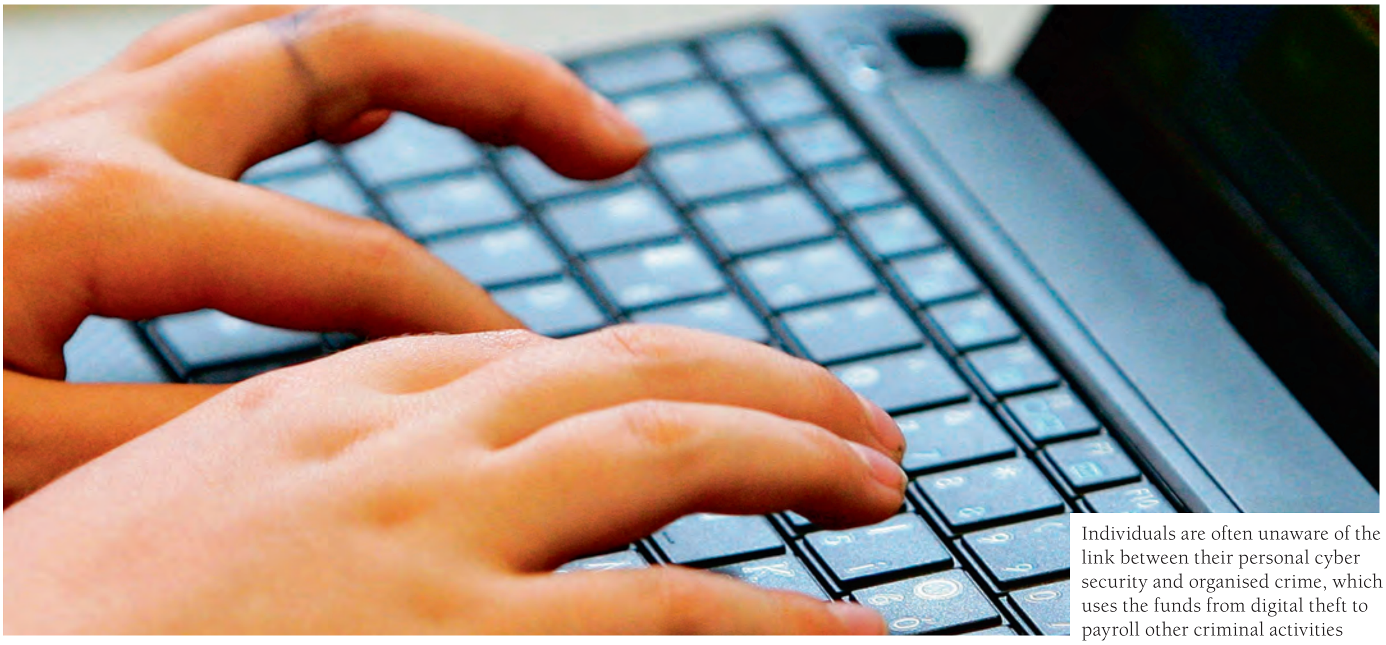
Crucial elements remain for the tourism sector to continue along a strong and sustainable growth path; support at the highest political level, infrastructure, development of human resources, smoothly functioning visa schemes, fair taxation and increased connectivity are all essential for tourism development. As world leaders meet in St Petersburg to discuss measures to address the current global challenges, the G20 economies should closely consider the role of tourism in stimulating balanced growth in the world economy.

In 2012, the G20 leaders' declaration recognised tourism as "a vehicle for job creation, economic growth and development", and it committed to working "towards developing travel facilitation initiatives in support of job creation, quality work, poverty reduction and global growth".

Indeed, the facilitation of visas has been one of the rallying calls at UNWTO. Not only is visa facilitation a fundamental measure to promote tourism in a country, but it is also central to stimulating growth and development. A report produced by UNWTO and the World Travel and Tourism Council showed that improving visa facilitation could result in substantial gains in income and job creation in the G20 economies and that, as a result, as many as 5.1 million additional jobs could be created by 2015.

As in 2012, UNWTO calls upon G20 leaders to assess the contribution of tourism in promoting strong and sustainable growth, particularly as an increasingly important trade category, and to include the sector as one of the pillars that can support the G20 goal of delivering economic growth. ■

A call for international collaboration in the fight against cybercrime



DAVE THOMPSON/PA WIRE/PA IMAGES

Individuals are often unaware of the link between their personal cyber security and organised crime, which uses the funds from digital theft to payroll other criminal activities

Programmes to fight cybercrime need to be harmonised across countries to ensure the online health of citizens and businesses

By John Lyons, chief executive, International Cyber Security Protection Alliance

The International Cyber Security Protection Alliance (ICSPA) – a global, business-led, not-for-profit alliance – is calling on governments interested in providing a safer and more secure cyber future for their citizens and business communities to fund programmes, projects and activities that will seek to ensure that their internet users are 'cyberfit', and able to meet the constantly evolving challenges brought about by the inexorable growth in online criminality.

Business led the way by establishing ICSPA in July 2011. As its chief executive, I would like to make the case in this article for international financial support from governments in order to accelerate the execution of its mission – to reduce the harm from cyber criminality globally by working with governments, law enforcement agencies and businesses to provide sustainable solutions in the fight against cybercrime.

Fighting cybercrime together

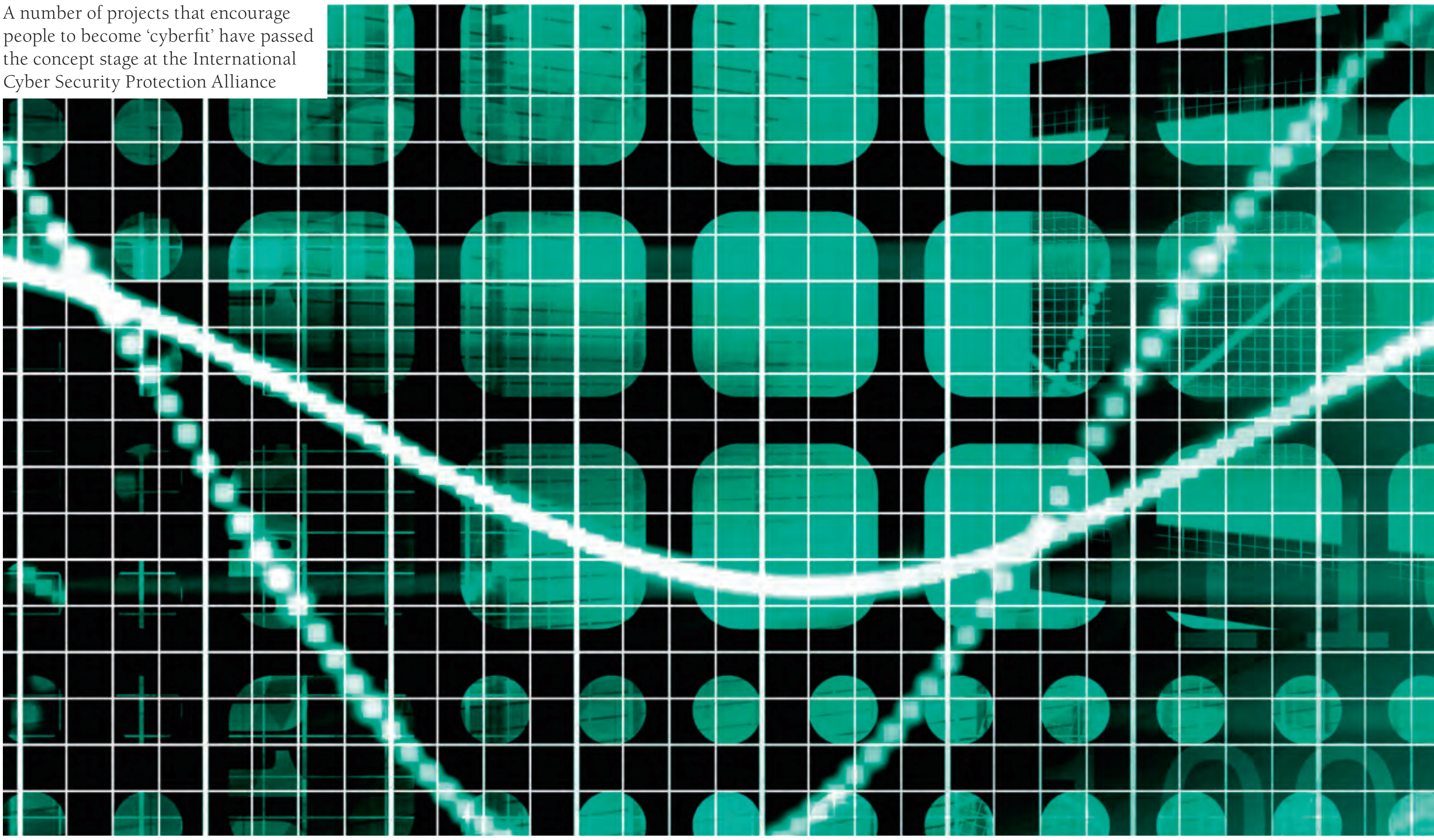
Thirty-nine countries from the EU and elsewhere have either ratified or acceded to the Budapest Convention on Cybercrime. Many more governments around the world understand the significant economic and social benefits that the internet delivers to their citizens and businesses. Equally, these same governments recognise the absolute priority they must give to fighting cybercrime and to developing strong cyber defences.

My assertion is that acting collaboratively to fund programmes of work to deliver benefits back to citizens, and help small and medium-sized business communities better defend themselves against cyber threats, will provide the boost that economies desperately need to break out of this decade of austerity.

The return on investment to governments that decide to resource these programmes of work would be measurable and sustainable. Citizens would benefit directly and small businesses, the bedrock of many national economies, would be better able to protect their intellectual property and promote the creation of new business opportunities and jobs.

Imagine what we could achieve together, if 39 countries each donated one million euros per annum for the next five years to a collaborative fight against cybercrime. By directing funding that would be used to carry out programmes of activities designed specifically to deliver benefits to citizens and small businesses, savings would be generated far in excess of these amounts by reducing the opportunity for cyber criminality.

If countries really care about making a step-change in the ability of internet users to become more safe and secure online, they should act now and support this initiative. It is an initiative that will help citizens



A number of projects that encourage people to become 'cyberfit' have passed the concept stage at the International Cyber Security Protection Alliance

understand what they need to do in order to become more secure, while learning to accept some personal responsibility for securing their home networks and devices. These programmes of work are not just about raising awareness, although education and training are vitally important to all. The projects will be extensive in their scope and reach, but all designed with one purpose: to reduce the harm from cybercrime to the most vulnerable citizens and business communities.

Getting CyberFit for 2020

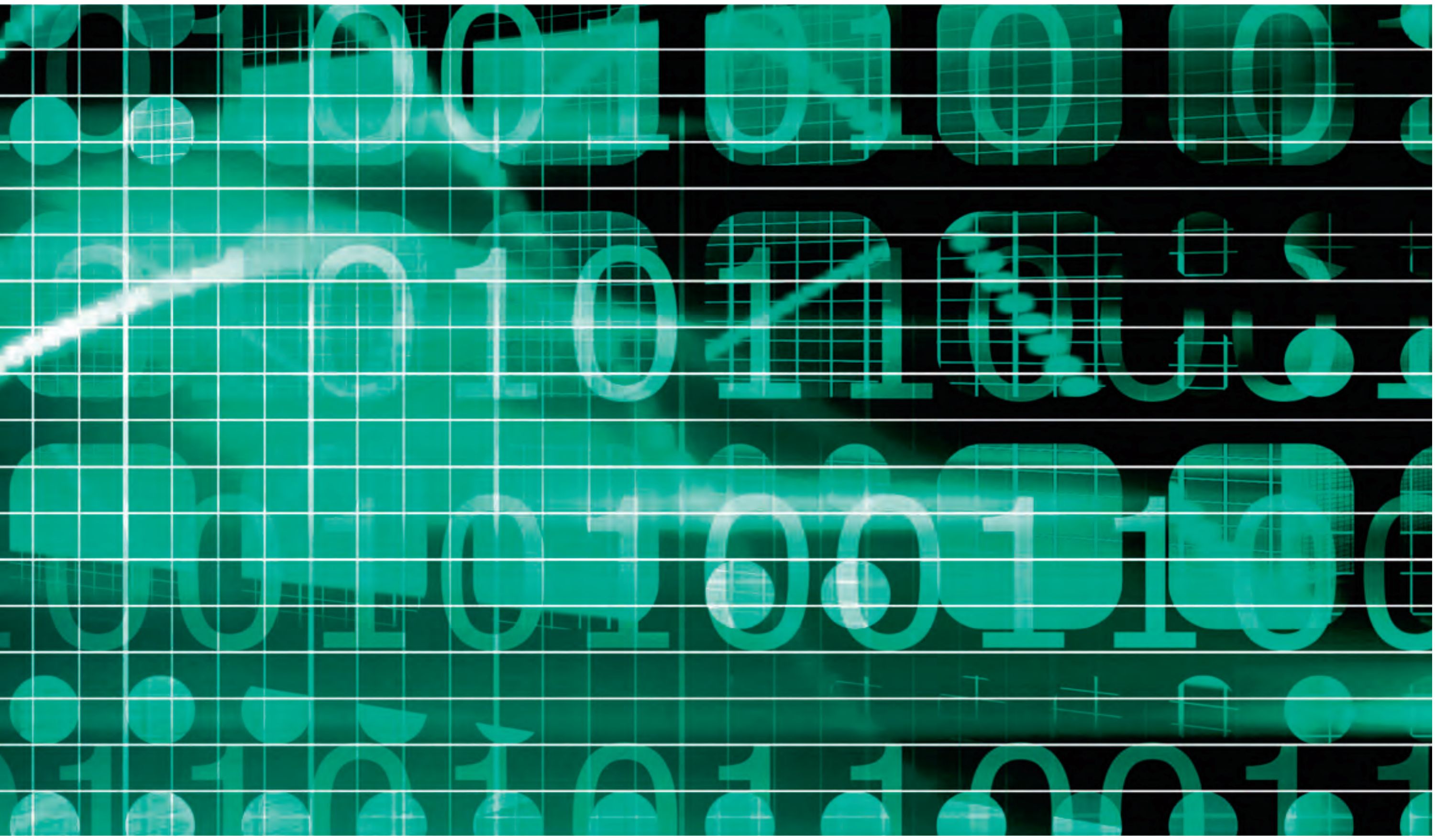
Getting CyberFit for 2020 – an initiative of ICSPA – is an international imperative that governments can no longer ignore.

By collaborating and sharing information, knowledge and good practices, donor governments, law enforcement agencies, businesses and academia can work together within an expanded ICSPA community to ensure that public funds will be put to agreed projects that will deliver tangible results right back to those countries that have supported the programme.

Examples of cyberfit projects that could be deployed nationally across many countries in many languages, which have passed the ICSPA concept stage and are ready for development, are as follows:

- Cyber-awareness apps for adults and cyber games for children and young people. The cyber apps are designed to alert users to new threats and scams and to help them clean up their devices. The games for children will be in a range of formats that are designed to be fun and engaging, while teaching our most vulnerable citizens how they can stay safe online. By the time they progress through these games and start to use the adult apps, they will be 'cyberfit' for adulthood.
- CyberBridge – a collaborative business case between the ICSPA and the City of London Police in England, which is designed to clean up the estimated 5.5 million infected IP addresses in the UK that are mostly in the hands of domestic broadband users. These mainly Trojan-infected devices are causing significant financial losses to online retailers and banks.
- CyberFit for Business – a series of awareness, educational and training packages designed for small and medium-sized business communities to ensure that they are optimising their cyber defences. Assistance programmes include online training modules, cyber-assistance call centres, and visits by properly qualified and certified internet security specialists to provide direct support if required.
- CyberFit for Citizens – awareness, education and training programmes coupled with marketing and communications activities, designed to help citizens understand online threats and scams and give them the training and tools to ensure that they are able to help themselves become safer and more secure online. The thrust of these programmes would be to ensure that citizens understand the great value the internet delivers, while helping them accept that they must take some personal responsibility for being 'good cyber citizens';
- GetSafeOnline – an existing educational resource for citizens in the UK, with similar websites and resources in other countries, that could be harmonised and adapted to suit local languages and cultures throughout supporting countries.
- Project Aurora – designed to provide consultancy to countries that require a cyber health check and audit of their existing programmes and infrastructures. It is designed to result in a fully costed project plan and business case that would provide governments with a road map to a more cyber-resilient future.
- Cybercrime impact studies – conducted already in Canada and designed to

Well-organised criminal groups are now concentrating and directing their exploits and activities at a much wider audience



KHENG HO TOH/ALAMY

provide governments with an independent assessment of the scope and nature of cybercrime targeted against its business communities. The results are used to help policymakers in government and to support law enforcement and business communities decide where best to channel hard-earned resources.
- Establishing ICSPA business hubs internationally – designed to create public- and private-sector engagement for local and national projects to fight cybercrime. Each donating country would be provided with an ICSPA presence to coordinate the programmes and projects that were being undertaken and to liaise with stakeholders to ensure the successful execution of national programmes of work.

Clearly, there will be other projects that will come to fruition, but focus is imperative and the harnessing of global expertise to provide best-of-breed solutions that work is where all energies should be deployed.

Getting CyberFit for 2020 is an independent ICSPA initiative aimed at delivering value to citizens and business communities. It is void of politics and inspired by the recognition over many years that together we must implement cyber programmes that will help citizens to become more productive online and when using their mobile devices, while ensuring that they remain safe and secure when doing so.

No one government can take the lead on this. Leadership is essential, but countries that need help do not want it thrust upon them by a country that may think it has the answers.

Everyone knows that all need to work collaboratively to fight this global phenomenon – world leaders know that, business leaders do it every day and citizens simply marvel at the speed at which they can be compromised online while carrying out the most fundamental tasks.

Working collaboratively

Some countries report falling crime figures, yet everyone knows that the criminals haven't packed up and gone home. The truth is that very well-organised criminal groups are now concentrating and directing their exploits and activities at a much wider audience – reaching millions of citizens online at the touch of a keyboard. They are making millions of dollars every week without much prospect of getting caught, and when they do, they spend very little time behind bars. But let us be honest – there will never be enough law enforcement officers in the world to investigate and bring to justice all online criminals. All citizens need to recognise this fact and governments need to be truthful about it.

The final argument in favour of establishing this government-funded work is that there exists a more sinister outcome to the continued growth in cyber criminality. While citizens are generally reimbursed for their losses by online retailers and banks that want to avoid negative publicity, the funds and proceeds of crime amassed by criminal groups are reinvested by them to create real, physical harm in all societies. Online proceeds may be used to fund people trafficking, gun crime, illegal drug smuggling and paedophilia. The proceeds may also fund terrorist planning and operations.

The need to become more diligent

So long as citizens fail to recognise the link between their (temporary) financial loss and harmful criminal activity downstream, they will continue not to care about their personal cyber hygiene. Because it is not hurting them personally, they will continue to ignore messages that implore them to be more diligent about their online safety and security.

Communications programmes that are designed to bring about the needed changes in the attitude and behaviour of citizens will require the very best creative talents that exist in order to make the impact that we all need and desire. Harmonising these programmes across a number of countries, reaching out to all cultures and faiths, and recognising the powerful effect that well-known brands have on people and their children is just the sort of thinking that it is necessary to harness and encourage if we are to succeed in the objective of becoming CyberFit for 2020. ■

Internet dependence:

The case for risk management and cybersecurity norms

The G8 and G20 members have a long history of problem-solving, crisis prevention and establishing principles for collaboration. As members convene in 2013, they should carefully consider the increasing significance of the internet to the world economy and international security. The internet continues to grow and change – through technology changes, through social changes in how citizens use the internet, and through governments' thinking and approach to security.

By the year 2020, the population of internet users is estimated to grow from just over two billion to nearly four billion. The figure shown on the page opposite illustrates the projected global distribution of internet users in 2020 by the number of users per country, and by broadband penetration. China is projected to have about 760 million users, more than the number of users in the EU and US combined. Brazil, India and Nigeria, which had a combined internet population of nine million in the year 2000, will likely have about 570 million users.

By 2020, large parts of the world will be hyper-connected and will have moved from 'Internet adoption' to 'Internet dependence'. Increasingly, both the global economy and international security will be dependent on the availability, integrity and security of the internet and the functions it supports.

But while cyberspace will drive economic growth, we will continue to see an increase in sophisticated cyber threats, which could pose significant risks to national economies. To address these risks, more than 40 countries are building or have built cybersecurity strategies for reducing national-level risk and bolstering critical infrastructure protection. To be effective, nation states should adopt cybersecurity strategies that help manage and mitigate key risks through policy and smart risk management.

International harmonisation of cybersecurity efforts

While a focus on developing robust national cybersecurity capabilities is critical, these efforts alone will not counter the global threat. At the international level, nation states need to work toward global harmonisation of cybersecurity efforts. In doing so, all governments – not just those of like-minded nations – need to develop international approaches aimed at advancing security and reducing cyber-risk. The G8 and the G20 should therefore begin to seek global harmonisation of approaches to cybersecurity, critical infrastructure protection and other key international issues like incident response and supply chain security.

Risk management issues apply not only at the infrastructure protection and citizen level; they also apply at the nation-state level. The respective national security communities of governments, particularly departments of defence and foreign ministries, have a long history of addressing security norms in the context of nation states and military operations.

The world is moving from Internet adoption to Internet dependence

As nation states around the world continue to adopt and declare military doctrines for cyberspace, it is imperative that governments also focus advocacy and cooperative efforts toward a comprehensive approach to cybersecurity that goes beyond the nation-state and military space. Currently, domestic

A PRINCIPLED APPROACH TO CYBERSECURITY AND RISK MANAGEMENT

The following principles should be used by policymakers facing the challenge of reducing cybersecurity risk. Approaches should be:

Risk-based: A risk-based approach to information security identifies risks and assesses them in terms of threat, vulnerability, likelihood and consequence, and then seeks to manage them through mitigation, controls and other measures. A risk-based approach does not suggest that risks can be eliminated, nor that risk management initiatives are static, but recognises that as technology and cyber threats evolve, so too must risk assessment and management.

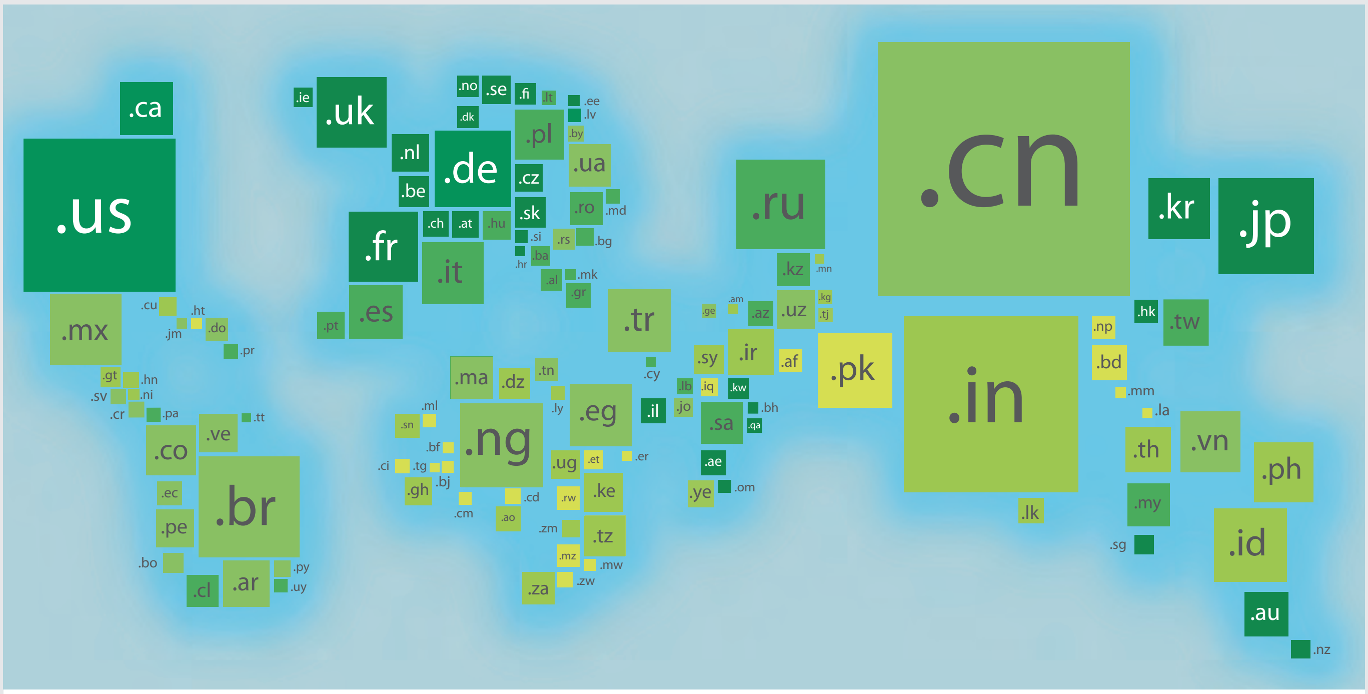
Outcome-focused: Because managing cybersecurity involves many variables, cybersecurity policies should focus on achieving clear outcomes and be explicit about desired end states. Desired outcomes should be described in ways that enable stakeholders to assess the effectiveness of proposed mitigation, controls and similar measures. An approach that measures effectiveness will enable innovation in the marketplace and discourage entities from adopting merely the lowest common denominator required for compliance.

Prioritised: Guidelines for distinguishing critical from non-critical infrastructure should take into account that, even within critical infrastructure, there are varying degrees of criticality. A graduated or tiered system is optimal.

Practicable: Policies must be practicable in order to be accessible to the many small and medium-sized entities that operate within critical sectors, and who will likely lack the operational sophistication and financial resources required to grapple with overly complex or burdensome requirements.

Respectful of privacy and civil liberties: Improving the national cybersecurity risk profile should not come at the cost of privacy, nor should it impact negatively upon civil liberties. Rather, improving cybersecurity should strengthen them.

Globally relevant: Whenever possible, governments should seek to incorporate existing international standards when they are developing their cybersecurity policy. By doing so, they will reduce the cost of compliance for organisations. Moreover, integration of international standards will encourage other countries to adopt a similar approach. In scenarios where international standards are not applicable, best practices established by industry are often an appropriate substitute.



Cyberspace in 2020

Data visualization and design created by Column Five Media, data provided by Euromonitor Intl.; map concept derived from Geographies of the World's Knowledge, Graham, M., Hale, S.A. and Stephens, M. (Convoco! Edition, London, 2011).

Sizing Legend

= 5M Users

= 10M Users

Percent Penetration of Internet Users

0-20 | 41-60 | 81-100 | 21-40 | 61-80

Internet users in 2020 for the G20

Argentina 25.5m	Japan 109m
Australia 23.5m	Mexico 61m
Brazil 122m	Russia 94.5m
Canada 33.5m	Saudi Arabia 21m
China 765m	South Africa 18m
France 58m	South Korea 45m
Germany 70m	Turkey 47m
India 366m	United Kingdom 59m
Indonesia 64m	United States 277m
Italy 45m	European Union 417m

policy developments on issues related to cybersecurity are not as focused as are efforts to combat terrorism or stem the proliferation of nuclear weapons, and the same holds true in international engagements. G8 and G20 members must now leverage their expertise to advocate for more consistent approaches to cybersecurity at the national level. At the international level, governments should focus their diplomatic expertise and resources on promulgating norms of acceptable state behavior in cyberspace. The resulting cybersecurity norms can increase confidence, stability and security in cyberspace. G8 and G20 members should also include the private sector in these discussions where it is possible and reasonable, because private companies create and operate many of the technologies that nation states rely on for their economic and national security.

Conclusion

Nation states need to develop comprehensive, principled strategies for cybersecurity domestically in order to bolster national capabilities, and also work to harmonise international cybersecurity efforts through development of appropriate cybersecurity norms. While doing so will take substantial commitment, it is critical to the long-term stability, reliability and security of the internet and the critical infrastructures upon which we all rely. Protecting cyberspace is one of the seminal economic and security challenges of our time. The time for action is now and the G8 and G20 are the right places to start.

Matt Thomlinson, General Manager: Trustworthy Computing Security

Matt Thomlinson is General Manager of Product Security at Microsoft, and leads the Trustworthy Computing Security organization responsible for technical security measures as well as policy. Trustworthy Computing (TwC) initiative was founded by Bill Gates in 2002 to improve the security, privacy and reliability of Microsoft Products and Services. In his role, Matt oversees efforts ranging from secure software development and global incident response to working with governments, academia and private-sector stakeholders on strengthening cybersecurity. In his 19 years at Microsoft, Matt has been involved across the software industry as a technology leader. He is currently chairman of the Information Security & Privacy Advisory Board (ISPAB) of the US Department of Commerce which advises senior administration officials across the US government. Matt is named as inventor or co-inventor on 21 technology patents. He is a native of Seattle, WA and holds both Master's and Bachelor's degrees from the University of Washington.

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Preferential trade agreements: using their proliferation as an opportunity

Preferential trade agreements are creating greater global interaction and more efficient supply chains, but their evolution requires careful planning

By Enrique Rueda-Sabater and Sergei Perapechka,
B20 Task Force on Trade as a Growth Driver

Preferential trade agreements (PTAs) are an increasingly prominent feature in the global commerce landscape. It is imperative that they evolve as building blocks for progress on multilateral trade liberalisation – and for the expanding contribution to economic efficiency that global supply chains represent.

Two parallel dynamics are relevant as context. First, over the past two decades global trade has grown rapidly. It has considerably outpaced economic growth, with trade growing on average by 6.1 per cent and the world economy at an average 4.1 per cent per annum from 1985 to 2010. This rapid growth reflects policy changes, such as lower tariffs and other barriers, but is also due to the increasing fragmentation of production in a wide range of industries. This expansion of global supply (or value) chains has provided a major source of increased efficiency and productivity for the world economy. In recent years, the growth of supply chain-related trade has also been fostered by advances in information and communications technology. This has had the effect of lowering transaction time and costs. The shift towards containers in shipping lanes around the world has played a further facilitation role.

Second, there has been a proliferation of PTAs that create multi-country market zones subject to barriers lower than those that apply to trading partners outside those zones. This is happening for two main reasons. First, progress with a global trade agreement has been disappointing, especially as the Doha Round remains inconclusive after more than a decade in progress, and although tariffs have been generally declining, countries have looked for alternative ways of promoting trade flows. Second, individual countries and regional groupings have significant concerns related to gaining critical mass as markets, as well as political and geostrategic objectives. These can be better addressed through more circumscribed trade agreements.

Benefits for the global community

Further expansion of international trade is highly desirable, as it continues to offer significant potential for improvements to efficiency that could benefit the global community as a whole. Reducing barriers to trade in goods and services allows those offering greater productivity in the provision of goods and services to gain, regardless of their location, and to contribute to improved global efficiency. In addition, the expansion of trade in goods and services promotes both the spread of innovation and the accelerated adoption of new technologies.

Maintaining the fluidity of global supply chains is another significant reason for promoting freer trade. An international environment that allows corporate supply fragmentation, sourcing and location decisions to be driven by efficiency considerations is an important ingredient of economic growth and productivity that can benefit all countries and businesses. The globalisation of supply chains has also generated opportunities for emerging countries to accelerate their involvement in manufacturing without the hurdle that having to set up end-to-end production processes could represent.

Because a dynamic aspect of trade has become the globalisation of supply chains, businesses have come to rely on the trade system as more than just a way to sell final products. They are concerned about a broader range of issues and barriers – many of which were not typically considered to be related to trade since they did not hinder selling finished goods internationally. But global trade rules have not evolved along with the fragmentation of production and its impact on trade.

It is generally agreed that multilateral trade agreements offer the best way to take advantage of such a global opportunity. This belief underpins the creation of the World Trade Organization (WTO) and its progress to date. It remains a central objective of the international community and, as such, has been reiterated at G20 meetings and in B20 discussions, as it was recently in St Petersburg. However, limited progress in the ongoing efforts to reach a new multilateral, global trade agreement has created a gap that many countries feel an urgent need to fill through more circumscribed trade agreements to create greater opportunity for their exports. Countries must also consider affinities, traditional alliances and geographical factors, and have looked to

THOMAS MUNCKE/DPA/PA IMAGES

trade preferences as a way to strengthen those partnerships and strategic alliances.

PTAs and their most prevalent subset – regional trade agreements – have been a logical response to those factors. The challenge is to ensure that they evolve in a way that is consistent and complementary to broader, longer-term efforts for global trade promotion, such as multilateral trade agreements and the WTO rules. This would concern mainly 'beyond trade' agendas, or what some experts have called 21st-century commerce issues, that were not the focus of 20th-century trade issues around which the WTO rules revolve. Making progress in such areas would have very positive effects on the fluidity of supply chains and hence in the efficiency of the global economy – reinforcing the impact of the progress in reducing protectionism and trade facilitation.

The opportunity is there to ensure that new PTAs are designed (and make certain that existing ones evolve) so that they play a role as building blocks to open, global trade, rather than acting as stumbling blocks to multilateral trade liberalisation.

The opportunity is there to ensure that new PTAs are designed (and make certain that existing ones evolve) so that they play a role as building blocks to open, global trade

The challenge needs to be tackled at several levels, including process, analysis, scope and membership.

On process, transparency and open discussion – including consultation with businesses involved in export, import and logistics – will help ensure that PTAs become an integral part of broader efforts to liberalise trade. It is important that time and avenues for consultation are incorporated in the planning of PTAs. Transparency ex-post is also important. Increasing the proportion of PTAs registered with the WTO will represent progress in this regard.

On analysis, a better understanding of trade fragmentation and the complexity of supply (or value) chains will improve decision making and PTA design. Efforts to improve data and analysis in that regard – such as the recent Made in the World initiative of the Organisation for Economic Cooperation and Development and the WTO – provide a very valuable basis for more informed discussion and policy design.

The expansion of global supply chains has proven to be a major source of increased efficiency and productivity for the world economy

Promoting economic expansion

On scope, the most promising PTA designs are based on what could be called a 'trade plus' approach, which builds on features already found in PTAs that go beyond the scope of the WTO to complement it. The aim would be to de-emphasise the focus of PTAs on tariffs and barriers that discriminate against non-members, and instead to emphasise actions that aim to promote the expansion of economic activity among the members, reduce obstacles to fluid supply chains, and open trade in goods and services. Such obstacles can be wide-ranging and will vary across countries, but examples include investment approval procedures, rules of origin, standards and government procurement.

On membership, PTAs should incorporate clear principles for accession and a commitment to allow expansion, particularly when the rationale for the agreement is not based on geographical adjacency.

The role of PTAs will most likely continue to grow within and across regions. Turning this momentum into an opportunity to allow for greater global economic interaction and facilitate efficiency-driven supply chain dynamics will produce broad benefits. ■

The views expressed here represent those of the authors and not the B20 Task Force on Trade as a Growth Driver

To end poverty, the world needs private-sector investment

Much has been achieved in reducing global poverty rates, but private enterprise must get involved in order to eliminate extreme poverty once and for all

By Jim Yong Kim, president, World Bank Group

In April, the World Bank Group's board of governors approved two ambitious goals that will drive the Group's work in the coming years. Firstly, working with partner governments and others in the development community, the World Bank will strive to end extreme poverty by 2030. Secondly, ensuring that development gains reach all people, it will seek to boost shared prosperity by increasing income growth among the poorest 40 per cent of the population in developing countries.

These goals are challenging – and attainable. Poverty reduction during the past 20 years has been rapid. Between 1990 and 2010, the proportion of those in the developing world living on less than $1.25 a day fell from 41 per cent to 20 per cent. The world met the first Millennium Development Goal – to halve extreme poverty by 2015 relative to 1990 levels – five years early.

World Bank economists project that, if things keep going at the current rates of economic growth, poverty levels will fall to between six per cent and nine per cent in 2030. An acceleration of global growth to pre-crisis levels and a dip in income inequality would take poverty to below three per cent, the level at which poverty persists mainly due to temporary shocks, such as natural disasters, rather than structural factors.

Ending poverty for good

This means that eliminating the scourge of extreme poverty is within reach – the world can end poverty in this generation. This has never been possible before, and getting there will not be easy. Seizing this extraordinary opportunity will require renewed focus from global leaders on accelerating the drivers of economic growth and poverty reduction.

It will also require ensuring that all members of society – particularly the poor and marginalised – have the tools they need to share in the gains of development.

Despite increased focus from governments and their development partners, the goals of ending extreme poverty and boosting shared prosperity will simply not be met without greater private sector investment in developing countries. Simply put, the world needs the private sector.

The private sector is the source of 90 per cent of job creation across the world. It also holds the key for meeting the growing investment needs of emerging and developing economies. India alone requires $1 trillion in infrastructure investment over the next five years. The government can only provide half; the rest will have to come from private sources.

It has been shown repeatedly that profitable investing can be socially and environmentally responsible and can support countries' long-term development goals

Globally, official development assistance totals about $125 billion a year. These flows are absolutely crucial to improving development outcomes, and donor governments need to maintain and increase their commitments in the coming years.

Yet the reality is that aid flows are not nearly enough to meet the needs of the developing world. The private sector must take a fresh look at, and scale up its investment in, developing countries. But this will not happen unless the right incentives are in place. Businesses need to deliver results to their shareholders. That is why governments continue to pursue business climates that are stable and conducive to high returns on investment.

Here, the World Bank Group is providing crucial support. It is stepping up efforts to collaborate more closely with the private sector. This is the mission of our private sector arm, the International Finance Corporation (IFC).

In 2012, IFC invested a record $20.4 billion in 103 developing countries, helping to support the creation of 2.5 million jobs. It is also moving aggressively to scale up activity in fragile and conflict-affected countries, which are home to nearly 25 per cent of the world's population.

Impressive investment returns

IFC is showing that investors can earn impressive returns in challenging environments. Over the past 20 years, IFC has earned an average annual rate of return of 20 per cent on its equity investments. This figure includes the past five years, which has been a period characterised by volatility in the global economy.

The World Bank Group also provides political-risk insurance through the Multilateral Investment Guarantee Agency, and helps to resolve investment disputes through the International Centre for Settlement of Investment Disputes. As a group, it is uniquely positioned to support the private sector – both directly and indirectly – in dealing with governments, and to support governments in establishing business climates more conducive to private investment.

It has also been shown repeatedly that profitable investing can be socially and environmentally responsible and can support countries' long-term development goals.

In Ghana, for instance, IFC provided a trade finance guarantee that allowed Tobinco Pharmaceuticals Ltd, an important supplier of anti-malarial drugs to hospitals and pharmacies across the country, to import $900,000-worth of equipment so that it could produce these drugs locally. The new manufacturing plant will increase the supply of affordable anti-malarials for Ghanaian

A trade finance guarantee enabled one company to start manufacturing in Ghana, making its anti-malarial drugs much more affordable to Ghanaians

ARNE HOEL/THE WORLD BANK

children, and will create hundreds of well-paid jobs in the process.

In Orissa, one of India's poorest states, IFC financed the construction of a low-emission cement plant for Orissa Cement Ltd, which has hired and trained 700 workers, many of whom had little or no previous work experience. Indirect employment from the plant is estimated to be more than 10 times higher, at 7,200. The firm has also helped to improve the local environment, collecting rainwater for industrial use and reforesting a green belt on its property.

The World Bank Group, through IFC, has shown that it is possible to make successful investments in challenging environments in a socially responsible and environmentally sustainable manner.

When I talk with institutional investors, I describe the opportunities for them to earn high rates of return on investment in low-income countries, and explain the resources the World Bank Group can offer them. I invite them to take part in the historic movement to help to end extreme poverty and build prosperity for the world's most vulnerable people, while also securing strong returns for their own shareholders.

For this movement to work, it needs the full support of G20 leaders. Push your legislatures to increase existing levels of aid. Talk with your business sectors about the opportunities that exist in developing countries. Let them know about the assistance the World Bank Group can provide.

In the coming years, let us join together with renewed vigour and focus on building the world everyone wants: one that is free of poverty, with shared prosperity for all. ■

Reforming the International Monetary Fund

Designed to more adequately reflect the influence of emerging markets, International Monetary Fund reforms are struggling to get off the ground

By Domenico Lombardi, director, Global Economy programme, Centre for International Governance Innovation

Three years after the G20 Seoul Summit, what was welcomed by the managing director of the International Monetary Fund (IMF) as "the most fundamental governance overhaul in the Fund's 65-year history and the biggest ever shift of influence in favour of emerging market and developing countries" has yet to materialise, almost a year after the deadline of October 2012.

What are the terms of this reform package, its relevance for IMF governance, its prospects for its ratification over the coming months and its implications for the G20 moving forward?

The reform package, once in effect, will double the IMF capital base (quotas) from 238.4 billion to 476.8 billion special drawing rights (SDRs) with a six per cent shift in voting power in favour of the under-represented and dynamic economies. The economies of Brazil, Russia, India and China (BRIC), in particular, will all make it into the top 10 shareholders of the institution, while the voting shares of the poorest members will be preserved.

The novelty of the agreed-upon package, however, is not just limited to the size of the voting power shift across the membership. It also includes, for the first time in recent history, an overhaul of the representation on the executive board, which is the main policy-making body of the organisation. Accordingly, the quota shift provides the scope for a realignment in the number of chairs that are available to emerging economies. It also entails a commitment to revisiting board representation every eight years in order to ensure a more dynamic composition.

As part of the agreement, advanced European countries will reduce their combined board representation by two chairs in order to strengthen the voices of the emerging members. Moreover, there will be scope for appointing second alternate executive directors in order to enhance the representation of multi-country constituencies – particularly those of African members.

For the proposed amendments to come into effect, they must be accepted by three-fifths of the IMF's 188 members (or 113 members) having 85 per cent of the IMF's total voting power. At 31 July 2013, 140 members having 75.69 per cent of total voting power had accepted the amendment. In other words, failure to date by the United States (which has about a 17 per cent voting share) to ratify the package has prevented it from becoming operational.

The United States vote

Obtaining the consent of the US Congress is likely to remain the major stumbling block. In March 2013 the Obama administration attempted unsuccessfully to attach the reform package to the legislation that averted the worst of the US 'fiscal cliff'. With the automatic sequestration cuts forming the backdrop of these negotiations, both chambers of Congress rejected the administration's request. If passed, the agreement would have seen a 1:1 rollback of US contributions to the IMF's contingent credit line of the New Arrangements to Borrow (NAB), so as to make the new US quota allotments 'budget neutral'.

At a hearing before the House Financial Services Subcommittee on Monetary Policy and Trade, a subcommittee of the House Committee on Financial Services, after the intervention by Lael Brainard, under secretary for international affairs at the US Treasury, many members expressed scepticism over supporting the reform package.

Despite Brainard's recurring statement that moving US resources from the NAB to general quotas represented simply a

reallocation of existing financing, a number of Congressional representatives repeatedly raised concerns over how such a change in the IMF's capital structure could increase the exposure of the US taxpayer to any potential losses by the IMF. The growing exposure of the IMF to relatively wealthy advanced European economies also featured heavily in the discussions.

With the US set to face another fiscal cliff on 1 October 2013 – the start of its 2014 fiscal year – any final decision is likely to have to be incorporated into a broader budget agreement. Depending on how the underlying negotiations evolve, it may become difficult for the administration to spend further substantial political capital on the IMF package should tensions with Congress escalate due to the lack of a comprehensive agreement on the overall budget.

The current standstill has two broad implications, one for the IMF and one for the

IMF managing director Christine Lagarde. The IMF's role in managing the world economy increased significantly during the financial crisis

ANN HEISENFELT/AP/PA IMAGES

G20 itself, that leaders should be aware of and should seek to address in St Petersburg. As regards the IMF, any talks about possible new reforms are on hold, as this would inevitably further strain the chances of ratification of the 2010 package by the US Congress.

Ongoing challenges

The January 2013 deadline for a comprehensive review of the quota formula has already passed without agreement and the process has been incorporated into the schedule for the 15th general review of quotas. The new deadline for this review is January 2014, when a new agreement on quotas should also materialise. Again, the lack of US traction suggests that the chances of reaching a significant agreement look slim to none – at least at this juncture.

As for the broader implications for the G20 process, the current impasse reflects the mounting challenges that some key G20 members are facing, which might forcefully emerge in St Petersburg.

The engulfment of the IMF reform package in the US is a fair indication of an ongoing transformation in the nature of the domestic policy-making process that is redefining the relative weights of the executive branch and Congress in shaping public policies. Likewise, the G20 members from the eurozone face a similar challenge in redefining the relative importance of their own national and regional layers in their respective policy-making frameworks, and so they are unlikely to be active participants in any G20-led process.

These challenges touch national sovereignty at its very heart and do not lend themselves to effective appraisal or action in an international peer-review forum such as the G20. This raises the stakes for the Russian chair, which will have to leverage all of its political capital to make the St Petersburg Summit an opportunity for meaningful dialogue on the global economy.

But even then, concrete, significant results are unlikely, given the ongoing challenges faced by some key G20 members; equally unlikely in the coming months are any new initiatives on IMF reform. ■

The reform package, once in effect, will double the IMF capital base, with a six per cent shift in voting power in favour of the under-represented and dynamic economies

Strengthening financial regulation: the Financial Stability Board's role

Progress in tackling the complicated issue of financial regulation is being assisted by the G20's first international institutional innovation

By Zhu Jiejin, professor, Shanghai International Studies University

Since their first summit in Washington in 2008, G20 leaders have placed financial regulation at the centre of their agenda, along with macroeconomic policy coordination and reform of the international financial architecture. On financial regulation, one of the G20's main tasks is to provide the Financial Stability Board (FSB) with sufficient political will and momentum to carry out global reform.

The FSB is leading a group of international standard-setting bodies, including the Basel Committee on Banking Supervision, the International Organization of Securities Commissions, the International Association of Insurance Supervisors and the Committee for Payment and Settlement Systems. Together, they will monitor the implementation of Basel III, regulate shadow banking, address the 'too-big-to-fail' problem, develop a global system for legal-entity identifiers and complete reforms of over-the-counter (OTC) derivatives.

Establishing an international entity

The FSB itself is being transformed into a fully fledged international organisation. At its plenary meeting in January 2013, it took steps to constitute itself as a legal entity and indeed was established as an association under Swiss law. This is an important step in the implementation of the recommendations endorsed by G20 leaders at the 2012 Los Cabos Summit for placing the FSB on an enduring organisational footing, as a legal entity with strengthened governance, greater financial autonomy and enhanced capacity to coordinate the development and implementation of financial regulatory policies.

What is the relationship between G20 and the FSB? What is the division of labour between these two bodies? How does the G20 push the institutionalisation of the FSB? The process is a contradictory, but also complementary, one. The G20 keeps its informality, while it propels the formalisation of the FSB.

The predecessor of the FSB was the Financial Stability Forum. It was founded in 1999 by the G7 finance ministers and central-bank governors. It was a typically informal institution, without a legally binding charter, with only developed countries as members.

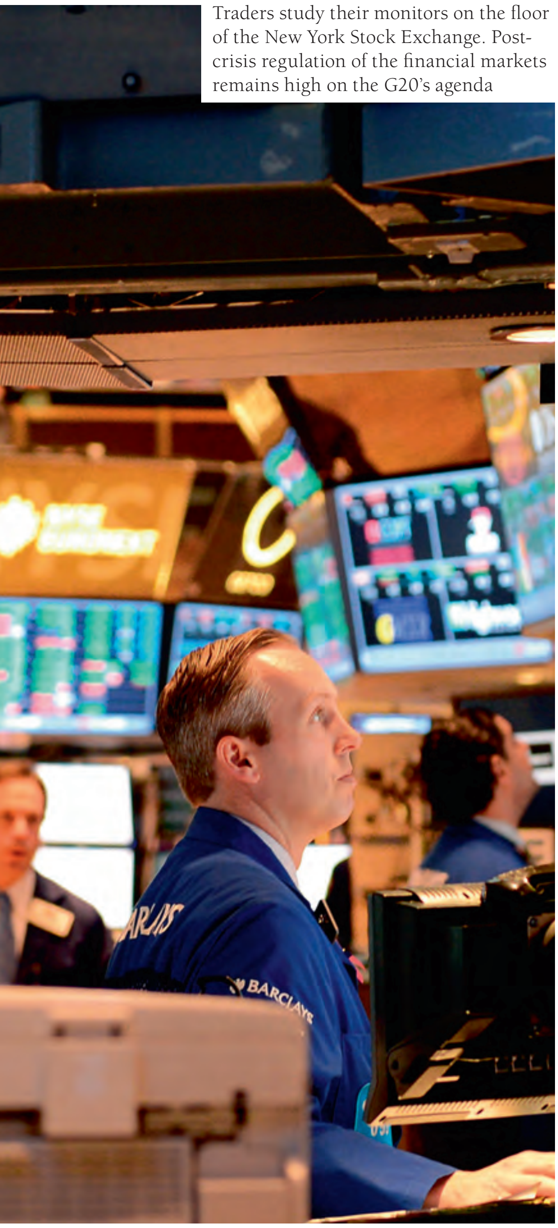
Inclusion for emerging economies

At their first G20 summit, in 2008, the leaders noted the huge deficit of representativeness and suggested that emerging economies be included. In March 2009, the Financial Stability Forum expanded to include all the emerging economies in the G20, but it remained an informal institution. The next month, at the London Summit, the G20 leaders established the new FSB to succeed the Financial Stability Forum. The FSB would help the G20 implement the new financial regulatory rules. At the G20 Pittsburgh Summit in September 2009, the leaders agreed to set up the FSB charter, which included the mandate, organisational structure and working practices of the new international organisation. This indicated the desire of the G20 leaders to formalise the institution.

Generally, formalisation includes three dimensions: obligation, precision and delegation. Obligation means that the institution is legally bound by rules or commitments and therefore subject to the general rules and procedures of international agreements. Precision means that the rules are definite, unambiguously defining the conduct they require, authorise or proscribe. Delegation grants authority to third parties for the implementation of rules, including their interpretation and application, dispute settlement and possibly further rulemaking.

On obligation, in the case of countries, one requirement is to participate in a financial-sector assessment programme (FSAP) every

five years and to publicise the detailed assessments produced by the International Monetary Fund and the World Bank and used as a basis for their reports on the observance of standards and codes (ROSCs). A second is to implement international financial standards, including new standards created by the FSB. On precision, besides participating



Traders study their monitors on the floor of the New York Stock Exchange. Post-crisis regulation of the financial markets remains high on the G20's agenda

ANTHONY BEHAR/SIPA USA/REX FEATURES

in FSAPs, FSB members undergo two kinds of peer review: a thematic review and a country review. If the FSAP could be considered a comprehensive test, then the thematic and country reviews are specific tests. The FSB will publish the much more precise compliance report, along with a designation of fully qualified, basically qualified, basically unqualified or fully unqualified entities. On delegation, unlike the Financial Stability Forum, the FSB has its own secretariat, which plays an important role in setting the agenda and implementing the requirements. Also, the FSB has its plenary meeting and steering committee, as well as standing committees on assessment of vulnerabilities, standards implementation, supervisory and regulatory cooperation, and budget and resources, and several regional consultative groups.

The FSB is, therefore, already more formalised than its predecessor. Within the G20 framework, the FSB is the only formal international organisation that helps to implement the G20 leaders' commitments on financial regulation.

Tasks and challenges

Has the FSB gone far enough or too far? The answer depends on the tasks and challenges facing it. In St Petersburg, the G20 and FSB have much work to do on financial regulation, mainly in promoting compliance with Basel III, strengthening regulations of shadow banking, developing the too-big-to-fail regulatory framework for the global systemically important financial institutions and addressing the outstanding cross-border inconsistencies, especially in OTC derivative markets. This work can be divided into two categories: implementing existing rules and making new ones.

The first task for the FSB is to promote implementation and compliance with existing international financial standards. For its members, the FSAP process and publication of ROSCs can improve compliance levels. For non-members, the FSB has told a list of non-cooperative jurisdictions that non-compliance could be met with measures such as publishing their names. Although such a blacklist carries no formal legal sanctions, the FSB recommends that financial institutions in all countries should impose high levels of scrutiny on transactions going to, from or through blacklisted jurisdictions. In this sense, blacklisting is a form of power that creates a negative status for those institutions on the list. In turn, this negative status is widely linked with material costs in terms of disinvestment. So peer review and blacklisting may be important mechanisms for monitoring and encouraging compliance with FSB requirements.

However, the FSB also faces major challenges. Technically, the FSB's secretariat is very small. It is difficult for FSB to perform big tasks, such as conducting extensive peer reviews. Politically, developing countries – especially those not members of the FSB – may resist such a coercion. The costs of implementation for developing countries also raise concerns.

Within the G20 framework, the Financial Stability Board is the only formal international organisation that helps to implement the G20 leaders' commitments on financial regulation

Another task for the FSB is setting new international financial standards. Before the financial crisis, Anglo-American practices acted as a focal point for international financial coordination because of their prestige and apparent success. Since the financial crisis, these practices have lost some of their legitimacy, and it is increasingly difficult to set international financial regulations.

Some emerging countries hold very different opinions towards financial regulation. For example, China and India consider domestic financial regulation more important, although international financial regulation is necessary. The FSB should thus work towards more information sharing, research collaboration and capacity building.

Compared to the rest of the G20 agenda, financial regulation is a very technical issue, one more likely to see incremental progress in the post-crisis era. The FSB is the first international institutional innovation of the G20, and its achievements represent the G20 leaders' contribution in the development of global economic governance. ■

Asia's challenges and the G20: unlocking cooperation

The opportunity is ripe for the G20 to consolidate its forces and tackle an array of global issues through policies of innovation, inclusion and integration

By Takehiko Nakao, president, Asian Development Bank

As the G20's St Petersburg Summit approaches, the leaders find themselves at a critical juncture. In the midst and the wake of the 2008-09 global financial crisis, the G20 proved to the world its competence in crisis management. Advanced and developing countries worked together effectively to reinstate the confidence that financial markets desperately needed at the time. The meetings in Washington and London agreed to support the financial systems of G20 members, especially of advanced economies, in order to avoid debacles; shared views on the necessity of expansionary macroeconomic measures to tackle recessions; agreed to stronger financial regulations; and set the stage for restructuring the global financial architecture, including giving multilateral financial institutions such as the Asian Development Bank (ADB) sufficient capacity and resources to contain the effects of the crisis in the region and move forward.

However, critics say that since then the G20 has been less unified and less relevant, with divergent views on how to get the global economy back on track. Differences have emerged on topics ranging from exchange rates to austerity measures. It seems that the dual-track recovery – rapid recovery in emerging markets against the slow, painful climb back in advanced economies – has presented each with a different set of priorities.

As the chair of the G20, Russia should defy these critics. G20 leaders must squarely confront an array of global issues, regardless of the speed or depth of the recovery. The need for strong, sustainable and balanced growth, finance for investment, jobs and employment, financial regulatory and institutional reform, multilateral trade, development, energy and good governance certainly applies to all countries. Indeed, the time has come for the G20 to truly consolidate its forces. It must ensure a positive, more unified approach to tackling today's pressing issues, and map out plans for future cooperation in the pursuit of global growth with financial stability. This is not simply a fundamental goal of the G20, but one of particular importance to developing Asia – if it is to continue with its dramatic economic transformation.

Asian Development Bank and the G20

Although I joined ADB as president only in late April this year, I have had the good fortune to have seen the G20 work up close. As Japan's former vice minister of finance for international affairs and G20 finance deputy – and now as head of ADB – I feel a personal attachment to the G20 process. ADB has much to contribute to the G20 community, with its 47 years of development experience. The economic priorities of developing Asia also parallel many challenges faced by the world at large – maintaining growth that is more inclusive and environmentally sustainable. And developing Asia's approach to these issues could indeed contribute to the solutions G20 leaders will discuss at St Petersburg.

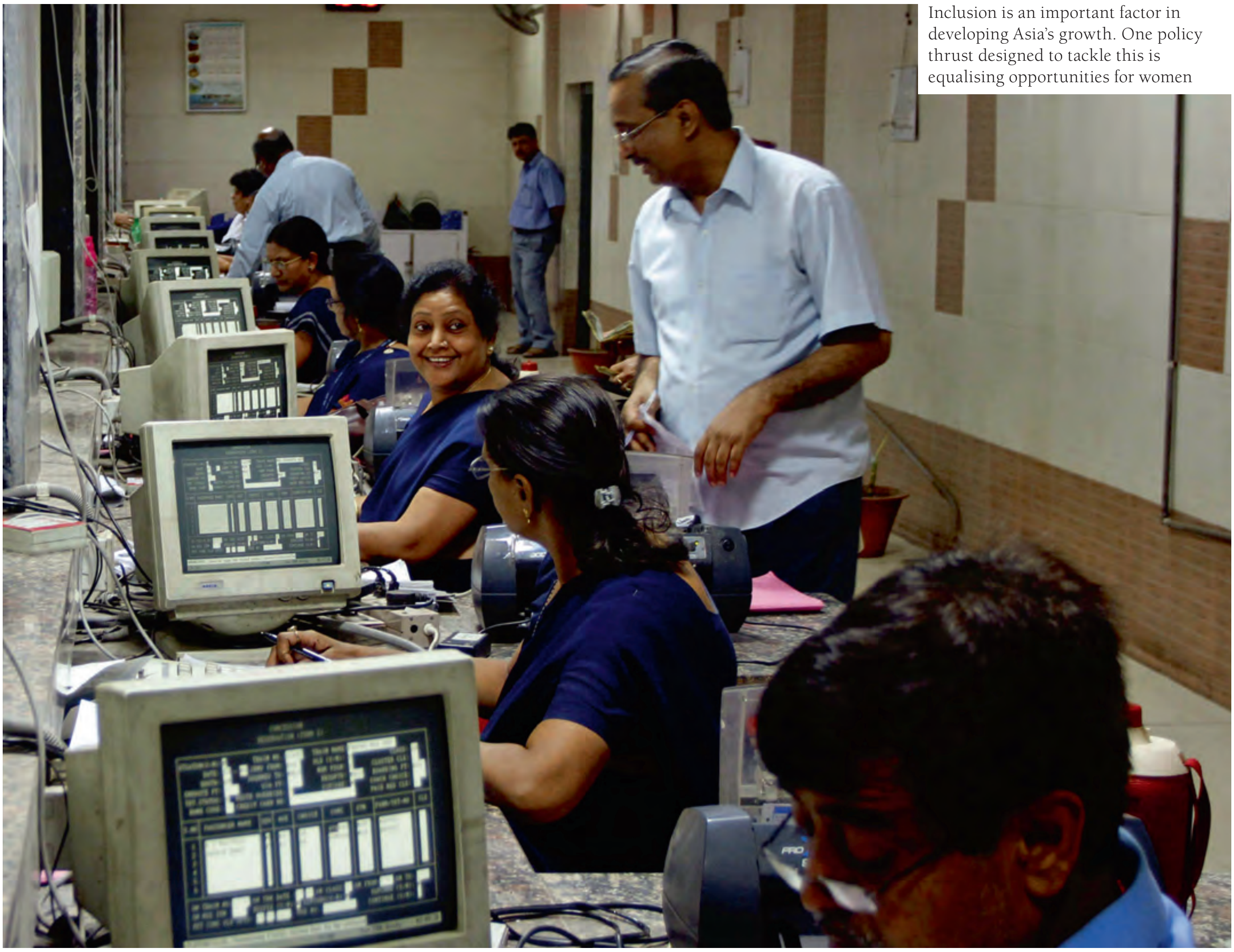
Asia faces the challenge of creating sufficient high-quality jobs for a growing workforce, jobs that increase productivity despite the vast diversity in changing demographics

For example, securing strong, sustainable and balanced growth is a key G20 issue. Developing Asia's robust growth after the global financial crisis contributed much to the global recovery. How it is done, however, matters greatly. Expanding domestic demand as a source of growth has underpinned the region's recent strength, giving it the ability to navigate the economic vicissitudes in advanced economies. The region's current account surplus has gradually narrowed from 5.4 per cent of gross domestic product (GDP) in 2008 to 2.0 per cent in 2012, while the region overall has maintained growth of around seven per cent per annum through that period. ADB forecasts that the current account surplus will decline to 1.9 per cent of GDP in 2013 and 1.8 per cent in 2014 – indicating that the shift to internal sources of growth is progressing, and developing Asia's economic rebalancing is well under way.

Creating the jobs of tomorrow

Job creation and employment constitute another key issue. Asia faces the mammoth challenge of creating sufficient high-quality jobs for a growing workforce, jobs that increase productivity despite the vast diversity in changing demographics. Some societies are ageing; others must deal with rapidly growing populations. Labour mobility will become increasingly important. There is a huge informal employment sector in Asia that must be brought into the mainstream. And tomorrow's jobs are also changing. Building a workforce for the future requires the right educational mix. At the same time, sustained good growth must be promoted and, for that, investment must be enhanced both in the public and private sectors.

When addressing long-term financing for investment, recycling Asia's ample savings to help finance its own massive investment needs will be one of the top priorities. There is also the need to drive more private investment while governments target limited public spending. To do this, a better business climate for start-ups, better financing for small and medium-sized enterprises, and new schemes to narrow the huge infrastructure gap are required. ADB supports much of this work. For example, just within the 10-member Association of Southeast Asian Nations (ASEAN), approximately $60 billion a year is needed for infrastructure. To help meet



Inclusion is an important factor in developing Asia's growth. One policy thrust designed to tackle this is equalising opportunities for women

RAJESH KUMAR SINGH/AP/PA IMAGES

this requirement, ASEAN countries and ADB launched the new ASEAN Infrastructure Fund (AIF), which begins lending operations in the second half of 2013. With a projected 70 per cent co-financing by ADB, the AIF plans to leverage more than $13 billion in infrastructure financing by 2020.

The post-2015 MDG agenda

Lastly, the eradication of poverty remains the ultimate development goal. While the region has done exceptionally well in reducing the number of poor by more than half since 2000 when the Millennium Development Goals (MDGs) were established, there remains the 'other' Asia – which is still home to two-thirds of the world's poor. Poverty and inequality remain widespread. Energy supply and food security for the poor are urgent issues, as is, of course, the environment. The post-2015 MDG agenda sits atop Asia's development agenda as well.

What are some of the solutions? How can Asia contribute to these global issues? At ADB's annual meeting of governors in New Delhi in early May, I said that to meet these challenges, ADB must concentrate on the three 'I's – innovation, inclusion and integration.

In order to sustain growth, innovation is central. Innovation is very much a part of Asia's fabric. It is in our blood. Paper money, printing, even financial futures are Asian innovations. We must move back to that cutting edge, supplying products that stay attuned to both traditional demand from advanced markets and the growing demand from evolving Asian and South-South growth. Innovation applies to policies as well. The world is facing declining official development assistance, so private sources must rise, as must the government revenue base. Public-private partnerships will be critical.

Unfortunately, over the last two decades Asia's rapid growth brought rising inequality, so inclusive growth is essential. Three policy thrusts help in this process. First, high and sustained economic growth must create sufficient levels of high-quality jobs. Second is social inclusion to equalise opportunities, especially for the disadvantaged – including women. This requires equalising access to education, healthcare, finance and other social services. And third is to establish an effective social protection system to lessen temporary livelihood shocks and protect the vulnerable. As this happens, the region is integrating more – not just regionally, but globally. Open regionalism has served Asia well. ADB continues to support economic integration as ASEAN, for example, moves towards an ASEAN economic community by the end of 2015. There are programmes with the South Asian Association for Regional Cooperation and the Central Asia Regional Economic Cooperation and subregional programmes such as the Greater Mekong Subregion within ASEAN and the South Asia Subregional Economic Cooperation Program. Asian regionalism will continue to be an open form of regionalism.

I hope these three 'I's – innovation, inclusion and integration – can help to provide solutions to the ambitious G20 agenda. Developing Asia's contribution pegs itself on galvanising its own savings for productive investment, augmenting increasingly targeted development assistance to bring opportunities to the least developed economies and vulnerable segments of society. The common threads linking the G20 together are becoming stronger. And the St Petersburg Summit is pivotal to further strengthen these ties for a more solid and sustainable global economic future. ■

Africa can give the world the economic pulse it needs

Africa offers the foundations on which shared and sustainable growth can be built, provided the G20 works with the continent and sees its potential

By Donald Kaberuka, president, African Development Bank

As global gravity and political and economic power gradually shift to new places – from north to south, and west to east – we look to new institutions to voice and respond to global challenges. The G20 is only five years old, but in representing five continents and a changing world it has fast assumed a global role, and that means it is expected to speak on behalf of the rest of the world, or what we might call the 'G200'. With power comes the responsibility of leadership and trusteeship.

The member countries of the G20 account for 80 per cent of the world's trade and its combined domestic product: it follows that the world's remaining 180 countries (home to a third of the global population) do just 20 per cent of its business. Far from focusing solely on its own interests, the G20 is just as obliged to those who do not sit at its table. Its most notable absentee is Africa, with just one African country – South Africa – among its members. The continent of 54 countries and one billion people is all but overlooked.

This, when the story of Africa since the millennium is one of extraordinary growth. A continent-wide gross domestic product of $600 billion in 2000 reached $2.2 trillion in 2012: a tripling in size on the surface, and a doubling in reality, given inflation. Seven of the world's 10 fastest-growing economies are in Africa (the Democratic Republic of Congo, Ethiopia, Ghana, Mozambique, Nigeria, Tanzania and Zambia). Africa is forecast to achieve 6.6 per cent growth in 2013.

The trajectory continues upwards. A population growing by 2.2 per cent a year (compared to 0.9 per cent in Asia) promises a huge youth dividend, if the jobs and the skills are there in equal supply. Africa's increasing rates of urbanisation (at 40 per cent now, set to be 70 per cent by 2050) offers similar opportunities if properly managed. Africa's middle class is set to double to 600 million by 2030, and the continent boasts two-thirds of the world's arable land, and with advances in science and genetics it can drastically improve its food supply. It also has significant amounts of the world's minerals and fossil fuels, and its wealth of natural resources can be further explored as geological mapping continues to make new findings. Information technology is also helping to leapfrog Africa forward – the continent now has more mobile phones than North America. That said, huge challenges remain: pockets of fragility, a lack of basic infrastructure, a disjointed regional economy, and the quest for truly shared and truly sustainable growth.

A dynamo of opportunity

The G20 ought to listen to its missing continent, partner with it and see Africa for what it is – a global dynamo of opportunity, the world's new growth pole, and the final development and investment frontier. Africa is not a burden – as it was seen to be only 10 years ago – but increasingly it is a source of solutions for a world that is languishing.

The G20 is now well aware that Africa is open for business. Organisations such as the African Development Bank and its partners are helping to lay many of the foundations: in building the infrastructure of road, rail, water and electricity; in strengthening government institutions and fighting corruption; and in supporting education and skills.

Development aid is a small but significant part of the way ahead, especially if it is the precursor to the foreign and domestic private-sector money that can, in turn, make the private sector the engine of growth that will propel Africa further forward.

Fourteen members of the G20 support the African Development Fund, which completes its latest replenishment in September 2013,

and which needs to remain strong to finish its task of securing the momentum of the many while still focusing on the fragility of the few.

The Africa50Fund

Every member of the G20 can contribute to the newly launched Africa50Fund, a facility set up to find and finance bankable infrastructure projects that is supported by African central bank reserves, pension funds, insurance companies, and international public- and private-sector funding. The AfDB can leverage $3 for every public-sector dollar it receives, and $6 for every private-sector dollar – this is 'smart aid' at work through leveraging and mobilising finance, as Africa takes hold of its own development destiny and makes a little go a long way.

The G20 also has a role to play in taking up the 2013 agenda of the G8, which concerns trade, tax and transparency.

Information technology is helping to drive Africa's continuing economic growth. The continent now has more mobile phones than North America

REUTERS/SIMON AKAM

The G20 ought to listen to its missing continent, partner with it and see Africa for what it is – a global dynamo of opportunity and the final development and investment frontier

On trade, Africa has waited 10 years for the tariff- and barrier-free global deal in the Doha Round that will allow all goods to cross all borders, everywhere. It is still waiting, but realistically, the chances of reaching a deal remain remote. This is what makes it all the more urgent to unlock Africa's own internal markets, thereby deepening intra-regional trade on this continent. The G8 and the G20 can get behind this.

On tax, Africa and the G8 converge on the need for adequate information that is adequately shared, especially by multinational corporations that evade taxes. Far too much African wealth lies in G8 and G20 countries and in tax havens, and Africa welcomes the moves to bring it home. The G8 and the G20 must work alongside the efforts of Africans and others to collect tax and share information.

Empowering people

On transparency, Africa and the G8 share an agenda of empowering people to hold governments and companies to account, above all in the extractive industries, on which so much of the continent's economic growth has been founded. Practically, that means a shared commitment towards common global reporting standards on payments and revenues. The AfDB already supports 12 of its member countries in complying with the Extractive Industries Transparency Initiative, while its Africa Legal Support Facility helps countries negotiate often muddy waters in drawing up extraction contracts with multinational corporations.

It is through trade that this continuing African growth story will be told, and it is tax and transparency that are some of the foundations on which shared and sustainable growth will be built. The G20 should work with Africa, the continent that offers it hope and opportunity. Africa can give the world the economic pulse it needs. ■

This piece is extracted from a previous, more extensive article on the G20 by Donald Kaberuka

India and global development: understanding the dynamic

India, more so than the other BRICS members, is drawing inwards and working on the basic elements that enable cooperation for global development

By Yoginder K Alagh, former minister of power, planning, science and technology, India, and chancellor, Central University of Gujarat

As the G20 leaders head to the St Petersburg Summit, the other members of the BRICS are worried – some more so than others, but worried all the same. India is one member that is less concerned. The scare of the US monetary tapering has lessened, but with the eventual withdrawal of quantitative easing, foreign direct investment will be affected. India is faring well compared with some of the other members of the BRICS group, which also includes Brazil, Russia, China and South Africa. Its economy grew by five per cent over the 2012-13 financial year, and will continue at that rate or higher in 2013, but a growth rate of seven per cent or more is an intoxicating habit, and even five per cent can lead to a hangover.

Drawing inwards

India more than the other BRICS members is drawing inwards. The thrust of more external reform is talked about in insurance reform and elsewhere, but India's heart is not there. Its last big-ticket reform was on foreign direct investment in retail, and there is not much to show for it. Prime Minister Manmohan Singh sagely pushes reform, but is realistic enough to attach it to expensive domestic infrastructure projects. Therein lie the possibilities of partnerships, perhaps with at least an inter-regional focus if not a global one.

India has just announced a food-security programme that will provide two-thirds of the population with subsidised food grains, and I recently chaired a committee set up by the Ministry of Water Resources to draft a national framework law for the water sector. The law largely focuses on federal government giving support to appropriate governments at the local levels through technology, governance reform and conflict resolution mechanisms. However, it also provides that every citizen will by right have access to a minimum amount of life-giving water.

How is all this relevant to the G20 and global development at a time of monetary tapering and quantitative easing? In fact, when normal trade channels become clogged on account of macroeconomic contraction, the only viable strategy is to emphasise basics. It is not without reason that India is working on its domestic infrastructure, food and water security, and, of course, energy. In fact, these are the basis of cooperation for global development. To pursue the BRICS 2050 model in 2013 would be chimerical. Projection models derive demographic dividends from the inevitable consequences of fertility patterns, the age structure of populations and the labour force, and savings consequences. That may sound odd today, but it was said 10 years ago. At that time, global results were striking and global imbalances resulted – which I was asked to assess at the meetings of the International Monetary Fund in Bali a decade ago. Following the approach of my teacher, Lawrence Klein, at the Wharton School of the University of Pennsylvania, who focused on economic structure, I showed numerically that very few results were robust and, indeed, why most were not. Some consequences may turn out to be correct, but for the wrong reason. The future is not inevitable, even though the perception that human resource development is central is on the mark.

Casting blinkers aside

Development issues tend to be conceptually underplayed in this context, but they gain urgency in crisis situations of the current type. This requires that the blinkers of the past few years be cast aside. In spite of the need to chart a path from national reform to global cooperation, with some exceptions

in the recent phase the latest rebalancing, literature concentrates on exchange rate developments and the implications and issues emerging therefrom. Given the volatility of these trends, there is considerable variation in such debates and the larger focus gets lost. There is a crying need for a reform process that has as its objectives widening incentives for growth by establishing the rules and institutions for creating communication, marketing and systems for stable financial incentives, sharing experiences in broad-based agricultural and rural growth, and developing more sustainable energy policies. Yet the debate is about financial reform and volatility in financial flows. The pursuit of more transparency in such global

The Indian government has announced a food-security programme that will provide subsidised food grains to India's poorest people

RAJANISH KAKADE/AP/PA IMAGES

arrangements as followed by the G20's Seoul Development Consensus is well taken, but it is now necessary to set up the structure of wider growth processes and the resulting cooperation.

New ground rules

Financial volatility is indeed the enemy of the pursuit of medium- and long-term interests. Yet in that sense, the prospective US withdrawal of quantitative easing and the monetary tapering have already established the new ground rules. The BRICS countries have not taken an adversarial position, despite making some noise. Zhou Xiaochuan, governor of the People's Bank of China, has been uncharacteristically reticent. India, in fact, has welcomed it. But there is fear that the US quantitative easing policy will restrict FDI to India and the BRICS. These issues will indeed come up at St Petersburg.

It is not without reason that India is working on its domestic infrastructure, food and water security, and, of course, energy

The Indian and BRICS story of agricultural and broad-based rural growth is interesting as well as largely unknown, both for its successes and for the road blocks it has faced. India's successes and tribulations in feeding itself and in attempting to reduce hunger and sustain the food demands of a billions-plus population that is growing at among the fastest rates anywhere, but with limited land and water, are important. It is to these issues and to water and energy that the G20 must now turn its attention all over again. The rebalancing doctrine has some immediate relevance, but the G20 has much to contribute in restarting the broader debate and providing the technological and institutional support it can. One hopes that the G20 will step up to the challenge. ■

Higher productivity: Latin America's biggest challenge

Latin America has enjoyed growth while other regions have declined, but its countries must tackle the issue of low productivity to sustain this success

By Enrique García, President and CEO, CAF – development bank of Latin America

These past two decades have been a period of deep social transformation and sustained economic growth in most of Latin America. The overall reduction of poverty, the expansion of the middle class and the hike in economic performance, despite the adverse global financial context, will certainly have a long-lasting effect on how developed countries channel new investments and search for trade opportunities in the region. Latin America is achieving higher growth rates than in the recent past, thanks in part to the consolidation of fiscal reforms, the deepening of trade liberalisation with Asia, Europe and the United States, the implementation of more redistributive social policies, the expansion of political and electoral rights, but, above all, due to higher commodity prices.

However, in order to continue navigating through good economic times, and to reduce its overall international exposure to a potential decline in commodity prices caused by more moderate growth rates in Asia, the region needs to move beyond complacency and promote reforms based on productivity gains, higher investment levels and more solid public institutions. Overcoming these challenges should be the basis of Latin America´s new development agenda. These development challenges also require taking into account more complex, but necessary, social and environmental reforms to reduce inequality and enhance sustainability.

Policies, processes and products

For Latin America, facing the challenge to create the different pillars to achieve a productive transformation requires further opening to market forces. But it will also demand putting into place solid public policies and investing more in physical and social infrastructure. A region that has traditionally become used to producing a narrow spectrum of low-value-added products urgently needs to promote the discovery of new processes and new products. This outcome can only be achieved by creating a strong alliance between the private and public sectors in order to promote entrepreneurship and innovation.

Innovation and foreign direct investment

Many countries in the region are already earning the trust of foreign investors with regard to future growth. A growing percentage of profits earned in Latin America is being reinvested in the host countries. This has expanded a number of activities that multinational companies engage in and has inspired a few to establish research and development (R&D) centres in the region. Multinational companies, such as Siemens, General Electric, Cargill and Procter & Gamble, have expanded their Latin American R&D centres. Latin American governments would do well to enact policies that stimulate and consolidate these initiatives, given the significant economic and scientific impacts of R&D investment. Although the total R&D investment in Latin America is low compared to global averages, certain countries – such as Brazil, Mexico and Chile – are making unprecedented progress in attracting this type of foreign direct investment (FDI). The private sector in Chile and Mexico finances almost 50 per cent of the countries' total R&D investment. In Brazil, the figure is 40 per cent.

Latin America is also starting to receive foreign investment in the form of venture capital funds – mainly concentrated in Brazil and Mexico, with an incipient presence in Chile, Peru and Colombia. In 2012, these funds had invested close to $6.5 billion in the region, which represents close to five per cent of global investment in the venture capital industry. Many of these funds serve as development capital, oriented more towards equity investment in ongoing companies than towards early-stage investments. This is boosting business development, injecting dynamism and growth into medium-sized companies with high potential.

However, in order for this process to continue, countries will need to find new ways of attracting risk capital, strengthening their capital markets and building up national and regional innovation ecosystems. Many of these innovations could stem from new global environmental standards and clean technology.

Latin American governments need to boost investment in education, improve physical infrastructure and strengthen their rule of law

Investment from within Latin America

Not all investment in Latin America comes from far-off countries, however. The emergence of the 'multilatins' reflects the reverse side of globalisation: developing countries are now investing in other developing countries and sometimes even in developed countries. In fact, of the 100 biggest companies in emerging markets, nine of them have headquarters in Latin America. Among these are Cemex, IMPSA, Telcel, Embraer, Votorantim Cimentos and Vale do Rio Doce. Between 1970 and 1990, multilatin investment made up only 0.5 per cent of global FDI. But this amount rocketed between 2000 and 2012, reaching 3.7 percent of global FDI. Moreover, multilatin investment accounts for 27 per cent of the total FDI originating in developing countries. Certainly, multilatins are not as relevant as their Asian counterparts, but their importance is growing.

In fact, in the period 2006-12, more than 17 per cent of FDI received by Latin America originated within the region. This illustrates the importance of multilatins in promoting market expansion and productive integration in the region. This type of expansion tends to take place through merger and acquisition processes and 'greenfield' investments, which refers to the construction of new facilities abroad. Differing from other foreign investment (which is more focused on raw materials), multilatin investment is attracted to industries related to engineering, food and beverages, construction, steel, metallurgy and transport. Furthermore, medium-sized Latin American companies are now emulating the internalisation patterns of multilatins and becoming suppliers of regional and global enterprises.

Infrastructure and education

However, these changes are only incipient. For these trends to consolidate, governments need to boost investment in education, improve physical infrastructure and strengthen their rule of law. Most quality indicators on education for Latin America are mediocre since the content and learning process in schools and universities are divorced from the skills and knowledge demanded by labor markets. To dramatically change this situation, governments need not only to structurally reform the education system at all its levels, but also to cooperate with the private sector to build a competitive labour force capable of enhancing productivity. This implies building a society in which knowledge and innovation are socially valued.

Productive transformation will also not occur if Latin America does not boost infrastructure investment. Export sectors could become more competitive if ports, airports and roads were brought up to international standards. A weak infrastructure is not only hampering the growth of internal markets, but also augmenting the transactional costs faced by exporters.

Telecommunication is also becoming a key factor to support the competitiveness of the private sector, and the growth of the service sector – in which Latin America could have important competitive advantages – requires additional and sustained investment.

Obviously, the public sector cannot achieve this transformation of its infrastructure landscape by itself. This challenge will inevitably require setting public policies that promote private investment.

The rule of law

However, even if governments develop the right set of public policies, countries must strengthen the rule of law. Latin America continues to lag in terms of its institutional strength. Building independent and accountable institutions has proven to be the most difficult reform, but one that probably has the deepest development impact. Domestic institutions can make an enormous difference in making countries more attractive to investors and make citizens more sympathetic to public institutions. Those institutions that seem to make a difference in terms of improving the investment climate are, by nature, more regulatory and efficiency oriented. In this sense, reforms that reduce corruption, strengthen the rule of law in order to protect property rights, improve regulatory quality and enhance government efficiency, among other objectives, are the factors that can help some countries in Latin America to become more productive.

Overall, Latin America is in good economic shape, but is still very vulnerable. Unlike the past, these vulnerabilities are not related to indebtedness, fiscal mismanagement or financial crisis. In the current context, these vulnerabilities are of a different nature, and are related to low productivity levels. This vulnerability will only reduce if governments (as well as society at large) tackle the challenge of productive transformation, which requires a more sophisticated development agenda and stronger institutions. The region urgently needs these issues to be addressed directly. In fact, if governments and the private sector start working together to overcome these structural constraints, the region can grow in a sustainable manner by more than six per cent annually over the next decade. Otherwise, a potential decline in global commodity prices could bring deep difficulties to the region. ■

CAF

The prospects for business in Latin American are good, but its countries will need to update their policies to tackle the challenge of productive transformation

Global energy security: the opportunities and challenges

As the map of energy consumption evolves with emerging economies, so too must energy security considerations and our approach to power poverty

By Maria van der Hoeven, executive director, International Energy Agency

As the G20 considers crucial energy issues, particularly with regard to energy governance, energy security remains a key challenge faced by all countries. It is also one with increasingly international dimensions, as trade, interdependence and interactions among fuel markets increase.

Energy security refers to the ability of a given country to obtain uninterrupted availability of its main energy sources at an affordable price. In the short term, energy security is the ability of a given energy system to react promptly to sudden changes in supply and demand, maintaining the availability, affordability, accessibility and quality of energy. Long-term energy security is linked mainly to making timely investments to ensure that the future supply of affordable energy will support economic development and environmental goals.

Traditionally, the International Energy Agency (IEA) put a strong emphasis on mitigating the risks and effects of energy supply disruptions, particularly within oil markets. Coordinating the use of emergency oil stocks in the event of disruption is a well-known tool, but only one. Analysis to boost transparency in global oil markets, active participation in the Producer-Consumer Dialogue with the Organization of Petroleum Exporting Countries and other major producers, and efforts to improve statistical openness, timeliness and accuracy through the Joint Organisations Data Initiative all help to reduce the risk of disruption.

Shifting conceptions of energy security

Yet while the traditional focus on oil supply disruptions remains important, major changes in the global energy economy since 1974 have required changing the conceptions of energy security. Concerns about supply security of other fuels such as gas and electricity, as well as the interplay among fuel markets, has broadened the focus. And indeed energy security has been redefined to include long-term concerns, such as creating the conditions for sufficient investment and promoting energy access in order to boost living standards and economic development. IEA also recognises the linkage between sustainability and energy security as two sides of the same coin. Low-carbon technologies help reduce import dependence and diversify the fuel mix, and recent IEA discussions have highlighted the adverse impact of climate change on energy infrastructures. All this helps to change the nature of the energy security debate.

A population four times the size of the United States still lives without access to electricity, holding back global economic development

One aspect of that debate refers to the most basic of energy security questions – tackling energy poverty, and doing so sustainably. As of 2010, 17 per cent of the global population did not have access to electricity, while 41 per cent still relied on wood or other biomass to cook and to heat their homes. A population four times the size of the United States still lives without access to electricity, holding back global economic development. Much more needs to be done. It is a moral imperative, as well as an economic one. The IEA has analysed this issue for more than a decade, and works closely with the United Nations on the Sustainable Energy for All (SE4ALL) initiative.

Oil wells in California. The geographical spread of global oil consumption is shifting, such that OECD countries will soon account for less than half

JIM WEST/ALAMY

Replacing coal can mean huge reductions in local pollution, and Africa and South Asia in particular have good potential in renewables

DENIS FARRELL/AP/PA IMAGES

The rather inconvenient truth is that, historically, every single successful experience of eradicating energy poverty, from the US and Europe to Japan and China, was based on coal. Two important regions remain where energy poverty eradication is a challenge – South Asia and sub-Saharan Africa. In the IEA's baseline projections, South Asia's energy poverty will be defeated the old way. It projects an almost tripling of coal-fired power generation in India. In Africa no total eradication is projected for the foreseeable future. In 2035, two billion Africans will have to live on less than half the electricity used in Europe today. A change of direction is needed.

Pillars of a new system

Africa and South Asia both have large potential for renewables, especially hydro and solar power. But these need to be accompanied by dispatchable power generation. Indeed, gas and renewables are two pillars of a new system. South Asia and, especially, Africa have plentiful gas resources, but those resources tend to stay underground thanks to policy. In Africa, large-scale and wasteful gas flaring (with all its environmental impacts) coexists with crippling energy poverty. The investment necessary to build sufficient gas-fired power plants would amount to only two weeks' worth of gas exports. That investment can and should be mobilised. It is up to the diverse stakeholders in the energy system to ensure that the next great electrification uses modern technologies and emits far less carbon than previous ones.

All these energy security questions, whether they focus on mitigating disruptions or improving energy access, must be considered in the context of a fundamentally shifting global energy map. Whereas member countries of the Organisation for Economic Co-operation and Development (OECD) accounted for more than three-quarters of oil consumption in 1974, they will soon account for less than half. The economic rise of emerging markets such as China and India has signalled a global economic rebalancing, including within energy markets. IEA analysis shows that growing non-OECD energy demand, particularly in China, will continue over time. Meanwhile, energy demand in Europe and the US is stagnating or falling.

Much of the new oil and gas supply is expected from the Americas, and most of the new demand from Asia and the Middle East. These twin changes have clear consequences for the midstream and downstream sectors, those often-overlooked but critical links in the oil supply chain. International crude trade volumes are forecast to dip, while product trade is expected to grow in both volume and scope amidst resurgent refining capacity expansion in Asia and the Middle East – and falling capacity in the OECD. Those changing trade and product import patterns affect disruption risks, and also the paradigm for emergency oil stock-holding.

For gas, international trade, and particularly liquid natural gas volumes, are slated to grow significantly, and where gas replaces coal it can mean life-saving reductions in local pollution. The North American unconventional gas revolution is set to spread (albeit unevenly), and as North American gas exports pick up, those flexibly priced volumes will provide liquidity for the development of an Asian gas hub and a more integrated market, in addition to options for European buyers.

A broader concept of energy

Given these new realities – increased uncertainty, changing trade patterns and technologies – IEA recognises that international energy security governance and emergency response need to react in a timely and decisive manner. A broader concept of energy and even oil security means focusing on resilience and long-term challenges, sustainability and energy poverty, as well as response. When that response is necessary, it must be quick and decisive. Critically, safeguarding energy security requires global cooperation more than ever before. That is the driving force behind IEA efforts to develop a framework for closer cooperation with key partner countries and provide a global forum for energy policy exchange and debate. As the IEA looks to its 40th anniversary, maintaining its role as the primary forum for cooperation on global energy security is still its principal aim. ■

Energy efficiency now

Jean-Pascal Tricoire
Chairman and Chief
Executive Officer
Schneider Electric

Energy efficiency, the ability to provide a given level of energy services – lighting, heating, cooling, transport etc – for a reduced amount of primary energy use has numerous benefits, including economic, security, and environmental.

Through the implementation of higher energy efficiency levels, governments create an economic opportunity for reduced public expenditure as they balance their energy trades that are causing major strains on the economy. The European Union energy balance has multiplied by six in 10 years, with oil imports alone reaching an estimated $488 billion in 2011 (International Energy Agency, 2012; Institute of International and European Affairs, 2013). This is higher than the entire gross domestic product of a country such as Poland.

The Efficient World Scenario of the IEA highlights that there could be a $570 billion positive effect of the energy balance of five key regions through the implementation of a higher energy efficient scenario.

The development of energy efficient technologies would not only reduce energy dependence, it would also contribute to job creation – up to 1 million in the EU. The higher deployment of EE technologies also presents environmental benefits. Current estimates show that energy efficiency could cost-effectively reduce 8.2Gt of CO_2 emissions yearly by 2030 (IEA, 2008). Despite the many advantages of energy efficiency, much of its potential remains untapped. Estimates underline that as much as two thirds of available cost-effective potential is still not being implemented (IEA, 2012).

From energy efficiency to active energy management

Market failures and barriers explain this untapped potential. With a historic track record of delivering hardware electrical products for more than a century, and the combination of the most recent innovative IT software, Schneider Electric provides customers with wide-ranging and unique technological solutions that offer smart services for efficient infrastructures across all sectors: from building systems and industry automation to connected devices, smart grids and smart cities.

While traditional EE technologies are mature technologies, the recent introduction of IT in energy management allows the emergence of dedicated services for smart infrastructures – buildings, plants, grids, infrastructures and cities – into an affordable reality. Up to 30 per cent savings can be achieved through energy efficiency measures that do not involve major envelope renovation or disturbances to the end user. The focus of these active efficiency measures rely on the implementation of systems and methodology that converge along four key principles: i. Measurement of energy use; ii. Identification of the optimal point of efficiency through an active technology (HW/SW); iii. Automation and switch-off when users are not using premises; and iv. Connection among facilities to all users and stakeholders to better optimize.

New technologies facilitate and accelerate the implementation of retrofits. They significantly improve paybacks and work along the realities of existing infrastructures to make them smarter, while not requiring long, disruptive and costly work. Data measurement from 160 Schneider Electric production and logistic sites reveal that energy consumption has gone down by 15 per cent since 2005 through the implementation of these technologies. Data collection from the EE homes programme show that active energy efficiency solutions can yield energy savings ranging from 20 per cent to 50 per cent in existing buildings, with payback of two to five years.

The time for action is now: B20 Energy Recommendations

Recent international economic developments – such as the volatility of energy prices – threaten to jeopardise our economic well-being and our willingness to tackle other challenges such as climate change mitigation. Instead, governments should turn these challenges into opportunities to trigger a low-carbon economy transformation. Energy efficiency should play a central part in this transformation, and the time for action in this area is now.

As co-chair of Energy B20, Schneider Electric urges G20 governments to:

1. Ensure energy access for all, through technology and business innovation:
   - Governments should aim at bringing electricity to the 1.3 billion people who don't have access to it, as a foundation for health, well-being and education.
2. Enable freer energy markets to boost innovation:
   - No distortion/no subsidies, especially for fossil fuels.
3. Promote energy efficiency as a priority:
   - Enabling freer trading for energy technologies;
   - Establish consumption standards, enforce measurement and reporting.
4. Support de-carbonization via stable regulations and carbon mechanisms:
   - Progressively harmonise carbon market policies, standards and regulations (for example, encourage incremental changes towards this goal);
   - Work towards the de-carbonization of energy generation, and particularly encourage renewable.
5. Encourage innovation and job creation:
   - Encourage and finance innovation pilot projects;
   - Encourage public-private partnerships; and
   - Educate upcoming generations on new job opportunities linked to the emergence of new technologies (active energy efficiency, renewable).

Technologies are ready and the timing is right. Let us use this B20 platform to renew our leaders' commitment to a reliable, accessible, safe, economic and sustainable energy future.

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The challenges of transition to a green economy

Lack of investment presents barriers to pursuing green policies, but a United Nations initiative is helping countries to create low-carbon economies

By Achim Steiner, UN under-secretary general and executive director, United Nations Environment Programme

Mongolia has added a new chapter to its proud contribution to global civilisation by becoming the first country to sign up to a landmark United Nations initiative to promote a green economy. The country, the birthplace of what was once the largest empire in history, announced its decision to join the Partnership for Action on the Green Economy (PAGE) on 5 June 2013 while playing host to this year's World Environment Day.

The great Mongolian state that Genghis Khan established in 1206 united all the Mongolian tribes, and eventually spanned from Eastern Europe to the Pacific Ocean. The empire was then the most progressive ever seen, expanding trade and cultural communication, granting universal religious freedom, abolishing feudal systems and giving rise to a blossoming of civilisation. Some scholars even credit the Mongol empire for spurring the Renaissance in Western Europe.

Taking a new approach

Now the country is leading the way on another venture that could change the face of the planet, while transforming Mongolia into a super-renewable-energy hub, a major destination for eco-tourism and leading champion of sustainable mining.

PAGE, a unique initiative inspired by the 2012 Rio+20 Summit in Brazil, involves the expertise of four United Nations agencies – the International Labour Organization (ILO), the United Nations Environment Programme (UNEP), the United Nations Industrial Development Organization (UNIDO) and the United Nations Institute for Training and Research (UNITAR) – to support countries that are interested in pursuing green economy policies and, thereby, assisting a global transition to a green, low-carbon economy.

It aims to progressively assist a total of 30 countries in their efforts to embark on green-economy pathways that include shifts in fiscal policies in order to generate economic development, more decent jobs and long-term environmental sustainability. Initially, PAGE will focus on seven pilot countries, expanding to the full quota of 30 by 2020.

Mongolia is not the only country in East Asia or indeed across the globe committed to a green economy pathway: China is also forging ahead in ways that have made it the world's leader in renewable-energy technology. In 2012 alone, renewable-energy investment totalled $67.7 billion – the highest in the world – and doubled the amount that the country was investing in 2009.

> ***It is clear that many countries are grasping at a green-economy pathway – but how can they unlock the big financial flows needed?***

New targets for China

China's 12th Five-Year Plan introduced the country's first-ever target for carbon emissions. The plan calls for the reduction of the carbon intensity per unit of gross domestic product by between 40 per cent and 45 per cent by 2020, compared to 2005 levels. The country is also planning to produce 15 per cent of its energy needs from non-fossil fuel sources by 2020.

Also, take a country such as Peru: its green economy transition is focused on international trade in biodiversity-derived products. A study by UNEP has found that, in 2012, national trade liberalisation policies implemented in the broad context of macroeconomic stability helped trigger an expansion of market access for some 228 private companies that export products drawn from local biodiversity.

Facilitating and promoting trade in those products has helped Peru to gain access to more than 2.3 billion consumers in various key markets. Almost 90 per cent of all export-oriented Peruvian companies in the biotrade sector hold either organic or fair trade certification, or both.

Creating a greener Indonesia

Indonesia also has a strategy lasting up to 2025 to achieve a 'green and everlasting Indonesia', in part through dramatically improved management of forests under initiatives such as Reduced Emissions from Deforestation and Forest Degradation – known as REDD and REDD+.

It is clear that many countries, including significant numbers of G20 members, are grasping at a green-economy pathway – but how can they unlock the big financial flows needed to scale up and accelerate this transition to deal with the challenges in an inclusive transition to a green economy, such as climate change, and also the opportunities, such as new, decent jobs?

A new report by members of the UNEP Finance Initiative may point the way. It says that institutional investors – including pension funds, insurance companies and investment funds – in the member countries of the Organisation for Economic Co-operation and Development (OECD) alone had more than €70 trillion in assets under management in 2011.

A 2010 report by the Conference Board in the United States estimated that, in 2009, institutional investors owned 50.6 per cent of the total US equity market by value and 70.3 per cent of the top 1,000 US corporations as measured by market capitalisation. The percentage of the equity market that was owned by institutional investors in the

United Kingdom was comparable, at approximately 70 per cent by value.

While much attention has been paid to how green investment flows into infrastructure projects backed by institutional investors, much less attention has been paid to how they might green the economy in other ways.

A 2011 survey of the world's largest asset managers and pension funds conducted by the International Monetary Fund found that in 2010, on average, asset managers and pension funds allocated, respectively, 81.2 per cent and 82 per cent of their assets to bonds and equities.

Therefore, perhaps the real challenge is to decarbonise and green the financial economy in order to green the 'real world'. Indeed, this is where improved disclosure and higher ambitions of corporate sustainability reporting come in. There is certainly a growing trend towards mandatory disclosure on climate change and other environmental, social and governance factors by companies, including at the international level: at the 2012 Rio+20 conference, several national governments asked UNEP and the Global Reporting Initiative to facilitate an intergovernmental effort to catalyse progress on corporate disclosure of non-financial information.

At present, most mandatory disclosure schemes target corporations in the real economy and their direct emissions of greenhouse gases. In a few jurisdictions, however, including France and the European Union, regulators are planning to require financial intermediaries to also disclose their environmental, social and governance impacts, including the indirect emissions associated with their investment and lending activities. While more than 4,000 companies disclose their emissions under the Carbon Disclosure Project, which acts on behalf of more than 722 institutional investors, only 17 of the world's 1,000 largest institutional investors disclose their own emissions under the analogous Asset Owners Disclosure Project.

Clear benefits of carbon accounting

One thing that is clear, however, is that carbon accounting and reporting are the key first steps in decarbonisation and in the transition to an even more vibrant and comprehensive green economy pathway that the G20 in St Petersburg could take forward.

In the end, it is a partnership between the policies and ambitions of countries in terms of low-carbon, resource-efficient growth that eradicates poverty and stimulates employment and investors who see that there are greater returns in 'going green versus staying brown'.

The G20 needs to focus on shifting the debate towards how to liberate the enormous potential of investors to help decarbonise the economy through asset classes and investment channels. Without access to these funds, calculated at trillions of euros, and a systematic transfer of capital from high-carbon to low-carbon investments, particularly in corporate equity and debt, a transition to a green, low-carbon economy may remain far more elusive than it needs to be. ■

STR/AFP/GETTY IMAGES

The G20 can play a leading role in encouraging investment in new and sustainable energy sources, driving forward green development and growth

Building biodiversity: intergenerational challenges

The degradation of our ecosystems is leaving a large debt to future generations, but, conversely, if action is taken, socio-economic rewards can be reaped

By Braulio Ferreira de Souza Dias, executive secretary, Convention on Biological Diversity

Biodiversity is perhaps at the core of the natural capital of countries. Biological diversity underpins ecosystem functioning and the provision of ecosystem services essential for human well-being. It provides for food security, human health, the provision of clean air and water; it contributes to local livelihoods and economic development, and is essential for the achievement of the Millennium Development Goals, including the reduction of poverty.

However, current models of economic development lead to the widespread over-exploitation or outright destruction of ecosystems. Ecosystem degradation and biodiversity decline come at the expense of the needs of current and future generations. In order to prevent damage from becoming irreversible and to ensure the well-being of future generations, well-targeted, long-term strategies for biodiversity protection and sustainable development must be designed and implemented. These strategies must be able to reconcile the long-term time horizons involved in the evolutionary dynamics of ecosystems with the short-term dynamics of rapid socioeconomic development. The latter, through accelerated land use change, intensified land and water use, and climate change, puts ecosystems and biodiversity under new and increasing pressure.

Fortunately, socioeconomic development does not need to come at the cost of environmental degradation. Conversely, there are significant opportunities to address biodiversity decline while contributing to sustainable development. Such win-wins can be realised once policies are designed ‘for the long haul’. In fact, preventing further biodiversity loss will be very challenging in the short term, but it may be halted and even reversed in the long run if concerted and effective action is initiated now in support of an agreed long-term vision. Policies that aim at effective biodiversity conservation and the sustainable use of ecosystems and their services will reap rich rewards – better health, greater food security, less poverty and a greater capacity to cope with, and adapt to, environmental change. The so-called mainstreaming of biodiversity will be a critical component of effective policy responses, that is, integrating biodiversity issues and considerations into other economic policies, including policies for economic sectors such as agriculture, forest, fisheries and transport.

Reinvestment in the ecosystems

The degradation of ecosystems by human activities is equivalent to letting the operating capital of an enterprise depreciate without undertaking any reinvestment and earmarking the necessary funds. Unlike marketed goods and services, many ecosystem services are what economists call public goods: no one can be excluded from their use. Consequently, rational economic actors have an incentive to take a free ride instead of reinvesting in natural capital – restoration costs are simply considered as externalities that do not need to be paid even though they result in losses of services for others – or the need for others to face the burden of restoration if they want to recover the original level of ecosystem services. In that sense, ecosystem degradation is equivalent to a debt forwarded to others, to future generations mostly, adding up to the bundle of financial debts accumulated by governments, companies and households.

However, these ecological debts differ from conventional debts in that they are not recorded in accounting books and, in the absence of strong policies, no one is assigned to be accountable for them. The opposite also holds true: when sound ecological management of agriculture, forests or river basins results in enhanced ecosystem functions, only the direct economic benefit is recorded, not the indirect contribution to other ecosystems’ wealth or to the common well-being. At present, most economic incentives are to degrade ecosystems and make profit or savings from unpaid ecological costs, instead of preserving the capacity of the ecosystems to deliver services in the future.

These issues are further compounded by the fact that ecosystem degradation is a cumulative process. There are tipping points and thresholds of biodiversity decline that, if overstepped, risk making remediation more difficult and costly, or even impossible. Hence, keeping ecological balance sheets of assets and liabilities would also warn of the risks associated with continued ecosystem degradation. Such risks may include hard-nosed economic issues such as, when taken to the extreme, a decreasing ability of a country to repay its external debts, with a subsequent downgrading of rating agencies and higher borrowing costs.

The vision of the Strategic Plan for Biodiversity 2011-2020, adopted by governments in 2010 at the Nagoya biodiversity summit, is contained in the *Strategic Plan for Biodiversity 2011-2020 and the Aichi Targets: Living in Harmony with Nature,* which states that “by 2050, biodiversity is valued, conserved, restored and wisely used, maintaining ecosystem services, sustaining a healthy planet and delivering benefits essential for all people”. Sustainable development needs to develop the capability of today’s people to act without compromising

> ***Preventing further biodiversity loss will be very challenging in the short term, but it may be halted and even reversed in the long run if concerted action is initiated now***

This plantation in Fiji is cultivating sustainable wood in order to protect the islands' naturally grown forests. It is important to reinvest in natural capital

CHRISTIANE OELRICH/DPA/PA IMAGES

the rights and needs of future generations. In order to achieve sustainable development, biodiversity management must ensure the longest and highest possible adaptive potential of the range of ecological complexes or systems that sustain the variety and variability of life. Food security and climate change are two critical issues where biodiversity, acting as 'life insurance', provides ample opportunities to decision-makers' processes to achieve win-wins on both the socio-economic and the environmental pillars of sustainable development.

Cost-efficient approaches

In the context of climate change policies, ecosystem-based approaches to mitigating climate change offer in many cases a cost-efficient measure to contribute to halting it. In addition, maintaining natural ecosystems and their ability to absorb or dampen the adverse consequences of disasters such as floods will help future generations to cope with the inevitable consequences of climate change, such as the increased risk of natural disasters.

Consequently, more effective protection of ecosystems and biodiversity should be seen as a prudent and cost-effective investment in risk avoidance for the global community. In fact, investments in resilient and diverse ecosystems, able to withstand the multiple pressures they are subjected to, may be the best-value insurance policy yet devised.

Effective action to address biodiversity loss relies on tackling the underlying or indirect causes of that decline. This will mean:

- significantly increasing the efficiency of using land, energy, fresh water and materials, in order to meet growing demand;
- better use of market incentives, and eliminating, phasing out or reforming incentives, including subsidies that are harmful to biodiversity, in order to minimise unsustainable resource use and wasteful consumption;
- strategic planning of the use of land, inland waters and marine resources to reconcile development with conservation of biodiversity and the maintenance of multiple ecosystem services; and
- communication, education and awareness raising to ensure that as far as possible, everyone understands the value of biodiversity – including its unquantifiable but immense non-economic (intrinsic and spiritual) value – and what steps they can take in order to protect it, including through changes in personal consumption and behaviour.

The real benefits of biodiversity, and the costs of its loss, need to be reflected in economic systems and markets. Harmful incentives, including harmful subsidies, and the lack of value assigned to biodiversity in economic decision-making have massively contributed to the loss of biodiversity. However, through regulation and other measures, markets can be harnessed in order to create incentives to safeguard and strengthen, rather than to deplete, the natural infrastructure. The restructuring of economies and financial systems following the global recession provides an opportunity for such changes to be made. Early action will both be more effective and less costly than inaction or delayed action.

While "affirming that the conservation of biological diversity is a common concern of humankind", the preamble of the 1992 Convention on Biological Diversity also indicates that the contracting parties are "determined to conserve and sustainably use biological diversity for the benefit of present and future generations". The ongoing processes towards the post-2015 development agenda and sustainable development goals offer new pathways for human prosperity and well-being, while preserving a healthy planet for future generations. ■

Mitigating emissions: the aviation industry responds

Climate change is a critical issue, but taxing the air transport industry threatens aviation's ongoing measures to ensure a globally sustainable future

By Raymond Benjamin, secretary general, International Civil Aviation Organization

The International Civil Aviation Organization (ICAO) is responsible for setting the standards, policies and guidance necessary for aviation safety, security, efficiency and regularity, as well as for environmental protection. ICAO's collaboration with states and industry in all these areas has been extremely successful over the past seven decades.

As a United Nations specialised agency, ICAO's is first responsible to its 191 member states. These countries have been very clear, both prior to and during my current mandate as ICAO secretary general, that air transport must remain committed to its responsibilities in support of the social, economic and environmental pillars that must be considered on a complementary basis to achieve truly sustainable development.

But while aviation's contributions to socioeconomic prosperity are now well appreciated by economists, planners, and the citizens and businesses who benefit from rapid global connectivity every day, ICAO's work and accomplishments in keeping air transport at the forefront of environmental responsibility are, perhaps, less appreciated.

Future expansion

The modern air-transport system is a complex and ever-expanding network of approximately 1,000 airlines offering scheduled services connecting 3,850 commercial airports worldwide. The three billion passengers who use this system do so on 30 million flights a year – almost 100,000 each day. All of these demands on system capacity are forecast to double by 2030.

Aircraft operations link major and minor city pairs and greatly facilitate the movement of people, goods and services. From fresh fish to flowers, to diamonds, aviation underpins nearly every aspect of modern commercial activity. It carries 35 per cent of goods by value and supports 3.5 per cent of global gross domestic product.

Other, less evident benefits of aviation include the provision of critical transportation and logistical links to hinterlands, islands and remote communities. In many areas of the world, air transport represents the exclusive means of accessing essential services such as healthcare, mail and education.

Furthermore, it is essential to a wide range of emergency aid and humanitarian assistance. Data collection for scientific research and meteorology, which is essential to the progress of the world's current knowledge of and actions on climate change, is another less well-known but critical contribution from the aviation sector.

In 2010, the ICAO member states adopted the first globally harmonised sectoral targets for carbon-dioxide emissions reduction

In considering the environmental pillar of international aviation sustainability, it is important to remember exactly how far the air-transport community has come. Over the past 50 years, for example, aircraft have become no less than 80 per cent more fuel efficient and 75 per cent quieter. No other major transport or industry sector can point to this degree of environmental improvement.

ICAO, its states and the wider aviation community have achieved these results in part because of the economic drivers affecting aircraft fuel costs and airline bottom lines. But beyond the profit motive of airlines leading to spin-off benefits in reduced fuel use, the global community has also pursued dedicated emissions and noise-reduction objectives through technical, operational, alternative-fuel and market-based measures. These continue to guide many of ICAO's international activities and targets in this area.

At the 37th Session of the ICAO Assembly, held in 2010, the member states adopted the first globally harmonised sectoral targets for carbon-dioxide emissions reduction. This resolution established global goals of a two per cent annual fuel efficiency improvement and the maintaining of net emissions from international aviation at 2020 levels. It also defined the basket of measures noted above.

Taking action

Actions and measures adopted by member states are brought to ICAO's attention primarily through the development and conveyance of dedicated state action plans on international aviation-emissions reduction. Through intense capacity-building and assistance activities, ICAO has made tremendous progress in encouraging its members in the origination and completion of these action plans.

As of June 2013, ICAO members representing more than 78 per cent of international air traffic had prepared and submitted emissions action plans to ICAO. This figure will likely rise to 90 per cent by the end of 2013. Members can also expect to gain access to resources aiding the development and implementation of their future action plans through the ICAO Technical Cooperation Bureau. A major project of this nature has most recently been put in place between ICAO and Indonesia.

All of these programmes and efforts depend on the availability of financing, of course. This brings to mind various studies of climate-change finance that have suggested that international aviation should be exploited as a source of funding for emissions mitigation at levels completely disproportionate to the sector's contribution to global emissions.

These ill-conceived policies limit the ability of the air transport community to address its own emissions. In addition, they could have an adverse effect on global air transport demand. In light of the far broader and more resilient economic benefits that aviation brings to all states and regions

MATTHEW MAWSON/ALAMY

Penalties imposed on aviation as a means of emissions mitigation fail to acknowledge the part that the industry has played in improving global mobility

through the expansion of markets and tax bases and improved global mobility, these types of short-sighted taxes on aviation represent a decidedly unsustainable approach to the complex problems that now face the global community.

Global solutions for a global system

Similarly, it is of the utmost importance that the design and implementation of any market-based measures for international aviation be understood as one of several mitigation measures by which to achieve global aspirational goals. A patchwork of local or regional market-based solutions will be counterproductive to this process. ICAO has been encouraged by the recent and increasing recognition of the need for a truly global market-based solution applicable to international air transport operations. The declaration on this topic that was issued at the 2013 annual general meeting of the International Air Transport Association is an excellent case in point.

In parallel, as climate change becomes more and more of a reality in everyone's day-to-day lives, the need to adapt the global aviation system to the challenges of the changing environment will be critical to ensuring the continuity of air services.

The collective will of ICAO's 191 members has made it clear that international aviation must make concrete contributions to global environmental sustainability. The organisation continues to cooperate actively throughout the UN system, both on matters of global sustainability, such as the Rio+20 process, and by supporting leadership through example, such as the UN Climate Neutral Initiative.

ICAO will also be working steadfastly over 2013 in anticipation of its triennial 38th assembly in autumn 2013, where its states will review progress to date and establish the resolutions that will guide the aviation community's efforts through to 2016. ■

Protecting the marine environment

The G20 members can play an important part in ensuring that the global shipping industry is sustainable – both financially and environmentally

By Koji Sekimizu, secretary general, International Maritime Organization

Since history began, humankind has treated the earth and its resources as if they would never run out. Not only that, humans have poured their waste products away as though they would simply be absorbed and assimilated without damage to the environment.

But, in the modern world, all now understand that the planet's resources are limited and that the environment can be damaged irreparably unless it receives care and attention. Human development in the future must take full account of finite and diminishing resources and a fragile environment. In short, future development must be sustainable.

It was the Brundtland Report, released by the United Nations in 1987, that coined what has become the most widely accepted definition of sustainable development, namely "development that meets the needs of the present without compromising the ability of future generations to meet their own needs".

Today's understanding of sustainable development embraces a concern both for the capacity of the Earth's natural systems and for the social and economic challenges faced by humanity. The United Nations is currently working to turn the concept of sustainable development into something tangible. At the UN Conference on Sustainable Development held in Rio de Janeiro in June 2012, the UN undertook an initiative to develop and set a series of sustainable development goals to complement and, eventually, supersede the Millennium Development Goals, which are set to run until 2015.

At Rio+20, I took the opportunity to reaffirm the commitment of the International Maritime Organization (IMO) to sustainable development and, in particular, to sustainable maritime development. I used the event as a platform to draw attention to how shipping contributes significantly to three of the pillars of sustainable development – economic, social and environmental. One cannot imagine sustainable development without sustainable maritime transport, and its importance for the movement of goods across the globe. In very simple terms, even with all the raw and finished products produced in the world, it would be meaningless if there is not a sustainable maritime transport system in place to move these products, allowing economies to grow and prosper and livelihoods to improve.

The encouraging outcome document of the conference, entitled *The Future We Want*, contains a number of specific areas of relevance to IMO and international maritime transport in general.

As the UN's international regulatory body for shipping, IMO has been – and continues to be – the focal point for, and the driving force behind, efforts to ensure that the industry becomes greener and cleaner. IMO's mandate to ensure the safety of life at sea has resulted in many measures designed to make shipping safer and instil a safety culture, thereby minimising accidents that might pollute the sea. This includes key treaties such as the International Convention for the Safety of Life at Sea (SOLAS) and the International Convention on Standards of Training, Certification and Watchkeeping for Seafarers (STCW).

IMO is the focal point for, and the driving force behind, efforts to ensure that the industry becomes greener

Of the 53 international treaty instruments that have been adopted by IMO, 21 are directly related to environmental protection. The International Convention for the Prevention of Pollution from Ships (MARPOL) regulates pollution from ships by oil and chemicals (including the risks posed by operational measures), by packaged goods, and by sewage and garbage. Emissions into the atmosphere (including sulphur oxide, particulate matter and nitrogen oxides) are strictly regulated in MARPOL Annex VI. It was expanded by amendments adopted in 2011 to include energy-efficiency measures: technical and operational measures, which aim to reduce emissions of greenhouse gases (particularly carbon dioxide) from ships.

IMO has also adopted a treaty to address harmful antifouling systems (in force since 2008) and new treaties to regulate the management of ballast water, to prevent the spread of alien aquatic species (expected to enter into force in the near future) and the environmental hazards of ship recycling (not yet in force). The dumping of wastes at sea is regulated by the London Convention and its 1996 protocol, which have their secretariat at IMO. IMO has also developed recommendations to address biofouling and noise from ships.

Liability and compensation

Other treaties address liability and compensation for environmental damage from spills of oil (carried as cargo and as fuel) and damage from hazardous and noxious substances, as well as the right of a state to intervene on the high seas to prevent, mitigate or eliminate danger to its coastline or related interests from pollution, following upon a maritime casualty. The designation of special areas and particularly sensitive sea areas requiring special protection, combined with substantial work on assisting all countries to develop contingency plans to deal with oil spills and other incidents, have been a crucial part of IMO's work.

There remain many challenges. With shipping so essential to the continued development and future growth of the world economy, IMO, and its mechanism of cooperation with member governments and the industry, must continue to act as the institutional framework for the sustainable maritime transportation sector. It must take the lead in supporting the shipping industry with the appropriate global standards and by helping to promote, through technical cooperation, the necessary national maritime transportation policy.

The concept of a sustainable maritime transportation system embraces not just the shipping industry, but also shipbuilding, ports and terminals, seafarers, energy fuel suppliers, financial institutions, maritime education and training institutions, maritime administrations, classification societies and the ship-recycling industry. In this context, new technology and innovation are at the heart of a sustainable maritime transportation system.

In order to support countries that wish to implement IMO conventions – but which lack the resources, the experience or the skills to do so – IMO has developed the Integrated Technical Cooperation Programme, designed to assist governments by helping them build the necessary capacity. It is now fine-tuning that assistance by developing unique country profiles that closely identify the precise needs of developing countries.

Through these activities, IMO helps to transfer technology and know-how to those that need it, thereby promoting wider and more effective implementation of IMO measures. This, increasingly, will be the organisation's focus in the future, as it looks to play a leading role in the drive towards a sustainable maritime sector.

This all depends on collaboration with IMO's 170 members (and three associate members) to achieve ratification, uniform implementation and enforcement of IMO conventions, codes, standards and guidelines, by flag, port and coastal states.

G20 and IMO cooperation

To the G20 members, I would urge their governments to continue to work through and with IMO to ensure uniform compliance with IMO environmental conventions. I would urge those countries that have not already done so to ratify and implement all IMO treaties, including the Ballast Water Management Convention and the Hong Kong Convention on ship-recycling. I would urge them to support global regulation, through IMO, versus unilateral/regional initiatives, balancing the demands of different stakeholders in the transportation chain – shipowners, shipyards, engine manufacturers and others.

I would also urge them to support capacity-building projects for the implementation and enforcement of IMO conventions and associated instruments, codes and guidelines, and to consider the sensitive marine ecosystems when reviewing the impact of human activity in exploiting the oceans – for shipping and for other activities.

It is also important to consider ways in which the global economy can facilitate a financial environment for a shipping industry to be sustainable, while complying with environmental regulation.

Together, we can move forward, with sustainable development as our goal. ■

The work of the International Maritime Organization has resulted in many initiatives to maintain safety at sea and safeguard the marine environment

DAN PRAT/ISTOCKPHOTO

Comprehensive rural development for food security – the role of the G20

The G20 has made a clear commitment to advancing food security, but it is an enduring and collaborative approach by its members that will ensure change

By Kanayo F Nwanze, president, International Fund for Agricultural Development

It has been four years since the G20's Pittsburgh Summit that called for the creation of the Global Agriculture and Food Security Program (GAFSP), and almost three years since food security was included as a pillar in the Seoul Multi-Year Action Plan on Development. With food security remaining a priority for the Development Working Group this year, it is clear that the G20 is committed to this issue.

Taking notice of food security

This dedication is commendable. Food, although one of the most basic of human needs, had fallen far down the international development agenda for too many years until a shocking rise in prices in 2007/08 forced the international community to sit up and take notice. Since that time, there has been a steady stream of food security initiatives and a growing recognition that rural areas should not be a development backwater.

Yet, today, ensuring that the international community maintains this focus remains a challenge, particularly in the face of competing priorities, financial crises and a decline in official development assistance. The challenge is not, however, just one of attention and priorities, but also one of breadth of scope and coordination of approaches. As discussions on new agendas for development get underway both in the G20 and globally, there is no question that food security and nutrition will remain prominent. But this focus must be accompanied by long-term, sustained policy attention and investments in agriculture in the context of a broad agenda for rural development. It is crucial that food insecurity and malnutrition are approached in a comprehensive, holistic and multi-sectoral fashion, so that food systems around the world can become more productive, sustainable, resilient and inclusive – as well as more nutrition-sensitive.

Poverty perpetuated by hunger

Poverty, hunger and malnutrition too often go hand in hand, perpetuating each other in a vicious circle. The long-term impact of childhood undernutrition and malnutrition, often caused by poverty, is devastating, not just for individuals but for entire societies. Scientific evidence shows that when a child is deprived of essential nutrients in the womb and during the first two years of life, the resulting harm to physical and mental development can result in a terrible cost in future years. It is estimated that today's childhood malnutrition will cost the global economy $125 billion in foregone growth in gross domestic product by 2030. Clearly, addressing food insecurity and under- or malnutrition requires a simultaneous effort to address poverty in all its manifestations.

> ***Responsible investment by G20 countries in rural areas and the agriculture sector can play a catalytic role in boosting food security***

Poverty remains as much a rural problem as it ever was. A report that was released this year by the World Bank estimates that 76 per cent of the world's poorest children, women and men – those living on under $1.25 a day – live in the rural areas of developing countries. Many poor rural people, even if they grow food themselves, do not grow enough to feed themselves and are net buyers of food. As incomes stagnate or fall and food prices rise, they are the ones who are going without. The 2012 edition of *The State of Food Insecurity in the World* found that "in response to income losses and/or higher food prices… poor consumers in many countries may have had to compromise on the quality and diversity of the food they consumed by reverting to cheaper and less nutritious foods" or cut back on other basic needs such as health and education.

As the world's urban areas grow, the challenges (and benefits) of urbanisation are a major global concern. However, cities must be fed by people working the land in rural areas, and their environmental sustainability depends in part on healthy rural ecosystems. And while urban sectors struggle to create enough jobs to absorb growing numbers of rural youth, there is also a pressing need to create more modern, diversified rural economies that offer decent jobs for women and men alike. These must include jobs in agriculture and in a range of other sectors that need to flourish for agriculture to thrive and for food systems to develop, creating virtuous circles for development in all its dimensions.

In short, neither global food security nor poverty eradication can be achieved without inclusive, sustainable rural development. In many contexts, the starting point is investing in and for smallholder and family farms, ensuring the conditions are in place for them to operate successfully as small businesses. We know that successful small farms generate demand for locally produced goods and services, non-farm employment (in services, agro-processing and small-scale manufacturing) and much needed employment opportunities. But equally important is investing in a variety of other areas where rural small and medium enterprises operate, fostering better linkages among rural sectors as well as between urban and rural economies, with a focus on promoting vibrant and sustainable systems.

The world looks to the G20

Comprehensive rural development has been acknowledged by G20 countries under the Russian presidency this year as a critical driver of progress towards food security and nutrition for all. In this context, promoting investment that is responsible remains as critical as ever – and responsible investment means, among other things, investment that is inclusive and that pays attention to all dimensions of sustainable development – social, economic and environmental.

Responsible investment by G20 countries in rural areas and the agriculture sector can play a catalytic role in boosting food security and nutrition worldwide. The world looks to the G20 to take forward the highest standards of good practice within this realm. So do agencies like the International Fund for Agricultural Development (IFAD), which are committed to continue working with their G20 partners and others, particularly in promoting the investment capacity of smallholder farmers and rural small and medium-sized enterprises.

Over the past few years, the G20 has demonstrated real commitment to this issue and real added value in helping establish the conditions for progress, particularly through policy coordination and sharing of market information. A renewal of this commitment under the new framework would send a strong positive signal to the world.

One cannot talk of responsible investment without discussing risk. Agriculture, by its dependence and vulnerability to natural events beyond human control, is a risky business. In order to foster investment in rural areas and in agriculture, it is essential to reduce and better manage risk.

This year, one important initiative sponsored by the G20 is being launched at IFAD – the Platform for Agricultural Risk Management. This innovative, partnership-based enterprise has been spearheaded by the Agence Française du Développement and IFAD, together with Germany's Federal Ministry for Economic Cooperation and Development (BMZ), the European Commission and the New Economic Partnership for Africa's Development (NEPAD). It aims to help integrate risk management into the agricultural policies and programmes of low-income countries, particularly in sub-Saharan Africa. The platform will also act as a broker between those in need of risk management expertise and those who can provide relevant services. This is an important example of the kind of innovation that can result from a positive collaboration between G20 members and international organisations, and one that holds major promise in fostering the kind of responsible investment in rural areas and in agriculture that is so crucial to solving the problem of food security and nutrition.

Maintaining a steady focus on nutrition

As the new G20 development framework takes shape, the world should see more of this type of collaboration in support of global food and nutrition security. And the world should hope that world leaders will have the wisdom and courage to maintain a focus on comprehensive rural development, even when there are no famines or food price shocks in the headlines. Every day, hundreds of millions of children, women and men are going without sufficient food and nutrition. No one should need a crisis to be reminded of the duty to protect their fundamental right to food. ■

This farmer cultivates maize and pumpkins on his half a hectare of land. Healthy rural ecosystems are essential to feeding expanding urban populations globally

IFAD/CLARISSA BALDIN

The hunger thread

Malnutrition does not simply affect health: it has pervasive effects on inequality, the economy and education, and should be a priority for G20 leaders

By Ertharin Cousin, executive director, United Nations World Food Programme

There is a thread that runs through the Millennium Development Goals (MDGs) connecting those that aim to address poverty, lack of education, gender inequality, child and maternal mortality and health challenges. That thread running through these miseries is hunger and undernutrition. Without a comprehensive and sustainable push to address hunger, none of the other goals is likely to be achieved.

As the MDGs approach their target date of 2015, the world must continue to be mindful of the hunger and undernutrition thread to ensure that it is woven deeply into the sustainable development goals that will define what gets done next.

While it may be true that in many countries the goal of halving the proportion of people who suffer from hunger may still be achievable by 2015, the struggle will not end there. It is vitally important that the momentum is maintained by establishing a new, standalone goal for hunger and nutrition.

There is already broad international recognition that a commitment on the post-2015 sustainable development agenda to eradicating hunger and undernutrition is an essential component of any future targets. Globally, almost 870 million people remain undernourished. One in four children under the age of five grows up stunted because they are unable to access sufficient and nutritious food or suffer too frequently from illnesses to be able to benefit from the nutrients they consume. This is unacceptable.

It should not, therefore, come as a surprise that the United Nations Secretary General's High-Level Panel of Eminent Persons, set up to define the post-2015 agenda, has already given its support to a standalone goal for food security and good nutrition.

The cost of ignoring the challenge of hunger is simply too high. *The Cost of Hunger in Africa*, for example, a study based on a survey of 12 countries performed by the New Partnership for Africa's Development (NEPAD), the United Nations Economic Commission for Africa and the United Nations World Food Programme (WFP), found that in Ethiopia the annual costs associated with child undernutrition could be estimated at $4.7 billion, or 16.5 per cent of annual gross domestic product (GDP). As the director general of the Ethiopian Health and Nutrition Research Institute said in the foreword to the study, "We must invest not only in roads and bridges and enterprise, but also in the nutrition of the youngest Ethiopians".

This research follows an earlier *Cost of Hunger* study in Latin America, as well as academic research that underlines the compelling evidence of the crippling economic impact of ignoring undernutrition, including micronutrient deficiencies.

In Ethiopia the annual costs associated with child undernutrition could be estimated at $4.7 billion, or 16.5 per cent of GDP

Malnutrition – leading to stunting – has a lifelong impact on children. The resulting loss to GDP is accounted for by stunted children dropping out of or underperforming at school; generating, as adults, reduced levels of productivity in major economic sectors such as agriculture or technology; and the cost of treating lifelong sickness and disease that can be attributed to malnutrition. Undernourished populations cannot provide the foundation for economic growth and prosperity.

Stunting can also increase the risk of obesity – a growing problem in many developing countries that are now facing the 'double burden' of malnutrition leading to health issues such as cardiovascular disease and diabetes. If these trends towards increased levels of overnutrition are not reversed, the long-term implications are likely to have a major impact on future healthcare spending.

Quite simply, in order to maintain forward momentum for sustainable development, the impact on long-term economic growth of hunger, food insecurity and malnutrition – particularly in early childhood development – cannot be ignored.

The second series of papers in medical journal *The Lancet* on maternal and child nutrition, launched in June 2013, stresses the importance of leadership across all sectors in the push to address child malnutrition, highlighting the importance of partnership among humanitarian agencies, civil society, the private sector and government in a joint effort to confront the challenge.

Core interventions

The papers in *The Lancet* estimate that 45 per cent of deaths among children under five are caused by malnutrition, resulting in 3.1 million deaths a year. But addressing this problem is not beyond reach. *The Lancet* suggests that all childhood deaths under the age of five could be reduced by 20 per cent if governments and partners scale up 10 core nutrition interventions, including multiple micronutrient supplementation and fortification, the provision of safe and appropriate complementary feeding and the management of acute malnutrition.

More specifically, these papers focus on the importance of providing nutrition during the 1,000-day window from conception to the age of two years, and ensuring that the young child, as well as the pregnant and breastfeeding mother, is well nourished. At the same time, while every effort should continue to be made to discourage adolescent girls from early pregnancies, the papers in *The Lancet* recognise the importance of providing good nutrition to girls of reproductive age.

The Nutrition for Growth meeting in London, which followed the launch of these papers in June 2013, brought together powerful advocates among donor governments, the private sector, civil society and the leading humanitarian agencies to discuss new targets for improving nutrition. With funding commitments amounting to $4.1 billion, the words of those attending the 'London Hunger Summit' were matched with substance, ensuring that the financial support and resources needed for improving access to nutritious food will be at hand, and child stunting can be prevented.

Although the amount pledged did not match the $9.6 billion annually that medical journal *The Lancet* estimates is required to scale up the 10 essential nutrition-specific interventions necessary to reducing child deaths by 15 per cent, the commitment shown by governments, private sector and humanitarian agencies is encouraging.

Building on the early success of the Scaling Up Nutrition (SUN) movement and the attention on providing the right kind of nutritious food during the first 1,000 days, at the London Hunger Summit WFP committed to partner with the United Nations Population Fund (UNFPA) to improve nutrition for pregnant and breastfeeding mothers as well as adolescent girls of reproductive age. This approach would support the 1,000 days initiative, using the deep-field presence of WFP and UNFPA to improve maternal nutrition during this critical period. Most importantly, it again recognises the role of mothers in providing a child with the requisite healthy start.

Rare opportunity for change

The combined momentum of all of these initiatives provides a once-in-a-generation opportunity to engineer a positive shift towards achieving global targets on nutrition and food security. A fundamental lesson that must not be ignored is that while great steps have been taken to reduce global poverty, no one can take it for granted that growth and rising incomes automatically ensure an improvement in food security and nutrition – particularly for the most poor and vulnerable.

This is because the *Cost of Hunger in Africa* studies provide yet more compelling evidence that even in countries that have shown startling growth and rising incomes, investment in the food security and nutrition of the poorest is still essential to ensure that long-term social benefits derive from the economic growth.

For all of these reasons, that thread of hunger that runs through the MDGs must be used to bind together the fabric of the post-2015 sustainable development goals. That thread must be woven into all of the appropriate targets as well as in a new standalone goal specifically targeting food security and nutrition that will guide global efforts in the decades ahead. Only then will there be a world in which every child can live life to his or her full potential. ■

Made from maize and soy, VitaCereal is given by the World Food Programme to malnourished mothers and children, and is boosting birth weights in Guatemala

WFP/MAXIME BESSIERES

Sanofi: meeting the needs of patients

Sanofi is a global integrated healthcare leader focused on the needs of its patients, and is engaged in the research, development, manufacturing and marketing of innovative therapeutic solutions. Sanofi has core strengths in healthcare, with seven growth platforms: diabetes solutions; human vaccines; innovative drugs; consumer healthcare; emerging markets; animal health; and the new Genzyme. The group is present in 100 countries on five continents with almost 110,000 employees. Sanofi is a leader in emerging markets and one of the top pharmaceutical companies in Europe, and also a world leader in the production of vaccines. The company has an extensive portfolio of vaccines via its division called Sanofi Pasteur, which provides prophylaxis for 20 viral and bacterial diseases. Sanofi has been in Russia since 1970.

In 2009, companies Zentiva, a leader in the European market in generics, and Merial, a world-leading animal health company, both became part of Sanofi. In 2011, Genzyme, one of the world's leading biopharmaceutical companies, also joined the group. Furthermore, the research and development department of Sanofi is one of the largest in Russia, comprising 65 people. Research is conducted in all of Russia's priority treatment areas.

As part of its campaign to battle against widespread chronic diseases, in April 2010 a deal on the acquisition by Sanofi of a modern, GMP-standard insulins factory located in the Orel region was closed. In line with the deal, Sanofi launched the first innovative manufacture of insulin in Russia in the form of high-technology insulin pens and human insulins at Sanofi-Aventis Vostok CJSC. The production lines at the plant currently allow the production of up to 30 million insulin dose units per year.

In 2011, the production of oncology medicines was launched at the plant. The site is already operating, and the full cycle of manufacturing at full capacity of insulins is reached in 2013. In terms of quality, safety and effectiveness, all medicines produced at the plant are identical to the medicine products produced by the company in Frankfurt.

Furthermore, Sanofi actively takes part in meetings of the Franco-Russian Commission for Bilateral Cooperation at senior government level. Sanofi signed major documents aimed at developing Franco-Russian relations in industry, healthcare and social development. On 28 February 2013, as part of the first working visit to Russia by the French president and during the Franco-Russian document signing ceremony, Sanofi Russia and the Endocrinology Scientific Centre of the Ministry of Health of the Russian Federation signed a memorandum of intent in the presence of Presidents François Hollande and Vladimir Putin. This document laid out the intentions of both sides to develop and launch a joint epidemiological project for the diagnosis and treatment of diabetes in Russia.

Sanofi is a leader in emerging markets and one of the top pharmaceutical companies in Europe, and also a world leader in the production of vaccines

Improving treatment for Russian patients is one of the key objectives of Sanofi. The company supports large-scale national educational programmes in all therapeutic areas. Sanofi launched more than 190 specialised epilepsy centers (epicenters) that are fully equipped and operating as training centers for doctors, and more than 50 atherothrombosis schools (atheroschools) for doctors with support of the National Atherothrombosis Society. Starting from August 2009, the company has been carrying out the all-Russia medico-social programme 'Help for Heart', to support patients who have unstable angina or myocardial infarction.

Starting from autumn 2009, Sanofi has been implementing an all-Russia educational programme for diabetes patients, 'Every day is your day', together with the leading Russian endocrinologists. The aim of the programme is to provide patients with a simple and positive message to live a full life. As part of that programme, there are educational classes for patients of various ages to improve their knowledge about the disease and show them how to implement self control and prevent complications with their diabetes. Diabetes school workshops were delivered by top Russian specialists (endocrinologists, psychologists) who taught patients how to control the disease and adapt their lifestyles. Specific formats were created for different groups: children with type 1 diabetes and their parents; adults with type 1 diabetes; and elderly patients with type 2 diabetes. Patients who were successful were invited to share their experience. Interactive tasks and games were designed to help patients

«Sanofi-Aventis Vostok» site in Orel region, Russia

P. Aghanian – Sanofi Russia; F. Hollande – President of France; V. Putin – President of Russia; I. Dedov – Endocrinology Scientific Center, Russia

overcome fears and incorporate essential habits into their lifestyle. To expand the educational effect to the wider public, media coverage of all workshops was provided. More than 100 workshops all over the country, from Sochi to Vladivostok, have been held since 2009, in which 10,000 patients have taken part. In addition, each year the Russian Diabetes Association, together with international pharmaceuticals company Sanofi, holds a sporting-educational event for children and adolescents with type 1 diabetes called Diaspartakiade, which is attended by children not just from various Russian cities, but from across the CIS. Diaspartakiade has no equivalent and is an absolutely unique sporting-educational event, thanks to which children with diabetes are able to demonstrate sports achievements in spite of their diagnosis.

Access to modern treatment

Since 2010, together with leading Russian oncology centres, Sanofi has been implementing an all-Russian programme for helping patients with breast cancer called 'Giving life a chance', which aims to improve treatment for women at the early stages of breast cancer. Relatively few Russian women pay enough attention to their health and even fewer have access to modern therapies. Breast cancer is the most widespread form of cancer among Russian women. Annually in Russia, more than 57,000 women are diagnosed with the disease and more than 23,000 women die from it. Half of all patients are under 59 years of age. Unfortunately, Russia lags far behind the United States and Europe when it comes to survival rates for women diagnosed with breast cancer. While the five-year general survival rate in the United States is just over 90 per cent and in Europe just under 80 per cent, the survival rate in Russia is only 56 per cent. It is generally accepted that late diagnosis and poor access to internationally recognised standards of treatment are largely responsible for this. Early diagnosis and appropriate treatment is the cornerstone of success in fighting breast cancer. The programme covers more than 55 cities in Russia, where 8,802 women have already received modern treatment and have a chance to live. In 2013, 3,500 will take part in the programme. The 'Giving Life a Chance' social programme was chosen as a finalist in a nationwide programme called 'The Best Social Projects in Russia', supported by the Government of the Russian Federation.

Further to these efforts, in September 2012 Sanofi, in cooperation with key Russian nephrologists, started the dialysis patient support programme called 'Choice for life'. In 2013, it is planned to organise a range of regional round tables for doctors for a more widespread distribution of the information on disease.

Another awareness programme held with key Russian epileptologists is called 'Attention – epilepsy!'. In terms of the programme we support the professional community in their patient-centric activities. We have also launched the unique portal for patients: www.epilepsyinfo.ru.

The charitable activity of Sanofi Russia is consolidated by the programme 'Give a Smile'. Its aim is to help children from orphanages: to give orphans joy, warmth and smiles through attention and communication. Employees take an active part in the programme, which grew significantly from single charity actions and by 2010 covered all Russian regions.

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Tackling tuberculosis and malaria

The approach of G20 leaders to reducing the global incidence of two deadly diseases will have an effect on the development of the worst-affected countries

By Joy D Fitzgibbon, Global Health Diplomacy Program, University of Toronto

When the G20 leaders meet in St Petersburg, they have a significant opportunity to support policy priorities that scale up the lessons learned from recent advances in tuberculosis and malaria control. In so doing, the G20 will strengthen conditions for long-term, sustainable economic growth and development while satisfying commitments to social justice.

The leaders at this summit should do three things to enhance effective management of tuberculosis and malaria: support the $15 billion replenishment of the Global Fund to Fight HIV/AIDS, Tuberculosis and Malaria for 2014-15; communicate to the World Health Organization (WHO) lessons from community groups on barriers to implementing tuberculosis and malaria programmes in diverse local environments; and create a G20 consultative working group on economic reform and global healthcare delivery. Failure to advance the world's efforts to eradicate tuberculosis and malaria will unravel the progress already made and will threaten economic growth – which depends upon healthy societies.

Knowledge and progress

There has been significant progress in combating both tuberculosis and malaria. Knowledge has improved both on the scope of tuberculosis and malaria and on the efficacy of prospective interventions. This has been accompanied by a dramatic mobilisation of scientific research, advocacy and financial resources in support of these known remedies and research. Morbidity and mortality are declining, with the promise of long-term effective management and eradication if efforts are continued and accelerated.

WHO data reveals that the tuberculosis death rate dropped by 40 per cent between 1990 and 2010, and the absolute number of tuberculosis cases per year has been falling since 2006. In 2011, there were an estimated 8.8 million new cases of tuberculosis. Around 1.1 million people died, with an additional 350,000 deaths among those also infected with HIV/AIDS. If current trends continue, the Millennium Development Goal (MDG) of a 50 per cent reduction of 1990 estimates by 2015 will be met in all WHO regions except Africa.

Multi-drug-resistant tuberculosis is present in every country surveyed by WHO. Success in maintaining and accelerating progress is largely determined by how effectively prevention, surveillance and management are rolled out and tailored to local community and patient needs, while continuing new drug and vaccine development.

According to WHO, since 2000, the incidence of malaria has fallen by 17 per cent, with 247 million cases and 1.1 million deaths averted. An estimated 655,000 people died from malaria in 2010, 91 per cent of whom were from Africa and 86 per cent of whom were children under five years of age. Malaria is present in 100 countries. In 2010, 216 million people suffered with the disease. Here, too, maintaining and advancing progress depends on rapidly implementing current management strategies adapted to community and patient needs and developing new drugs and vaccines.

> ***Failure to advance the world's efforts to eradicate tuberculosis and malaria will unravel the progress already made and will threaten economic growth***

There is a mutually reinforcing relationship between healthy populations and economic growth. The MDGs recognise this relationship in their attention to the crises of tuberculosis, HIV/AIDS, malaria, and maternal and child health, within the broader context of development and poverty reduction. The economic cost of tuberculosis and malaria has long been known, and interventions to control the two diseases are cost-effective.

The Global Alliance for TB Drug Development estimates that tuberculosis will cost the world's poorest economies as much as $3 trillion over the next 10 years. Of all tuberculosis cases, 75 per cent occur in people between the ages of 15 and 54 – the most economically productive years. This loss of productivity due to tuberculosis totals between four per cent and seven per cent of a country's gross domestic product (GDP), according to the World Bank. WHO has found that, at the family level, tuberculosis patients lose three to four months of work and approximately 30 per cent of their annual household income.

Benefits outweigh the costs

Conversely, a 2007 World Bank study reported that the benefits outweigh the costs when implementing WHO's Global Plan to Stop TB in high-incidence countries. Countries with successful malaria programmes experienced subsequent economic growth. Countries with a high incidence of malaria experienced 1.3 per cent less growth per person annually. Reducing malaria by 10 per cent increased economic growth by 0.3 per cent. The Roll Back Malaria Partnership reports that direct economic costs are at least $12 billion and have been responsible for economic losses totalling 1.3 per cent of Africa's GDP growth per year. Direct costs to individuals include treatment costs not provided by governments, transportation to the clinic and lost days of work.

A recent article in *The Lancet* pointed out that vigorously functioning health systems – upon which these disease-specific interventions depend – bring jobs, local procurement and entrepreneurial opportunities. Such growth may occur even beyond the health sector, in areas such as telecommunications and information technology.

To secure and accelerate this progress, three steps are essential: achieve the 2014-16 financial targets for the Global Fund; learn from programme failures and successes in divergent local environments; and connect policy improvements in healthcare delivery and poverty reduction. The G20 can contribute

BEAWIHARTA BEAWIHARTA/REUTERS

A doctor at the Indonesian Union Against Tuberculosis clinic in Jakarta checks the lungs of a patient. WHO reports that the absolute number of tuberculosis cases per year has been falling since 2006

to addressing these challenges through three main commitments.

The Global Fund identified a $15 billion requirement at its fourth replenishment meeting in April 2013. Those G20 leaders who have already committed to the fourth replenishment cycle should restate their commitments, and those who have not should state new commitments in advance of the Global Fund's pledge meeting in the fall. Such leadership will encourage other organisations and governments to contribute to this round.

Policy efficacy is determined by access to practical knowledge – the experience of those at the receiving end of policy and those who serve them. Technical expertise – led by WHO and other international agencies – must be tailored to community and patient needs. G20 leaders need to commit to compliance with WHO policy frameworks in their own national tuberculosis and malaria programmes while sharing with WHO lessons learned by their community groups on the challenges to implementation in diverse local settings. This ongoing learning is essential to effectively managing and providing care.

Finally, the G20 needs to consider carefully the issues that intersect among economic growth, poverty eradication and healthcare delivery when constructing G20 economic policies. The G20 should create a consultative working group on economic reform and global healthcare delivery that relies upon expert knowledge to shape decisions on economic growth and extreme poverty eradication consistent with lessons learned in global health systems delivery.

The G20 is part of a broad network of summitry and global governance. The St Petersburg Summit will test the capacity of the G20 members to engage with developments in this extended network by deepening learning about healthcare in support of reducing the incidence of tuberculosis and malaria. They must also satisfy global requirements for economic growth and poverty eradication, which depend upon vibrant, healthy societies. ■

Transparency starts at the border: promoting proven security tools

INTERPOL databases provide vital information to boost border security, but many G20 members fail to make regular use of these cost-effective resources

By Ronald K Noble, secretary general, INTERPOL

On 1 August 1992, Pakistan International Airlines flight 703 touched down at John F Kennedy Airport in New York City, concluding yet another long trip from Karachi. Upon landing, passengers from first class disembarked, flooding towards the border posts to undergo security checks. Among them was a tall, unassuming 25-year-old man.

Lacking a proper visa to enter the country, the man claimed political asylum and handed an Iraqi passport to the immigration officer standing in front of him. As an Iraqi citizen aligned with the government of Kuwait, he argued that it was no longer safe for him to remain in Iraq in the aftermath of the Gulf War. Pressed to make a decision, the officer released the man into the United States and scheduled an asylum hearing for him.

The passenger's name was Ramzi Ahmed Yousef. Even at the time of his entry into the United States, Yousef knew he would miss that hearing. In fact, his plan was radically different. It included embedding himself into the peaceful Middle Eastern migrant community of New Jersey, assembling a team of like-minded associates, and manufacturing high-power explosives in a ground-floor Jersey City apartment. This plan came to fruition six months later. On 26 February 1993, an explosive-laden yellow van detonated in the B-2 level garage of the World Trade Center complex in New York City, killing six innocents and injuring around 1,000.

Pinpointing a single moment that would have changed history is always a challenging endeavour. An interesting counterfactual to consider is what would have happened had Yousef been stopped by immigration and turned away, instead of being let through. That decision could have been based on a key piece of information: that the Iraqi passport he was using had been previously stolen, trafficked and used to cross borders fraudulently. Except, back in 1992, no tools existed to allow real-time access to such pivotal intelligence by border-security officers around the world.

A different world

In February 2013, the world commemorated the 20th anniversary of the first World Trade Center terrorist bombing. As the leaders of G20 members gather, it is easy to note how much has changed since this tragic event. The Twin Towers have disappeared from the New York City skyline, Yousef is behind bars, and officers at the JFK airport and across the US now have access to the Stolen and Lost Travel Document Database (SLTD) and its 38 million records – records that are now the theoretical difference between Yousef being stopped at the border instead of being allowed in.

This difference is why this tool is seen as vital for officers in the 190 member countries of INTERPOL and is increasingly used by them. When it was first implemented in 2003, annual SLTD searches barely reached 1,500. Ten years later, this number is in excess of 730 million, or 1,400 searches per minute across the globe. Highly mobile criminal suspects attempting to cross borders are still doing what Ramzi Yousef did in 1992, but now one search can change their fate. This was evident in November 2012 when authorities of the Democratic Republic of Congo, assisted by INTERPOL staff, screened incoming passengers in advance of the 14th Francophonie Summit in Kinshasa using the INTERPOL databases. By doing so, these authorities were able to identify and apprehend Vedaste Banguwiha, who was wanted by Rwanda for his alleged participation in the 1994 genocide.

Security and the screening of cross-border movements remain inescapable conditions to satisfy, if the vision of growth, transparency and trust in the 2013 G20 agenda is to be realised

Security and the screening of cross-border movements remain inescapable conditions to satisfy, if the vision of growth, transparency and trust reflected in the 2013 G20 agenda is to be realised. The reality is that, even in a time of rapid innovation and unprecedented

US border-security officers have the means to halt the progress of potential terrorists, but many countries are not taking full advantage of such tools

TED PINK/ALAMY

technological growth, countries still cannot predict who will attempt to cross their borders; they can only predict that there will be more people. At a time when Ramzi Yousef was enjoying the advantages of air travel, approximately 1.1 billion passengers were crossing the skies worldwide either domestically or internationally every year. By 2014, total passenger volume is expected to reach 3.3 billion. For these reasons, officials at these borders need information not only to maximise their efficiency, but also to minimise the risk of overlooking the next Ramzi Yousef and increase the chances of finding the next Vedaste Banguwiha.

This is where INTERPOL databases, including SLTD, can make a difference, and why INTERPOL is calling on the G20 to support the systematic, worldwide use of these tools. Countries facing austerity and resource constraints are doing so at a time when the cost of a single INTERPOL database search is decreasing, having gone down by over two euros in the past five years to only five euro cents today.

Cost-effective tools

It is extremely inexpensive, but also incredibly effective. Recent studies showed that every dollar invested by INTERPOL against terrorism yields a gain of $200, meaning that the harder countries work at implementing INTERPOL tools, the more downstream costs can be avoided.

The challenge is getting countries to realise this cost-effectiveness. Despite being a proven tool, it is still the case that fewer than half (nine out of 20) of the G20 members search SLTD systematically. Yet almost all (17) of them are major contributors of records to the SLTD. These members, and any country not systematically relying on INTERPOL databases, should be afforded the opportunity to benefit from the cost-effective solutions that they have actually helped build.

The G20 holds a unique decision-making position, which could lead the charge in this endeavour. It is one that will inevitably pay dividends for the national security interests of countries across the global and all the citizens within them. ■

Forwarding tax fairness

The G8 and G20 have made progress on ensuring that big business pays its fair share of tax, but there is still work to be done to implement new standards

By Dries Lesage, professor of globalisation and global governance,
Ghent Institute for International Studies, Ghent University

During their Lough Erne summit in June, the G8 leaders made history with regard to tax fairness. They did so on two key fronts: the taxation of multinational enterprises and the taxation of wealthy citizens. More precisely, G8 members will work together "to ensure that international and our own tax rules do not allow or encourage any multinational enterprises to reduce overall taxes paid by artificially shifting profits to low-tax jurisdictions".

This clear stance touches the heart of the issue of tax-base erosion and profit shifting (BEPS). Until a year ago, it was equally unthinkable that the G8 would endorse the idea of country-by-country reporting of corporate profits and taxes paid, and ask the Organisation for Economic Co-operation and Development (OECD) to design a common template for this purpose.

Global exchange of information

In addition, the G8 governments committed "to developing a single truly global model for multilateral and bilateral automatic tax information exchange". In this way the G8 – inspired by a new OECD report – made more concrete earlier statements by the G20 in favour of automatic information exchange as the superior norm. The model is likely to build on already existing OECD recommendations, as well as legislation produced by the United States and the European Union. If such a model is really introduced, it will be harder for both citizens and companies worldwide to hide assets and revenues in offshore bank accounts.

Taxation is typically a topic on which both the G8 and G20 work intensively. Both have reconfirmed the OECD as the lead institution in global tax governance. The Paris-based think tank of the advanced industrialised countries systematically feeds the G8 and G20 leaders and finance ministers with expertise, and subsequently receives new tasks to prepare future decisions. Even non-OECD G20 countries – such as the BRICS members of Brazil, Russia, India, China and South Africa – seem to accept this. Through mechanisms such as the Global Forum on Transparency and Exchange of Information for Tax Purposes and the Multilateral Convention on Mutual Administrative Assistance in Tax Matters, the OECD is quite successful in drawing non-members into its orbit.

But given the G8 and G20's universal ambitions on tax, and their welcome ideas regarding domestic resource mobilisation in developing countries, it remains odd that so many poor countries still have no seat at the tables where global tax rules are actually written. For that reason, the G20's St Petersburg Summit will hopefully call for a meaningful upgrade of the existing United Nations taxation committee and a close UN-OECD partnership on tax matters.

With regard to corporate taxation, the July 2013 G20 finance ministerial "fully endorsed" the fresh OECD Action Plan on Base Erosion and Profit Shifting. Ministers stated that "profits should be taxed where functions driving the profits are performed and where value is created".

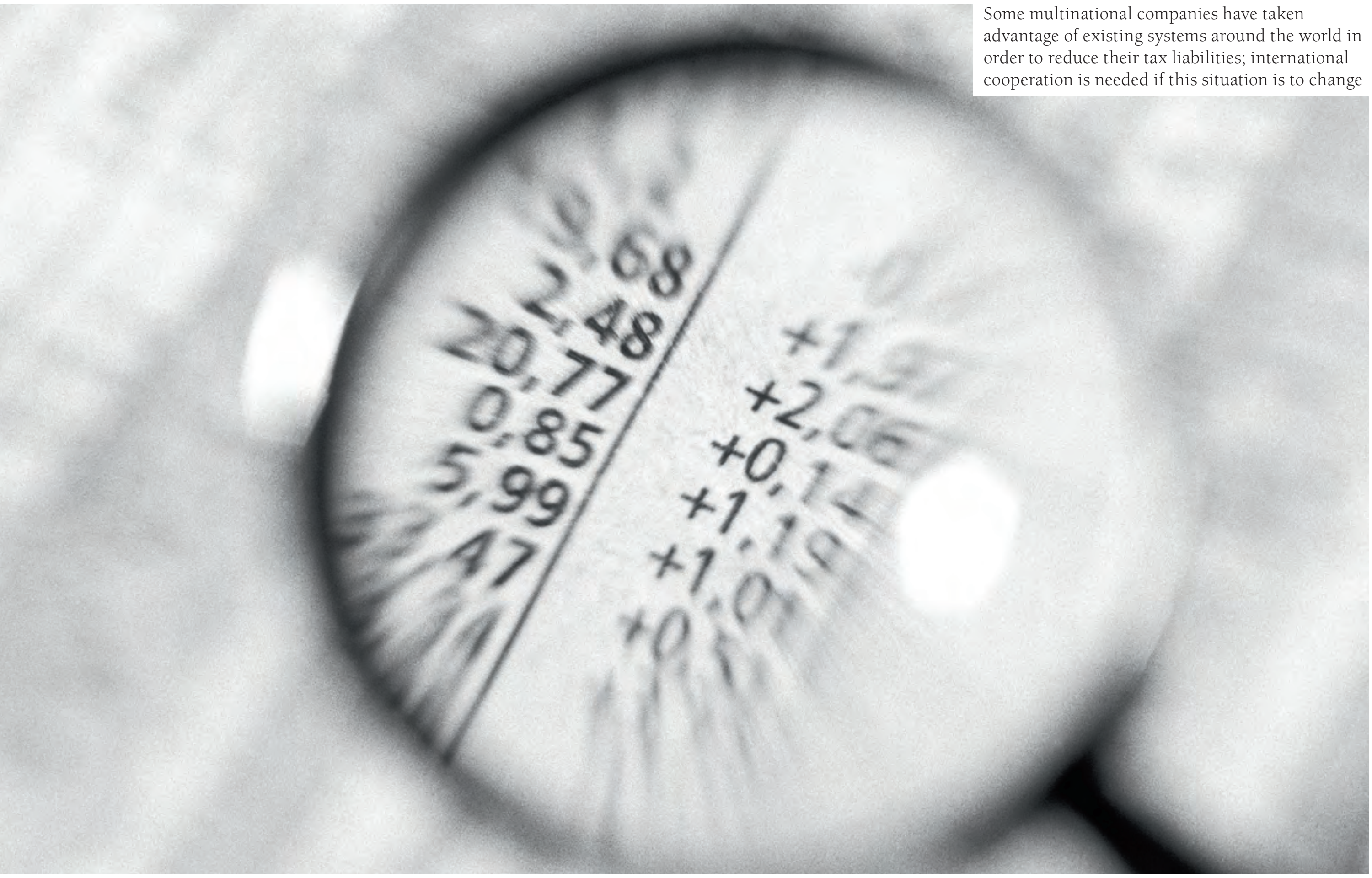
Given the excesses caused by corporate abuse of the defunct international tax regime over the past decades, the historic significance of this simple statement cannot be overestimated. Now the powerful trio of the G20, the G8 and the OECD is embarking on the profound reform needed to accomplish this general principle.

Need for a fundamental overhaul

The past few months have produced a sea change in terms of discourse and principles at the highest political level. This is real progress, but still just the beginning. It is not yet clear to what extent G20 governments and the OECD acknowledge the depth of the problems with the world's corporate tax 'non-system'. The OECD sticks to the idea that, for tax purposes, large multinational corporations should be regarded as a collection of separate entities in different national jurisdictions, rather than transnational economic realities steered by central headquarters operating according to a global logic.

The latter observation should give way to an entirely new regime, one that is based on unitary taxation. This means that multinationals' global profits are allocated and taxed per country, according to a formula that looks into real economic activity. The current regime, in contrast, allows multinational groups to engage in artificial cross-border transactions among their own subsidiaries, in order to shift profits to low-tax jurisdictions and tax havens. A key question is whether the G20 and OECD should try to fix the current regime through a battery of new technical measures, or build a completely new system centred upon unitary taxation. It seems they have chosen the first path.

An additional and indirect tool to reduce BEPS is the already mentioned



Some multinational companies have taken advantage of existing systems around the world in order to reduce their tax liabilities; international cooperation is needed if this situation is to change

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country-by-country financial reporting by multinational corporations. The G8 supports it, but only requires reporting to national authorities. With citizens, civil society, media and trade unions having no access to such data, a great deal of the potential moral pressure against all-too-aggressive 'tax planning' cannot be realised. In their July meeting, the G20 finance ministers did not mention the proposal at all. Unless there is a miracle at the leaders' level in St Petersburg in September, a huge opportunity will be missed here.

Given the G8 and G20's universal ambitions on tax, it remains odd that so many poor countries still have no seat at the tables where global tax rules are actually written

Ongoing G8 and G20 leadership required

Whatever happens, the road ahead will be long and difficult. In this multicultural and multipolar environment, no one can predict the outcome. The only certitude is that strong political leadership by the G8 and G20 will be indispensable. This requires systematic follow-up in the coming years. And in many instances, universal agreement, which is extremely hard to achieve, is not necessary for a group of willing countries to make progress among themselves.

Automatic information exchange poses a similar challenge. In an almost revolutionary spirit, G20 finance ministers called upon "all jurisdictions" to implement this new global standard. The G8, G20 and OECD will join forces in order to develop a single multilateral framework.

Technically and institutionally speaking, this is a breathtaking endeavour of global governance, of the kind few would have expected in these times of multiple gridlocks and fragmentation. It is to the credit of the groups involved that they can still initiate processes such as these. But here, too, time will tell as to what extent political principles are translated into achievements that benefit the wider international community, including the global economic South. A major battleground will, of course, be the implementation in the dozens of tax havens. Ultimately, orchestrated sanctions by the G20 and its allies might be a prerequisite for success, a point that the leaders ought to keep in mind. ■

Australia's vision for G20 summitry

Australia's core objective as it prepares to chair the G20 in 2014 should be to build on the successes of the Russian presidency and strengthen the forum

By Mike Callaghan, director, G20 Studies Centre, Lowy Institute for International Policy

The establishment of the summit of G20 leaders has been a significant development in global economic leadership. Prior to former US president George Bush's invitation for G20 leaders to meet in Washington DC in November 2008, Australia had been advocating such a meeting to respond to the financial crisis.

The fear was that the crisis could see rising economic tensions between countries and an unravelling of the benefits that had been gained from globalisation. The crisis clearly demonstrated the integration among economies and the need for economic cooperation. The G20 provided the forum to bring together the leaders from the advanced economies and the rapidly growing emerging markets to deal with what was a global crisis.

A common resolve

When G20 leaders met in Washington in November 2008, they demonstrated a common resolve to respond to the global financial crisis. This resolve was also evident at the London Summit in April 2009, when leaders agreed on a $1.1 trillion package to increase the resources of the international financial institutions and a combined fiscal expansion of more than $5 trillion.

While the policy priorities facing countries may now vary depending on the strength of their recoveries, G20 economies are no less integrated than they were in 2008. Australia is firmly of the view that the world needs an effective G20. The choice facing countries is between a largely global approach to economic problem solving or a fractured and incoherent approach to dealing with common challenges. The G20 needs to provide effective global economic leadership that secures and shares prosperity.

The G20 has achieved a great deal. It headed off an imminent global financial collapse, initiated a major reform of financial regulation through the Financial Stability Board, established a shared framework for economic growth, boosted the resources of the International Monetary Fund, advanced governance reforms in the IMF and the World Bank, and prevented a break-out of protectionism. Australia has been an active participant in all G20 activities and co-chaired the G20 working group on reform of the IMF and the working group on the international financial architecture.

But there is a danger of the forum losing its way. The mere existence of economic interlinkages and the interdependent nature of the global economy will not inevitably lead to closer and effective cooperation. The importance of cooperation needs to be reinforced.

Given the diversity of G20 members, a particular effort needs to be directed towards identifying and emphasising shared objectives and priorities, as well as the mutual gains from collective action.

> ***As chair of the G20 in 2013, Russia has appropriately framed its focus on the theme of creating jobs and growth. Australia has strongly endorsed this approach***

The G20 must maintain its focus and not lose its inherent strength, which is the engagement of leaders from the major advanced and emerging markets. The leaders' agenda should focus tightly on the most important issues that are confronting the global economy.

Strengthening the troika

As chair of the G20 in 2013, Russia has appropriately framed its focus on the theme of creating jobs and growth. Australia has strongly endorsed this approach, given that global growth remains patchy and fragile and many countries continue to face unacceptably high levels of unemployment. Russia has also appropriately recognised that the issues on the G20 agenda are interconnected.

Under Russian leadership, the G20 is focusing on balancing macroeconomic policy to support growth in the short term while putting in place the requirements necessary to maintain medium-term policy credibility. The emphasis on advancing structural reforms to lift productivity and growth potential is welcome.

Russia has appropriately highlighted the importance of investment, including infrastructure investment, as a driver of growth, and as such has highlighted the necessity to have an environment conducive to facilitating financing for investment. The importance of strengthening open trading systems and resisting protectionism in all its forms has also been a focus of attention by the Russian presidency. It is hoped that the St Petersburg Summit will make progress on these important issues.

These are, however, complex matters. Progress must extend over a number of years. This emphasises the importance of an effective troika process (involving past, current and future chairs) in the G20. Australian officials have been impressed by the operation of the troika under the Russian presidency. Russia has consulted with Australia, which will host the 2014 summit in Brisbane, and Mexico, which hosted the Los Cabos Summit in 2012, on its approach to advancing items on the agenda and has sought to ensure that key initiatives will not end with its presidency. Russia has also been active in consulting on its outreach programme.

Australia's presidency in 2014

Australia's objective when it takes the chair of the G20 in 2014 should be to build on the successes of the Russian presidency and continue to strengthen the forum. The first priority must be to further develop the troika arrangements, working closely with Russia and Turkey, which will be the G20 chair in 2015.

It is essential that the process of the G20 leaders' in 2014 focuses on the key global issues that matter, and in areas where leaders can make tangible progress. It is important that leaders are able to explain clearly and directly to their public the relevance of the issues being pursued by the G20. Another

In 2014, Brisbane will host the G20 summit, working closely with Russia for a common approach to advancing items on the agenda and ensuring that initiatives do not end with the Russian presidency

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objective should be to enhance transparency within the G20, and the focus on greater accountability must be maintained.

Advancing objectives

Towards advancing these objectives, the Framework for Strong, Sustainable and Balanced Growth should be clearly seen as the core of the G20. The framework provides the basis for clarifying the objectives and priorities of the G20, pulling the work of the forum into a coherent story and improving its transparency and accountability. In doing so, the G20 must continue to focus in 2014 on achieving more sustainable economic growth and creating jobs. The quest for more balanced growth should also embrace narrowing the development gap between countries and improving income equality within countries.

In 2014, Australia should also continue to strengthen efforts to work closely with non-G20 countries, international organisations and the communities within G20 members, including business, organised labour and civil society. Another objective Australia should embrace is to strengthen the voice of Asia within the G20 and in the outreach groups.

In summary, Australia's overarching objective in 2014 should be to contribute to the strengthening of the G20, because the world needs an effective G20. ■

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Strategically placed at the heart of Eurasia, Kazakhstan's capital city, Astana, plays a pivotal role in regional and global affairs. Since the 1990s, the city – and the country itself – have been increasingly important participants in the world of politics and economics, aiming to engage change globally.

Kazakhstan has worked to create regional economic alliances, forging links with the Commonwealth of Independent States, the Eurasian Economic Community, Customs Union and the Shanghai Cooperation Organization. The country's government is also working with organizations that promote peace and economic prosperity, for example the Collective Security Treaty Organization, NATO's Partnership for Peace program, the European Union, the Organization for Security and Co-operation in Europe, the Economic Cooperation Organization, the United Nations (UN), and the Organization of Islamic Cooperation.

Since Kazakhstan's independence in 1991, President Nursultan Nazarbayev has been instrumental in extending the country's influence. Initiated in 2008, the Astana Economic Forum has become established as one of the world's leading platforms for discussion of topical issues and finding effective solutions to global economic problems. Internationally renowned thinkers from the spheres of politics, business and academia gather annually in Kazakhstan's capital city to engage in discussion to formulate new approaches to long-term prosperity.

The Forum aims to provide economists and other key experts, as well as representatives of the public, with a platform to discuss and find solutions to Kazakhstan's and the world's socio-economic, legal and cultural issues, and to debate world economic development. In addition, the Forum makes recommendations on economic development, growth and sustainability to the member states of the G20.

The Forum also promotes the G-Global platform, a multinational arena for dialogue, designed to initiate and maintain worldwide discussion on global development and empowering all states and members of the expert community to express their views on an equal basis. Governments can add their ideas to G-Global for debate, as can individual members of the public, experts and scholars, and the platform operates in conjunction with the website of the Astana Economic Forum (www.astanaforum.org).

The 2013 Astana Economic Forum attracted around 8,500 delegates from 100 countries. Visitors heard illuminating presentations from current and former heads of state, Nobel laureates, leading executives from international corporations and associations, economists and global media representatives.

Kazakhstan looks forward to welcoming the world to Astana Economic Forum 2014 and hosting another stimulating exchange of ideas as the momentum to achieve greater global integration continues.

G20: reaching out to the United Nations and the global community

The relationship between the G20 and the UN has not always been easy, but greater coordination can make both of these institutions more effective

By Russell Trood, professor of international relations, School of Government and International Relations, Griffith University; president, United Nations Association of Australia

The most significant innovation in global economic governance since the Second World War has been in the emergence of the G20 in 1999. Yet none has been more controversial, not least because the G20 is widely perceived as posing a considerable challenge to the decision-making prerogatives of existing institutions within the United Nations system.

Yet existing arrangements for global economic governance had been failing and the G20 has made a constructive contribution to improved management and reform in a relatively short time. Ban Ki-moon, secretary general of the UN, has consistently made the point that the G20 and UN need to work more closely together. This is not only an acknowledgement that the G20 is now a permanent part of the global economic landscape, but also that it enhances opportunities for better global governance.

Expanding role of the G20

While the UN system and the G20 are complementary, the relationship has not always been easy. As the G20 moved to expand its role during the 2008 global financial crisis, the UN General Assembly opposed its perceived global leadership pretentions. Concerned that 'elite multilateralism' would erode the authority and influence of the institutions of the existing global economic architecture, the UN was disinclined to be co-opted into the process and soon commissioned its own study on necessary architectural reforms. Unsurprisingly, perhaps, the report of the 2009 Commission of Experts recommended that the G20 be institutionalised as a global economic coordination council inside the UN tent.

This has not come to pass and is an unlikely development any time soon. Indeed, much would be lost if proposals to institutionalise the G20 within the UN system were to succeed. Informal organisational structures and processes can play an important role in international economic management. They can assist crisis management and serve as a stimulus for reform, as the G20 itself has done.

Facilitating decision-making

The G20's role and ambition should not be to usurp the responsibilities of more formally established representative institutions, but rather to facilitate and serve the process of decision-making within the established multilateral architecture. The informality of the G20's processes, its capacity to aggregate and articulate the interests of a significant part of the international community and its network of business, civil society and academic interactions give it a unique capacity to undertake this role.

It could pursue this task more successfully, however, if its engagement with the UN system were more comprehensive. The record of interaction between the two is uneven, more evident in places such as international financial institutions and on reform of regulatory standards than in others. A cautiously respectful, but partial, collaborative engagement has been achieved, but it is little more than a starting point for deeper cooperation.

As British prime minister David Cameron's *Report on Governance for Growth*, commissioned for the 2011 Cannes Summit, made clear, a key challenge for the G20 is to become "more effective, transparent and consistent in building relationships with formal institutions, non-members and others". Some of the report's recommendations, such as formalising the troika of past, current and incoming presidencies and consolidating work practices, have occurred. Yet more could be done to strengthen the coherence of institutions "grappling with the… challenges of economic globalization".

Progress offers the promise of improving the functionality of the existing economic architecture without eroding institutional authority, while enhancing and defining the G20's capacity to contribute to global economic management. Among other things, the following should be considered:

First, the G20 could reinforce its legitimacy alongside the UN by establishing clear protocols regarding participation in its processes. The custom of the summit host extending an invitation to the UN secretary general to attend the summit should be set aside and the occupant of the office recognised as a permanent participating member with representatives fully involved in sherpa and other preparatory meetings.

Similarly, greater outreach to non-members could be achieved by completing the work that began during the 2010 Seoul Summit. The current practice of ad hoc invitations to the representatives of international and regional organisations should be abandoned in favour of an agreed group of regular attendees. A further step might involve institutionalising the dialogue process through a 'G20 Plus' or 'G20 with Dialogue Partners' at the summits, in the manner of the Association of Southeast Asian Nations.

A restricted agenda

Second, the G20 should scale back its agenda. The content of expanded summit agendas – climate change, development, food security and corruption – all have merit and should not be ignored by the international community. As the G20 strays from its core mandate, however, the focus on its mission is blurred, and consensus and follow-up action are more difficult. For those outside the group, within the UN agencies, it fuels disquiet that the G20 will undermine the authority and effectiveness of established institutions.

By focusing on assisting the cause of sound policy management, helping to manage systemic risk, encouraging institutional reform and improving policy coordination on international financial and closely related matters, the G20 reinforces its credibility and can establish deeper and more effective working relationships with key institutions.

UN secretary general Ban Ki-moon receives an annual invitation from the host country to join international political leaders at the G20 summit

JEAN-CHRISTOPHE BOTT/AP/PA IMAGES

Third, the G20 might look more closely at UN agencies and other international organisations to help it improve accountability and transparency. This would assist in meeting the risks and criticisms associated with having a self-appointed membership that is largely unaccountable to the international community. The contribution of the International Monetary Fund (IMF) to the existing Mutual Assessment Process helps to deflect some of these concerns, as do the annual accountability assessments on members' performances undertaken by academic institutions in Canada and Russia. Both offer models to extend outreach and engagement.

The G20's Accountability Framework Working Group will offer new proposals in St Petersburg, but there is no shortage of suggestions on improving accountability and transparency, including those from Canada's Centre for International Governance Innovation and the Lowy G20 Studies Centre. Lowy's Mike Callaghan may well be right in observing that the G20's challenge in relation to accountability is to make members feel responsible for their commitments, but the path to self-realisation winds, at least partly, through the knowledge that parties outside the G20 – UN forums, think tanks, civil society and business interests – have considerable experience and high expectations, and, if they are engaged effectively, can contribute to better G20 practice.

Broader external engagement

Fourth, the G20 should look for ways to expand external engagement beyond the formal institutional UN architecture. One unique dimension of the G20 is the network of external non-governmental groups with which it regularly engages – civil society, business, labour and think tanks. They link back into the diversity of the international community. Russia's plans for its G20 presidency, to ensure each of these groups meet well before the summit and feed ideas onto the leaders' agenda, should be a standard G20 work practice.

Fifth, the G20 should aim to give clearer expression to the view that the G20 and the UN need to communicate more frequently and support each other better. The G20 should first draw more extensively on UN expertise, particularly from among the institutional financial institutions – the IMF and World Bank – when developing work agendas, analysing policy challenges and developing proposals for reform.

Additionally, greater effort should be made to consolidate the practice of regular briefings and consultations with UN members, with a senior troika official facilitating engagement. Ensuring that the informal thematic debates in the General Assembly in recent years, as in April this year, becomes a regular formal part of its calendar would assist communications.

If the G20 and the international community, especially the United Nations, can engage more deeply with one another, the G20's legitimacy will be reinforced

If the G20 and the international community, especially the UN, can engage more deeply with one another, the G20's legitimacy will be reinforced. But the potential value of engagement is much greater: undertaken with commitment on both sides, it will help to promote change within UN agencies, encourage estranged parts of the UN system to cooperate more effectively with each other and, more generally, help to improve the coordination and effectiveness of the key institutions responsible for managing the global economy, as well as the rules and standards by which they operate. ■

The ICSS Index – helping cities to develop a sustainable sport sector

Dr Shaun McCarthy,
Director Research &
Knowledge Gathering

Sport should deliver social and economic benefits

In an era of economic hardship and austerity measures across the European Union, one of the last frontiers that offers an opportunity to stimulate growth is sport. In comparison to other economic sectors, sport has outperformed. AT Kearney estimates that sport as a sector is growing at an average annual rate of eight per cent.

One of the big attractions for countries and cities is the possibility to host a major international sporting event (MISE) such as the Summer or Winter Olympics, FIFA World Cup or UEFA Championship. These events nevertheless are controversial, as according to most sports economists they have yet to deliver positive economic benefits to host cities, and generally have a net negative economic impact. This trend starts with the manner in which the event is awarded to the host city in the form of the 'Winners Curse', because the mechanism by which such events are awarded to bidding cities is through an auction, where the winning host city inevitably has to offer a price that is far higher than the value of the item – in this case, the rights to the games. In preparation for hosting a major international sporting event, the host city tends to expedite planned infrastructure investments that would normally have been spaced out, thereby inducing financial stress on a system and unevenly burdening its current generation of taxpayers. A fundamental reason why even with the best of intentions these events often fail to deliver lasting economic benefits for host cities is rooted in the absence of a pre-existing legacy strategy, plan and infrastructure. By legacy infrastructure, the author is referring to a viable sport sector foundation that will allow host cities and their resident commercial, industrial and services sectors to leverage the event to enhance their collective economic capability. An essential prerequisite for success lies in host cities' understanding of their respective sport sector capabilities and potential. This starts with a systematic process that explores key drivers of change in the sector and its constituent components; the identification of anchor or iconic assets around which to focus and mobilise economic activities; cross-sector opportunities; and a national, regional and local policy in support of the creation of a climate that is conducive to the stimulation of sport as a viable and sustainable economic activity. Without these important building blocks and a mechanism by which to evaluate a baseline and track progress, MISE will fail to deliver sustainable economic benefits.

Laying down sports infrastructure

The International Centre for Sports Security (ICSS), in collaboration with a number of key stakeholders such as the Association for Cities in European Sport (ACES), and with the guidance of Professor Ricardo Hausmann at Harvard University's Centre for International Development, is working with Marseilles University and the Marseilles-Provence Partnership in a pilot programme to develop an ICSS Index that will help countries and cities to lay down the required sports infrastructure. The Index is to be developed as a diagnostic tool. The objective is not fundamentally geared towards enabling countries and host cities to derive economic benefits from hosting a MISE, but rather to assist them in developing a viable and long-lasting sport sector that can deliver economic growth in that sector, as well as wider opportunities for other economic sectors in proximity to sport. Professor Hausmann advocates cluster proximity and the element of reciprocity as important aspects that are fundamental to core sector growth and that stimulate growth in other sectors.

To an extent, the development of a sustainable sport sector enables an aspirant MISE host city to prepare itself to qualify to bid for hosting such an event, and a potentially positive outcome would be that the host city stands a better chance of deriving economic benefits from the event itself. Other potential benefits accrue. For example, countries and cities that have succeeded in establishing the foundations of a sustainable sport sector, and with it inward investment, may make a cost-benefit analysis weighing up the pros and cons of hosting a MISE, with one negative being the detraction of investment finance away from the sector itself to fund the event. For rights holders, a ranking system across those participating cities and even countries could assist them in justifying their award decision and making the selection process more transparent. In a time where FIFA, for example, has come under criticism for awarding events to countries with allegations of corruption associated with the adjudication, a mechanism such as the ICSS Index could prove to be a powerful tool by lending greater transparency to the process. For potential investors, the ICSS Index could also provide a barometer of the city's performance, its strategy for sector growth and where investment ought to be targeted for growth and development.

In the above context, a sustainable sport sector is one that is not only conscious of creating economic growth opportunities and environmentally friendly industrial and manufacturing activities that leave behind a legacy of resources for future generations, but one that delivers longer-term economic and employment opportunities for its citizenry. In this context is the development and expansion of the sport ecosystem; a conurbation of related core sport activities such as sporting codes, clubs, athletes, facilities, equipment and apparel, memorabilia, sports medicine, media coverage, research and development. Beyond the core are related and supporting activities, such as transportation and hospitality, and the outer fringes of the ecosystem, where extending but embracing those sectors or providers in which the possibility of reciprocity (in Hausmann terms) has the possibility of creating new and unique opportunities.

The ICSS Index is a mechanism that is intended to assist countries and cities to ascertain their current baseline when measured against a set of indicators. These are based on international standards and best practices in relation to a viable and robust sport sector. This Index would measure and track progress in a number of generic and variable indicators that are unique to the specific country and/or city characteristics or circumstances, such as:

- Development strategy and plan
- Governance and transparency
- Competitive culture
- Entrepreneurship
- Cross-sector collaboration
- Comprehensive stakeholder engagement
- Social inclusion, including gender and minorities' opportunities
- Cluster proximity and reciprocity
- Effective land asset stewardship
- Operational excellence and human capital development
- Legacy – strategy, sustainable political will and commitment
- Environmental management
- Inculcation of a sporting culture
- Sport security, safety and integrity awareness and policies
- Track record of hosting mega events
- Volunteerism

The above are examples of indicators. Each indicator is underpinned by a range of metrics designed to test the city and country's philosophy, attitude and state of readiness to embrace the principles required to encourage and support growth along these trajectories, and to underpin the development of a comprehensive sport sector strategy. The Marseilles-Provence pilot programme, which commences this September in Marseilles, will serve as a petri dish to test, refine and add or discard the indicators until a more robust and honed set of indicators are formed. It will involve a broad number of stakeholders across the business community, local government, academia, sport, security, safety and law enforcement sectors. Integral to the development of a robust economic-based sport sector is also its protection against unlawful activities and corruption in sport practices. With the assistance and support for ACES, additional cities could be encouraged to voluntarily participate in this exciting endeavour, and offer hope through sport for employment and economic opportunity.

About the Author

Dr McCarthy is a security, intelligence, crisis management and economic competitiveness professional with more than 35 years of experience in the public and private sectors.
Dr McCarthy leads the ICSS Index and sport for economic development project. He has experience in the areas of economic development and security sector reform in support of sustainable economic development and competitiveness. He is the editorial director of the ICSS Journal.

ABOUT THE INTERNATIONAL CENTRE FOR SPORT SECURITY

Security, safety and integrity in sport are critical and complex practices. Not only are more and more nations taking up the challenge of hosting the world's greatest sporting events, but sport also contends with distinct economic, social and media developments. As a result, the need to share knowledge, best practice, and experience has never been greater.

The ICSS is a unique organisation that aims to become a global hub of expertise. As an international centre with its headquarters in Doha, Qatar, we work with all those responsible for sport security, safety and integrity. Our clients and partners include key stakeholders such as event organisers, governments and bidding nations, infrastructure owners, sport associations, leagues and clubs.

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Our mission: to improve security, safety and integrity in sport by addressing real issues and providing world-leading services, skills, networks and knowledge

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Relating G20 governance to the G8

Exploiting synergies between the G8 and G20 agendas could speed the global response to targeted issues, but the G20 remains the central actor

By Andrew F Cooper, professor, Balsillie School of International Affairs and the Department of Political Science, and director, Centre for Studies on Rapid Global Change, University of Waterloo

A critical question regarding the condition of G20 governance as the St Petersburg Summit approaches is whether the G20, as the premier economic forum for international economic cooperation, can both consolidate its hold on that status in terms of club or network activity and build on some of the niches that were recently advanced by the G8.

For the G20, commitment setting and compliance take place in a highly differentiated political context, where the forum's membership remains in a process of 'learning' within the extended summit dynamic. National priorities remain the principal concern among the members. This shape-shifting has increased fragility in the G20's capability to set forth, commit to and comply with a cohesive economic governance agenda.

Over the seven G20 summits to date, with the movement away from the acute crisis phase of 2008/09, the G20 process has become increasingly problematic in terms of its ability to maintain cohesion among its diverse members. These obstacles were particularly evident at the 2011 Cannes and the 2012 Los Cabos summits. Russia's appreciation of this fragility over the latest phase of the summit cycle has brought a recalibration in terms of the focus of its G20 presidency on a highly pragmatic set of priorities. This focus is critical in that the structure of Russia's agenda aims at solidifying and giving greater coherence and a clearer sense of G20 governance by tying up loose ends of the G20's past priorities. It also aims at identifying critical governance gaps and moving forward niche issues.

With an emphasis and cognisance of its position in the current troika of G20 leadership, with Mexico as the past chair and Australia as the incoming chair, Russia has organised the agenda for the 2013 St Petersburg Summit according to three overarching themes – growth through quality jobs and investment, growth through trust and transparency, and growth through effective regulation. Under each of these umbrellas are the key targeted issues: the Framework for Strong, Sustainable and Balanced Growth, jobs and employment, reform of the international financial architecture, strengthened financial regulation, energy sustainability, development for all, enhanced multilateral trade and the fight against corruption.

In some ways, these themes bear some resemblance to the priorities of Mexico's G20 agenda in 2012, due largely to Russia's emphasis on ensuring continuity of the summit process, with the overall agenda comprising both the "legacy from previous Presidencies and several new ideas proposed by Russia", according to the presidency outline.

Synergies with G8 focus areas

On enhancing the effectiveness of the G20 process in terms of concrete governance impact, the Russian presidency has notably strengthened the presence of the G20 in the context of club or network activity. In particular, its agenda is significant for illustrating Russia's efforts to pursue potential synergies in niche areas created by the G8, primarily vis-à-vis the G8's refocus at its most recent G8 Lough Erne Summit on the global economy through the lenses of trade, taxes and transparency.

In addition to reaching out to states and organisations, Russia has sought to bolster civil society outreach

In terms of strengthening the G20's process at the leaders' level, ensuring that the operations of functional groupings (working and experts groups, along with finance and labour ministerials) and outreach are in good working order is equally important. Russia's programme for the summit cycle has enhanced the facilitation of the increasingly dense G20 process. With respect to consultative mechanisms, Russia has published an 'outreach strategy' designed to engage with state, non-state and international organisations that are key to the wider process of G20 governance.

For the St Petersburg Summit, additional invitees include Spain (a permanent guest), Ethiopia (chair of the African Union in 2013), Senegal (chair of the New Partnership for Africa's Development in 2013), Kazakhstan (a member of the EurAsEC Custom Union and the Commonwealth of Independent States), Brunei Darussalam (chair of the Association of Southeast Asian Nations in 2013) and

Singapore (chair of the International Monetary and Financial Committee of the International Monetary Fund [IMF] and of the Global Governance Group). Among international organisations, the Financial Stability Board, the International Labour Organization, the IMF, the Organisation for Economic Co-operation and Development, the World Bank and the World Trade Organization are invited. In particular, Russia intends to carry out a consultative process with the United Nations General Assembly as well as the UN Economic and Social Council – organisational components that have felt marginalised by the extended G20 process.

Civil society outreach

In addition to reaching out to states and international organisations, Russia has sought to bolster civil society outreach through 'cross-forum' synergy through the Think 20, Business 20, Labour 20, Civil 20 and Youth 20 groupings. The evolution of the G20-B20 partnership, animated largely by the Russian Union of Industrialists and Entrepreneurs, has been especially impressive, as has the Civil 20's engagement with the complex issue of income inequality.

In extending the G20's club and network dynamic, it is critical to consider the nature of the G8-G20 interaction. As a member that straddles both the G8 and G20 forums, Russia is well positioned to capitalise on advancing targeted areas of focus. An analysis of Russia's agenda reveals continuity with the G8's niches on the global economy that appear to have filtered through to the St Petersburg agenda, particularly regarding issues such as enhancing tax integrity and transparency in commodity markets.

Notwithstanding such synergy, however, the divergent governance focuses between the G20 and the G8 remain quite pronounced. On institutional performance, the G8 has been more effective in commitment setting and compliance than the G20 has been. This has much to do with significant differences in the composition of membership and the feasibility of garnering collective political will to follow through with policy action. For the G8, such a task is substantially more manageable for the simple fact that the forum is smaller with a defined operational, established culture.

Due to both legitimacy in terms of the range of membership and capacity for cooperation on a global scale, there are nonetheless still elements of a hub-and-spoke relationship between the G20 and the G8. Despite the G8's resilience, the G20 remains the central body that can navigate the recovery and growth process under conditions that have moved from an acute state to a chronic one. If far removed from taking up the position as a global steering committee, the G20's diversified role and agenda profile with respect to the St Petersburg Summit extend beyond the activities of a crisis committee stuck in response mode to the immediate circumstances of the global financial crisis. ■

The G8 leaders at the 2013 Lough Erne Summit. Russia is well positioned to ensure continuity between the G8 agenda and that of G20 St Petersburg

TIM BRAKEMEIER/DPA/PA IMAGES

The BRICS group as a crucial locomotive of G20 development

In many respects, the G20 agenda is a search for compromise among developed countries and emerging market economies, which is reflected in the increasingly common approach adopted by the BRICS members towards G20 topics

By Vadim B Lukov, BRICS sous-sherpa and coordinator for G20 affairs, Ministry of Foreign Affairs of the Russian Federation

There is a profound correlation between the BRICS group and the G20, based on the evolution of a multipolar global economy in the 21st century.

The role of the G20 as a tool to combat the global financial and economic crisis and its consequences was strengthened by the position of the emerging market economies. The BRIC countries, joined by South Africa in 2010, played a leading part. Their political and financial support of the anti-crisis measures taken by the G20 and the International Monetary Fund (IMF) helped to prevent the crisis from escalating, and mitigated its consequences. BRICS members reasonably regard the G20 as a critical platform for coordinating global stabilisation measures and for promoting their own programme of reform of the international financial and economic architecture. Therefore, the G20 agenda is, in many respects, a search for compromise among developed countries and emerging market economies.

The desire to pursue common interests within the G20, primarily in terms of reforming the Bretton Woods system, was an important factor in the gradual convergence of the BRICS members. This process is evident from the declarations adopted by the BRICS group at its summits since 2009. Both the scope and degree of detail dedicated to common approaches among the BRICS members to G20 issues have steadily grown.

Recognising the importance of coordinating their G20 efforts, the BRICS countries have concluded that they need to build a system for collaboration at all levels. Currently, this involves negotiating key G20 agenda issues at annual BRICS summits and at informal meetings on the margins of G20 summits. It also involves consultations of finance ministers and central bank governors during the annual sessions of the IMF and World Bank, as well as meetings of the BRICS sherpas during the G20 preparatory meetings.

Efficiency derived from alignment

Such a practice by no means contradicts the G20 spirit, as critics sometimes claim. Similar coordination exists at the European Union, which is a major member of the G20. Members of the G7 also coordinate their approaches to some issues. Moreover, the aligned stance of the BRICS countries in the G20 promotes compromise and boosts the G20's efficiency. Consequently, the efficiency of governance of the global economy is also boosted.

In 2010, the BRICS members proved to be constructive partners in a search for a compromise-based solution to the issue of the redistribution quotas and votes at the World Bank. As a result, the share of votes of developing countries and transitional economies increased by 3.13 per cent, reaching 47.19 per cent. On the sidelines of the G20 finance ministerial meeting in Gyeongju, Korea, in October 2010, BRICS and G7 members laid the grounds for the IMF decision to hold a new round of reform there too. Although the implementation of this decision remains a challenge, the very fact of these direct negotiations between the BRICS and the G7 groups is symbolic.

In building participation within the G20 based on common interests, the BRICS countries do not stand in opposition to their

President Vladimir Putin of Russia shakes hands with President Dilma Rousseff of Brazil during a meeting at the 2012 G20 summit. The pursuit of common interests at the G20 summit was a factor in the convergence of the BRICS members

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partners. Indeed, they constantly seek points of convergence. This search for common ground often helps the G20 to develop arrangements, such as the Framework for Strong, Sustainable and Balanced Growth, Basel III, measures to improve supervision of financial markets, the Multi-Year Action Plan on Development and the mechanism for global marine-environment protection.

The BRICS countries contribute substantially to strengthening the stability of the international monetary and financial system, which is a core goal of the G20. In particular, in response to a call by the IMF's managing director, Christine Lagarde, on the eve of the G20 summit at Los Cabos, Mexico, in June 2012, the BRICS leaders committed $75 billion to the credit resources of the IMF: China pledged $43 billion; Russia, India and Brazil $10 billion each; and South Africa $2 billion. It should be emphasised, however, that the BRICS members now expect their IMF partners and management to be more active in reforming the IMF.

SABELO MNGOMA/AP/PA IMAGES

The leaders of the BRICS group at the Durban Summit in March. The weight of the BRICS group in the G20 and global economy is still increasing

The Russian programme

The Russian presidency of the G20, which began on 1 December 2012, undoubtedly reflects a wide consensus platform of all members, with a common top objective to help the global economy take the path of sustainable development. At the same time, the Russian programme allows for the approaches of specific emerging market economies to be promoted by BRICS members. There are serious reasons to listen to what the BRICS group has to say, as it has accounted for more than 50 per cent of the growth in global gross domestic product (GDP) for the past two decades.

Russia's BRICS partners actively support its priorities as G20 chair. Those priorities include encouraging investment in the real sector of the economy, boosting trust and transparency in the markets, and improving the effective regulation of all markets.

The Russian presidency advocates joint efforts to seek solutions to speed up global economic growth and increase employment. These are pressing challenges, given the slow growth rates and unacceptably high unemployment levels around the world. As faster economic growth and fiscal consolidation are closely related, the G20 must also develop initiatives to improve national public borrowing systems and the administration of sovereign debt. The Russian presidency will also actively promote IMF reform. Russia hopes that the G20 will give a political impulse to that reform, both in revising the formula to calculate quotas and votes and in having shareholders ratify the December 2010 resolutions that set the parameters for reforming IMF management.

Critics sometimes claim that the role of the BRICS group within the G20 and the global economy more generally is diminishing because of recent low growth rates. However, if the 2010-13 growth rates of developed economies are compared with those of the BRICS members (using the forecast of the IMF for 2013), the BRICS countries remain ahead. Their annual growth rate is 5.36 per cent, compared with 1.85 per cent in developed countries. The weight of the BRICS members in the global economy and in the G20 is still increasing, along with the growth of the entire group of emerging economies.

BRICS members are vitally interested in maintaining and strengthening the role of the G20 as the primary forum for the international economic cooperation of its members

BRICS members are vitally interested in maintaining and strengthening the role of the G20 as the primary forum for the international economic cooperation of its members. This position follows from a perception of the G20 as a global governance structure that best reflects the realities of the modern multipolar economy. At the same time, the BRICS partners think it important for the G20 to consider the interests of the international community as a whole, and not just the interests of their own members. The BRICS members, some of which are also in the Group of 77 – the Non-Aligned Movement and regional organisations in Africa, Asia and Latin America – strive to reflect the aspirations of these communities in their approaches to the G20 agenda.

An authoritative voice

Within the G20, the BRICS group serves as an authoritative voice representing the majority of emerging market economies and developing countries, rather than a club that pursues selfish interests. It promotes active dialogue between the G20 and the United Nations and its specialised organisations and regional associations. This dialogue will help strengthen G20 legitimacy and boost support for its decisions from non-members, without which the G20 would struggle to be effective. This approach is now fully implemented by Russia's G20 presidency through its outreach programme.

Given the experience of BRICS members in the G20, the contribution of those five countries to this key forum for global economic governance will grow, as their financial and economic positions strengthen and a substantive dialogue continues with their G20 partners. ■

Improving accountability in G20 governance

The G20 has good potential as a force for change in economic and political governance by defining new methods of global leadership and accountability

By Ella Kokotsis, G20 Research Group, University of Toronto

G20 leaders will convene for their eighth gathering in St Petersburg on 5-6 September, where they are expected to tackle a number of global issues that range from measures aimed at boosting sustainability to commitments on inclusive and balanced growth.

The success of the G20 as the centre of global economic governance largely depends on the extent to which its members are able to demonstrate their leadership and effectiveness. Doing so will require the leaders to be accountable for the commitments that they make and deliver.

Since the G20 began meeting at the leaders' level in 2008, accountability has played a prominent role, with an entire section of the final declaration issued at the Washington Summit dedicated to "strengthening transparency and accountability", emphasising the need for detailed targets and timetables. The G20 tasked their finance ministers with the responsibility of ensuring that their commitments on financial and regulatory reform were "fully and vigorously implemented".

Indeed, certain financial commitments have been delivered swiftly and transparently by the G20. The G20 leaders quickly delivered their commitment to expand the Financial Stability Forum to the Financial Stability Board after the London Summit in 2009. The following year in Toronto, Canadian prime minister Stephen Harper stated very clearly from the outset that the issue of accountability would be the "defining feature" of his G8 and G20 summits.

Yet despite this, sceptics argue that the G20 has fallen short on its anti-protectionism pledges, its commitment to a green recovery and its promise to make labour markets more fair. Moreover, others have argued that the G20 has failed to produce a comprehensive accountability mechanism similar to that of the G8. Some efforts on accountability reporting have been made (by the Korean and British G20 chairs), but these were weak at best, excluding critical components such as detailed evidence, country-specific analysis and quantitative reporting.

Indeed, critics of the G20's accountability performance primarily argue that the group's lack of formal authority, coupled with an absence of key accountability components (such as baseline standards and accurate, shared information), make delivery on its commitments challenging at best.

Equally important, according to the critics, is the lack of cultural convergence of the G20 at the highest political level, between east and west, north and south, Judeo-Christianity and Islam – not to mention the lack of convergence of government structures, between democracy, communism and absolute monarchy. Is it even possible to reach decisions, never mind fulfil them, with such a diverse leadership mix at the highest global political level?

The Russian presidency has publicly acknowledged the importance of civil society in monitoring G20 commitments

Mounting evidence suggests, however, that G20 members are in fact developing an accountability mechanism, as far as they mandate their ministers, experts and working groups to report on progress made. In Mexico in 2012, the G20 agreed on the Los Cabos Accountability Assessment Framework and asked their finance ministers and central bank governors to monitor the implementation of the commitments made. Regarding commitments to a greener economy, the G20 tasked their finance ministers to report to the St Petersburg Summit on phasing out inefficient fossil fuel subsidies. Moreover, a G20 study group on climate finance was created in Mexico, and delivered its progress report in November 2012.

Empirical findings further suggest that compliance is increasing over time and across diverse G20 policy issue areas. Annual compliance reports produced by the G20 Research Group at the University of Toronto and the National Research University Higher School of Economics in Moscow measure the extent to which G20 members have fulfilled their priority summit commitments. With an average compliance score over

An architectural firm has devised plans for buildings that combine ecosystems with office space. Critics have argued that the G20 has fallen short in its commitment to a green recovery

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time of 70 per cent, compliance scores in several issue areas have consistently ranked above the average, particularly on reform of the International Monetary Fund and development, averaging 71 per cent and 62 per cent respectively, with commitments on fiscal consolidation averaging 60 per cent.

Reporting on G20 compliance

Perhaps even more striking is that the G20 is publicly acknowledging the work of civil society, non-governmental organisations (NGOs) and academic institutions in reporting on G20 compliance. These non-state actors in turn hold the G20 to account on the decisions they render. Such accountability assessments are therefore becoming increasingly important to the G20 leadership – proving that the leaders do in fact take the business of accountability seriously.

In preparation for its G20 summit, the Russian presidency released a document in February 2013 stating it would endeavour to promote "an extensive outreach dialogue" with NGOs, international organisations, private sector, labour unions, youth, think tanks, academia and the business community. The goal was to generate specific and practical recommendations for G20 decision-makers through the sherpa and ministerial process. A detailed calendar – with more than 60 meetings and events – was published with the specific times and dates for these outreach sessions throughout the year leading up to the St Petersburg Summit.

Feeding into the core agenda

Regarding civil society actors more specifically, Russia noted in the outreach document the valuable role they play in the evaluation and analysis of public policy. Specifically, the Russian presidency has publicly acknowledged the importance of civil society in monitoring G20 commitments.

Unlike those who suggest that G20 accountability is affected negatively by the G20's lack of normative values and its cultural divides, the diverse nature of the forum is an asset rather than an impediment to building consensus, as it forces G20 members to exchange best practices, adopt new notions of consensus, embrace peer review and build more effective communications strategies among themselves. Therefore, despite widely different approaches to public policy, these exchanges feed, in a very constructive way, into the core G20 agenda.

In defining these new modes of global leadership and accountability, the G20 offers great potential as a major force of change in global economic and political governance. But the G20 needs to continue to engage non-state actors, academia, the business community and civil society in order to do so effectively.

It is thus up to the Russian presidency to see how its model of civil society inclusion develops over the coming months, and ascertain what this will ultimately mean for G20 legitimacy and accountability. ■

Keeping promises: how big a difference has G20 summitry made?

Charting what actions G20 members take towards their policy pledges has enabled an assessment to be made of the summit's evolution and efficacy

By Ava-Dayna Sefa, G20 Research Group, University of Toronto

As the pre-eminent global governance forum and steward of the global economy, the G20 has a unique stake in ensuring that its mandate to foster strong, sustainable and balanced growth is realised. Using summits as a vehicle to discuss and disseminate policy approaches to achieve this end underlines the G20's collaborative and inclusive foundations.

Performance metrics are essential to ensuring accurate evaluation of the actions taken by the G20, as summit forums can lead to the development of policy solutions to a myriad of global issues.

The G20 Research Group, based at the University of Toronto, and the International Organisations Research Institute at the National Research University Higher School of Economics in Moscow, have collaborated on compliance reports to measure how well G20 members have implemented the selected priority commitments made at each summit.

These reports use a scientific scale from -1 to +1, with -1 representing no action or actions taken against the commitment, 0 representing partial compliance or a work in progress and +1 representing full compliance because all required actions have been taken.

Evolving from summit to summit

The evolution of the G20 from an emergency response institution to the forum it is today is marked by a large increase in the number, breadth and scope of issues within its purview. The G20 commitments from the Washington Summit in November 2008, the London Summit in April 2009 and the Pittsburgh Summit in September 2009 were mainly concerned with trade, finance and macroeconomic matters.

A compliance score of +0.66 (83 per cent) for commitments at the Washington Summit illustrates the policy coordination dedicated to addressing the new global economic crisis. However, the overall average score of +0.44 (72 per cent) for the first three summits indicates a slow beginning for the G20 with respect to compliance.

As more G20 summits were organised – Toronto in June 2010 (with an average compliance score of +0.28 or 64 per cent), Seoul in November 2010 (with +0.50 or 75 per cent), and Cannes in November 2011 (with +0.54 or 77 per cent) – the G20 average compliance score trends upwards, indicating stronger adherence to commitments made. The positive compliance trend is especially notable when the variation of policy issues is considered. As the mechanisms implemented to remedy the global financial crisis started to take effect, the G20 expanded its policy focus and began discussing issues including climate change, labour and employment, and energy.

Overall, the upward trend of compliance speaks to how and why members comply: as members become more accustomed to the summit process and understand their growing stake in global stability, compliance increases.

While an upward trend in overall compliance has been seen so far, the G20 is not without its challenges. G20 performance has lagged in the areas of crime and corruption, food and agriculture, and women at work (a new issue area that was added at the Los Cabos Summit). While low compliance rates for these commitments can be disconcerting, they can also provide insight into the complexity of the compliance process. As the G20 becomes more invested in the policy coordination of these issues, members are forced to conceive of new ideas to address issues that have been affecting the global community for decades. As such, the process of continually considering, investigating and experimenting with different remedies to ever-evolving policy problems takes time.

Low compliance scores are helpful in that they indicate that policy coordination has not yet been achieved, illustrate what ideas are not effective and present members with different avenues that can ultimately lead to implementation.

Comparing the G20, G8 and BRICS

As the G20 is composed of members of the G8 and the BRICS forums, it is important to note the variation in performance among members of these different groups. Understanding the multifaceted relationships that each G20 member has with its fellow members allows for substantial insight into G20 performance on policy implementation efforts.

The G8, established in 1975 first as the G7 and subsequently adding Russia, was conceived as a forum of relatively like-minded governments addressing issues of international significance. The historical and ideological tenets of the G8 allow its members a sense of familiarity with respect

An upward trend has been observed in the G20's implementation of its policy commitments, but performance lags in the areas of crime and corruption, food and agriculture, and women at work

LIONEL HAHN/ABACA USA/EMPICS ENTERTAINMENT/PA IMAGES

to the summit process and implementation thereafter. This underpins the traditionally strong compliance performance of G8 members within the G20.

The BRICS countries of Brazil, Russia, India, China and South Africa have a different narrative from the G8: their speedy economic growth and demographic density – which attracted increased global attention in the aftermath of the global financial crisis of 2008 – have a significant influence on global matters. While first meeting at the ministerial level in 2006 and the leaders' level in 2009 and formally establishing themselves as a global governance forum in 2011, the compliance performance of BRICS countries is extremely important to the overall success of the G20. Although the BRICS members' compliance performance in the G20 is lower than that of the G8 ones, it is higher than the average of non-G8 G20 members. This signals a unified effort among BRICS members that will continue to make a positive impact within the G20.

Closing the performance gap

Perhaps most notable is the fact that the gap in performance between G8 and non-G8 members of the G20 has been steadily closing since 2009. G8 members have a traditionally stronger compliance performance than their non-G8 counterparts; however, the closing gap suggests an increased sense of cohesiveness and inclusiveness within the G20. While G8 members' familiarity with the summit process contributes to the success of the G20, allowing new members the opportunity to contribute to the development of commitments equally is certainly an ongoing challenge for the G20. Non-G8 members that have previously lagged in performance are taking increased ownership of the policy issues discussed at the G20 summits, which in turn leads to stronger overall compliance performance.

The future success of the G20 depends on its ability to create salient and implementable policy solutions to issues of significant complexity (including macroeconomics, climate change and development).

However, from a governance standpoint, continuing to cultivate the characteristics that underpin the G20 – inclusiveness, cooperation and diversity – is equally important in order to foster a cohesive and enduring global forum. ■

The future success of the G20 depends on its ability to create salient and implementable policy solutions

NIU XIAOLEI/REX FEATURES

Argentina | Cristina Fernández de Kirchner

Cristina Fernández de Kirchner became president of Argentina in December 2007 after winning the general election in October, and was re-elected in October 2011. She replaced her late husband, Néstor Kirchner, who had been president since May 2003. She is Argentina's second female president, the first to be elected. Prior to her current position, she was senator for the provinces of Buenos Aires and Santa Cruz. She was first elected to the Senate in 1995, and in 1997 to the Chamber of Deputies. In 2001, she won a seat in the Senate again. Born on 19 February 1953 in La Plata, Buenos Aires, Kirchner studied law at the National University of La Plata. She has two children and has attended every G20 summit.

Finance minister: *Hernán Lorenzino* | ***Central bank governor:*** *Mercedes Marcó del Pont* | ***Sherpa:*** *Cecilia Nahón*

LUKAS COCH/AAP/PA IMAGES

Australia | Kevin Rudd

Kevin Rudd became prime minister of Australia on 27 June 2013, replacing Julia Gillard. He previously served as prime minister from 3 December 2007 until 24 June 2010. Rudd served as minister of foreign affairs in Gillard's cabinet from 14 September 2010 until his resignation on 22 February 2012. Before entering into politics, he worked for the Department of Foreign Affairs and Trade and as a political staffer. Born in Nambour, Queensland, on 21 September 1957, he holds a bachelor's degree in Asian studies from Australian National University. He and his wife, Thérèse Rein, have three children. Rudd attended the first three G20 summits. St Petersburg will be his fourth.

Finance minister: *Penny Wong* | ***Central bank governor:*** *Glenn Stevens* | **Sherpa:** *Gordon de Brouwer*

ROBERTO STUCKERT FILHO
PRESIDÊNCIA DA REPÚBLICA

Brazil | Dilma Rousseff

Dilma Rousseff was elected the 36th president of Brazil on 31 October 2010 and inaugurated on 1 January 2011. In 2002, Luiz Inácio Lula da Silva appointed her minister of energy. In 2005 she became chief of staff and remained in office until 31 March 2010, when she stepped down to run for president. She was born in Minas Gerais, Brazil, on 14 December 1947. Rouseff studied economics at the Minas Gerais Federal University School of Economics and did postgraduate studies in economics at the Campinas State University. She is divorced from Carlos Franklin Paixão de Araújo, with whom she has one child. This will be Rousseff's third G20 summit.

Finance minister: *Guido Mantega* | ***Central bank governor:*** *Alexandre Tombini* | ***Sherpa:*** *Enio Cordeiro*

JASON RANSOM

Canada | Stephen Harper

Stephen Harper was elected prime minister of Canada in January 2006, and was re-elected in October 2008 and again in May 2011. He was first elected as a member of parliament in 1993. Harper served as leader of the opposition for several years before becoming prime minister. Born in Toronto, Ontario, on 30 April 1959, he studied at the University of Toronto and the University of Calgary, earning a master's degree in economics in 1991. He and his wife, Laureen, have two children. Harper has attended all the G20 summits.

Finance minister: *Jim Flaherty* | ***Central bank governor:*** *Stephen Poloz* | ***Sherpa:*** *Simon Kennedy*

AP/PA IMAGES

China | Xi Jinping

Xi Jinping was elected president of the People's Republic of China on 15 November 2012. Xi was appointed vice-president in March 2008. Xi served in numerous local party and provincial positions, including serving as deputy provincial party secretary of Fujian from 1995 until 2002. Xi held several party positions before he was appointed to the 17th Chinese Communist Politburo in October 2007. Xi was born in Fuping, Shaanxi, in 1953. He earned a degree in chemical engineering and was later awarded a doctorate in law from Tsinghua University in Beijing. Xi is married to folk and opera singer Peng Liyuan and they have one daughter. St Petersburg will be his first G20 summit.

Finance minister: *Lou Jiwei* | ***Central bank governor:*** *Zhou Xiaochuan*

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France | François Hollande

François Hollande was elected president of France on 6 May 2012. He served as first secretary of the party from 1997 to 2008. He was the deputy of the National Assembly of France for Corrèze from 1988 to 1993 and is again since 1997, and was also the mayor of Tulle from 2001 to 2008. Hollande joined the Socialist Party in 1979, and was an economic advisor for François Mitterrand. Born in Rouen on 12 August 1954, Hollande holds degrees from the École nationale d'administration (ENA), and the Institut d'Études Politiques de Paris (Sciences Po). His partner is Valérie Trierweiler, and he has four children with his previous partner, Ségolène Royal. St Petersburg is Hollande's second G20 summit.

Finance minister: *Pierre Moscovici* | ***Central bank governor:*** *Christian Noyer* | ***Sherpa:*** *Emmanuel Macron*

ARMIN LINNARTZ/WWW.CDUCSU.DE

Germany | Angela Merkel

Angela Merkel became chancellor of Germany in November 2005. Merkel was first elected to the Bundestag in 1990 and has held the cabinet portfolios for women and youth, environment, nature conservation and nuclear safety. Before she entered politics, Merkel worked as a researcher and physicist. Merkel was born in Hamburg on 17 July 1956 and received her doctorate in physics from the University of Leipzig in 1978. She is married to Joachim Sauer and has no children. Merkel has attended every G20 summit.

Finance minister: *Wolfgang Schäuble* | ***Central bank governor:*** *Jens Weidmann* | ***Sherpa:*** *Lars-Hendrik Röller*

SAURABH DAS/AP/PA IMAGES

India | Manmohan Singh

Manmohan Singh became prime minister of India in May 2004, and was re-elected in May 2009. Before entering politics, he worked as an economist, including for the International Monetary Fund. He was governor of the Reserve Bank of India from 1982 to 1985. Singh was first elected to the upper house in 1995, and has served as minister of finance and minister for external affairs. He was born in Gah, Punjab, on 26 September 1932. He received degrees from Punjab University in 1952 and 1954 and a doctorate in economics from the University of Oxford. He and his wife, Gursharan Kaur, have three children. Singh has attended every G20 summit.

Finance minister: *Shri Palaniappan Chidambaram* | ***Central bank governor:*** *Raghuram Rajan* | ***Sherpa:*** *Montek Singh Ahluwalia*

STEPHANIE PILICK/DPA/PA IMAGES

Indonesia | Susilo Bambang Yudhoyono

Susilo Bambang Yudhoyono assumed the presidency in October 2004, replacing the incumbent Megawati Sukarnoputri. He was re-elected for a second term in April 2009. Before entering politics, he served as a lecturer and a military general. His first experience in politics came when he was appointed minister of mines and energy in 1999. Yudhoyono later served as coordinating minister for politics and security. He was born on 9 September 1949 in Pacitan, East Java. He received his doctorate in agricultural economics from the Bogor Institute of Agriculture in 2004. He and his wife, Kristiani Herawati, have two children. Yudhoyono has attended every G20 summit.

Finance minister: *Chatib Basri* | ***Central bank governor:*** *Agus Martowardojo* | ***Sherpa:*** *Mahendra Siregar*

ANDREW MEDICHINI/AP/PA IMAGES

Italy | Enrico Letta

Enrico Letta was elected prime minister of Italy on 28 April 2013. In 1998, Letta was appointed to the cabinet as minister of European affairs and in 1999 as minister of industry. He was elected to the Chamber of Deputies in 2001. In 2004, he was elected a member of the European parliament. In 2006, he became secretary to the Council of Ministers in the government of Romano Prodi. Letta helped found the Democratic Party in 2007 and was elected deputy secretary in the 2009 election. Born in Pisa on 20 August 1966, Letta holds a PhD in international law from Sant'Anna School of Advanced Studies. He is married to Gianna Fregonara and they have three children. St Petersburg will be Letta's first G20 summit.

Finance minister: *Fabrizio Saccomanni* | ***Central bank governor:*** *Ignazio Visco* | ***Sherpa:*** *Fabrizio Pagani*

ISSEI KATO/AP/PA IMAGES

Japan | Shinzō Abe

Shinzō Abe was elected prime minister of Japan on 28 December 2012, having previously served from September 2006 to September 2007, and has been president of the Liberal Democratic Party since 2006. He was elected to the first district of Yamaguchi Prefecture in 1993. In 1999, he became the Social Affairs Division director and served in the cabinets of Yoshirō Mori and Junichiro Koizumi before becoming LDP secretary general. In 2005, Abe was nominated chief cabinet secretary in Koizumi's cabinet. Born on 21 September 1954 in Nagato, Abe studied political science at Seikei University and public policy at the University of Southern California. He is married to Akie Abe. St Petersburg will be Abe's first G20 summit.

Finance minister: *Tarō Asō* | ***Central bank governor:*** *Haruhiko Kuroda* | ***Sherpa:*** *Yasumasa Nagamine*

HAP/QUIRKY CHINA NEWS/REX FEATURES

Korea | Park Geun-hye

Park Geun-hye became Korea's first female president on 25 February 2013, replacing Lee Myung-bak. The daughter of former Korean president Park Chung-hee, Park was thrust into politics at the early age of 22 when she became de facto first lady after her mother was killed in an assassination attempt on her father. In 1998, Park was appointed vice chair of the Grand National Party (GNP) and a member of the National Assembly, eventually serving five consecutive terms. In 2004, she was elected chair of the GNP. Born on 2 February 1952, in Daegu, Korea, she received a bachelor's degree in electronic engineering from Sogang University in 1974. St Petersburg will be Park's first G20 summit.

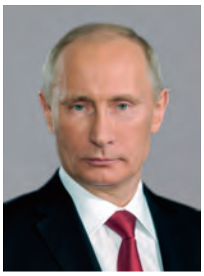
Finance minister: *Hyun Oh-Seok* | ***Central bank governor:*** *Kim Choongsoo* | ***Sherpa:*** *Il Houng Lee*

REX FEATURES

Mexico | Enrique Peña Nieto

Enrique Peña Nieto became president of Mexico on 1 December 2012. In 1999, Peña was appointed administrative secretary after working on the campaign for former governor of Mexico State Arturo Montiel Rojas, who he succeeded in 2005. In 2011, he won the presidential nomination of the Institutional Revolutionary Party. Born in Atlacomulco, Mexico, in 1966, Peña received his bachelor's degree in law from the Universidad Panamericana and later received a master's degree in business from the Monterrey Institute of Technology and Higher Education. He has three children by his late wife, Mónica Pretelini. He married Angélica Rivera in 2010. St Petersburg will be Peña's first G20 summit.

Finance minister: *Luis Videgaray Caso* | ***Central bank governor:*** *Agustín Carstens* | ***Sherpa:*** *Carlos de Icaza*



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Russia | Vladimir Putin

Vladimir Putin became president of the Russian Federation for the second time on 7 May 2012, having been elected president in 2000 and re-elected in 2004. Putin became acting president on 31 December 1999 and led the United Russia party from 2008 to 2012. He worked for the KGB from 1975 to 1991, and was director of the Federal Security Service from 1998 to 1999. He was first deputy chair of the St Petersburg city government, chair of its external relations committee, and secretary of the Russian Security Council. Born on 7 October 1952 in Leningrad, Putin graduated from the law faculty of Leningrad State University. He has two daughters with his wife Ludmila. St Petersburg will be Putin's first G20 summit.

Finance Minister: *Anton Siluanov* | ***Central bank governor:*** *Elvira Nabiullina* | ***Sherpa:*** *Ksenia Yudaeva*

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Saudi Arabia | King Abdullah bin Abdulaziz

King Abdullah bin Abdulaziz has been in power since August 2005. He replaced Fahd bin Abdulaziz Al Saud. As crown prince, Abdullah had previously acted as de facto regent since 1 January 1996, after Fahd was debilitated by a stroke. He also serves as prime minister of Saudi Arabia and commander of the National Guard. Abdullah is chair of the supreme economic council, president of the High Council for Petroleum and Minerals, president of the King Abdulaziz Centre for National Dialogue, chair of the Council of Civil Service and head of the Military Service Council. He was born on 1 August 1924 in Riyadh and has a number of wives and children. This will be Abdullah's seventh G20 summit.

Finance minister: *Ibrahim Abulaziz Al-Assaf* | ***Central bank governor:*** *Fahad Almubarak* | ***Sherpa:*** *Sulaiman Al-Turki*

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South Africa | Jacob Zuma

Jacob Zuma became president of South Africa on 9 May 2009, succeeding Kgalema Petrus Motlanthe. Zuma joined the African National Congress in 1959 and joined the ANC's national executive in 1977. In 1994, he was elected national chair of the ANC and chair of the ANC in KwaZulu-Natal. He was re-elected to the latter position in 1996 and selected as the deputy president in December 1997. Zuma served as executive deputy president from 1999 to 2005. He was elected ANC president at the end of 2007. Born on 12 April 1949, in Nkandla, KwaZulu-Natal Province, he has received numerous honorary degrees. He has four wives and several children. This will be Zuma's sixth G20 summit.

Finance minister: *Pravin Jamnadas Gordhan* | ***Central bank governor:*** *Gill Marcus* | ***Sherpa:*** *Nozipho Mxakato-Diseko*

TURKISH PRIME MINISTER'S PRESS OFFICE

Turkey | Recep Tayyip Erdoğan

Recep Tayyip Erdoğan became prime minister of Turkey in March 2003, replacing Abdullah Gül, who had occupied the office since 2002. On 12 June 2011, Erdoğan was re-elected prime minister for a third term. Before becoming prime minister, Erdoğan was mayor of Istanbul from 1994 to 1998. In 2001 he formed the Justice and Development Party, which won the parliamentary election in 2002. He was born on 26 February 1954 in Rize, Turkey, and studied management at Marmara University's faculty of economics and administrative sciences. He is married to Emine Erdoğan and has four children. Erdoğan has attended every G20 summit.

Finance minister: *Mehmet Şimşek* | ***Central bank governor:*** *Erdem Başçi* | ***Sherpa:*** *Mehmet Gücük*

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United Kingdom | David Cameron

David Cameron became prime minister of the United Kingdom of Great Britain and Northern Ireland in May 2010. He was first elected to parliament in 2001 as the representative for Witney, and has served as party leader since 2005. Before becoming a politician Cameron worked for the Conservative Research Department and served as a political strategist and advisor to the Conservative Party. Born in London, England, on 9 October 1966, he received a bachelor's degree in philosophy, politics and economics at the University of Oxford. He is married to Samantha and has three children; a fourth child died in 2009. St Petersburg will be Cameron's fifth G20 summit.

Finance minister: *George Osborne* | ***Central bank governor:*** *Mark Carney* | ***Sherpa:*** *Tom Scholar*

THE WHITE HOUSE

United States of America | Barack Obama

Barack Obama was re-elected president of the United States in November 2012, having been elected for his first term as president in November 2008. In 2005, Obama was elected to the Senate, after previously working as a community organiser, a civil rights lawyer and a state legislator for Illinois. He was born on 4 August 1961 in Honolulu, Hawaii, to a Kenyan father and an American mother. He received his bachelor's degree from Columbia University in 1983 and a law degree from Harvard University in 1991. He is married to Michelle and they have two children. St Petersburg will be Obama's seventh G20 summit.

Finance minister: *Jacob Lew* | ***Central bank governor:*** *Ben Bernanke* | ***Sherpa:*** *Caroline Atkinson*

European Union

THE COUNCIL OF THE EUROPEAN UNION

Herman Van Rompuy

Herman Van Rompuy was elected the first full-time president of the European Council on 19 November 2010. He was previously prime minister of Belgium from 2008 to 2009. Before entering politics, Van Rompuy was a lecturer. Born in Etterbeek, Belgium, on 31 October 1947, he holds a bachelor's degree in philosophy and a master's degree in applied economics from Katholieke Universiteit Leuven. He is married to Geertrui Windels and has four children. St Petersburg is Van Rompuy's fifth G20 summit.

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José Manuel Barroso

José Manuel Barroso became president of the European Commission in November 2004. Previously, he was prime minister of Portugal from 2002 to 2004. Before entering politics Barroso was an academic. He studied law at the University of Lisbon, holds a master's degree in economics and social sciences from the University of Geneva and received his doctorate from Georgetown University in 1998. He is married to Maria Margarida Pinto Ribeiro de Sousa Uva and has three children. He has attended every G20 summit.

Sherpa: António José Cabral

New

G20 Governance for a Globalized World

John J. Kirton, University of Toronto, Canada

Global Finance

'The Group of 20 has become a crucial and influential actor in the financial, economic and gradually other sectors of global governance. Written by one of the foremost scholars in the field who has analyzed the G20 forum and its predecessors both empirically and theoretically for almost two and a half decades, this book provides a systematic, well-argued, comprehensive chronological examination of the G20, resting on a solid theoretical basis. It is a most valuable and welcome addition to literature on this complex subject. Reading it will benefit academics, students of international relations and policy-makers alike.'

—Peter I. Hajnal, University of Toronto, Canada

'This is the first serious book-length study of what is arguably the most important forum in the world, the G20. John Kirton's knowledge of this 'hub' of global governance is comprehensive and deeply nuanced. Based on extensive interviews, knowledge of the literature, and personal experience, G20 Governance for a Globalized World *will generate keen attention from an extensive readership among both academics and practitioners.'*

—Andrew F. Cooper, University of Waterloo, Canada
and BSIA and Distinguished Fellow,
The Centre for International Governance Innovation

This study mobilizes classic and contemporary international relations theory to explain the causes of observed G20 governance, and on this basis offers some concluding predictions about its future course. In particular it offers an account, grounded in the competitive dynamics among international institutions in a crowded world, rather than one based merely on the older model of forum-shopping among states in an anarchic system.

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