

# Governance for growth

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Building consensus for the future

A report by David Cameron,  
Prime Minister of the United Kingdom

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# Prime Minister's Foreword



Three years on from the first G20 Leaders' meeting, we meet at an anxious time for the global economy. We face profound difficulties – unprecedented in our lifetimes – which have cast a pall over the advanced and emerging economies alike. As Leaders, we represent nation-states with very different cultures and proud traditions. But we know that in the modern, globalised economy, we can only tackle this crisis by working together, diverse in our experience, united in our action.

We know too that our citizens have one simple question for all of us: how are we going to clear away the obstacles to global growth, so that they can look to the future once again with hope, confident of ever rising standards of living and a better life for their children and their grandchildren?

The answer is not to be found in elaborate new institutions and global architecture. We have the machinery that we need already. No, what we need above all is the most precious and intangible commodity – political will. Political will to act together, and to build the consensus we need to confront squarely the problems before us so that we can return our economies to health and vigour. Political will to keep tackling poor regulation, barriers to growth and global disparities in wealth. That is what our citizens are entitled to expect of us. And that is what we must deliver.

I am honoured that President Sarkozy asked me to report on global governance for the Cannes Summit. Now, more than ever, how nation-states fare in a globalised economy rests on having governance that works. The ideas in this report are the work of officials across the UK government, as well as individuals and organisations from around the world with whom we have consulted. I am grateful to all of them for taking time out to contribute their perspectives.

We cannot solve governance issues overnight. But I want to highlight three areas where we can make a difference now. First, the power of informality. The G20, representing 85 per cent of global GDP, is not a formal institution. But from Washington to Cannes, Leaders have come to the G20 to speak candidly and reach political agreement on the most difficult economic issues. We must uphold this spirit over time. I have suggested here some practical ways to do that.

Second, we must prioritise the areas where improvements to governance will matter most. That means: taking immediate steps to strengthen the Financial Stability Board; reinforcing the World Trade Organization's role at the heart of the multilateral trading system; and making our economic policy coordination more effective. All this helps to ensure that our institutions keep pace with the realities of the global economy.

Third, we need common principles that guide our development of the standards that govern our global economy, from tax transparency to anti-corruption. And we need common objectives that encourage our institutions to work together on complex issues. We cannot behave as if the world economy has not changed dramatically over the past 20 years. The lesson from the G20 is that advanced and emerging markets need to come together on an equal footing, and provide existing institutions and processes that they work alongside with a clearer political direction on what needs to be done.

Taken together, the proposals in this report provide a pragmatic way forward for improving governance. This is an ongoing endeavour, but getting governance right can bring the reward of global growth that benefits all of us. I look forward to working with G20 Leaders to make this happen.

A handwritten signature in black ink, reading "David Cameron". The signature is written in a cursive style with a long horizontal flourish at the end.

David Cameron  
Prime Minister of the United Kingdom

# Executive summary

At the Pittsburgh Summit in 2009, G20 Leaders agreed that the G20 should be the premier forum for their international economic cooperation. They made it their priority to lay the foundations for strong, sustainable and balanced growth, so as to safeguard and strengthen the economic recovery. With the global economy still facing serious challenges, the need for strong political will to generate and implement lasting solutions has become more urgent. The G20's efforts need to be better coordinated, and backed up by effective governance, to ensure that their political commitments secure growth for the future.

## **The need for political consensus**

The ever closer integration of the global economy has meant much greater diversity of economic actors, emerging markets that are growing in influence and issues that are complex and cross-cutting in nature. Effective governance through the institutions, rules and standards that support global economic activity is critical for building political consensus and enabling countries to anticipate, and cooperate in response to, global challenges. Stronger coordination is also necessary to enable the best possible collective outcomes to be achieved.

The path to more effective governance does not always require the creation of new institutions and processes. There is neither a shortage of international bodies, nor of blueprints to reform the global governance architecture. The priority now is to find ways of building political consensus where it is lacking and most needed, and deploying it to coordinate policy and to help existing institutions work more effectively within their current mandates. Practical ways must also be found to sustain this consensus over time and to improve Leaders' ability to drive and direct action.

## **Generating consensus through the G20**

Since the Pittsburgh Summit, the G20 has developed macroeconomic policy coordination; shaped and driven forward a substantive common agenda to reform international financial regulation; promoted a consensus on reforming the governance of the international financial institutions; and set out a new, more growth-oriented approach to wider economic issues such as development. However, the G20's emergence has also raised questions about its current and future role, its legitimacy, the scope of its agenda and its effectiveness.

The G20 is unique in bringing together the political leaders of the world's major economies – advanced and emerging alike – on an equal footing. From its birth in economic and financial crisis, it has been an informal and Leader-driven group focused on building political consensus. This informal quality, combined with its flexibility, has been the G20's comparative advantage and its greatest strength. The G20 should maintain this role and informal character; it should not aspire to become more formal in status. But 'informal' does not mean less relevant. Informal mechanisms to generate and sustain political consensus are a valid and essential part of global governance, working alongside and complementing the work of institutions whose members have more formal rights and obligations. Nor should 'informal' mean being unstructured and unengaged with the rest of the global system; the G20 must become more effective, transparent and consistent in building relationships with formal institutions, non-members and others.

The G20 represents 85% of the world economy and its agenda should reflect this. Leaders should focus their sustained effort on the economic challenges of globalisation broadly defined. Since its inception, the G20 has proved unique among informal political groups in backing up its high-level agreements with action plans and monitorable, time-bound commitments. The G20 should build on this. Leaders must now give it the capacity it needs to function more effectively in delivering its past commitments and managing its agenda more closely and through time. For the future, the G20 must:

- maintain its informal and Leader-driven nature for the foreseeable future, and provide a clear public declaration of its role and purpose within the global system;
- become much more consistent and effective at engaging non-members, international institutions and other actors, welcoming their effective participation in specific areas of the G20's work; and
- develop clear agreed working practices to manage and deliver its agenda through time more effectively; formalise the Troika of past, present and future Presidencies; and underpin it with a small secretariat, possibly staffed by officials seconded from G20 countries and based in and chaired by the Presidency.

## Addressing gaps in governance

Beyond the G20, there are a number of priority areas in which the governance of international economic activity should be addressed. Reforms to the International Monetary Fund (IMF) and the World Bank, agreed by the G20 in 2009, should continue. Beyond that, the immediate priority must be to press for continued improvements to the governance of economic policy coordination, financial regulation and global trade, which are essential to global growth.

### Economic policy coordination

The G20 has committed to work together to undertake a joint assessment of how individual countries' economic policies fit together and how to deliver better outcomes for all, to put the global economy firmly on the path towards stronger, more sustainable and balanced growth. Greater ambition and commitment are needed by all G20 members to achieve this goal.

The IMF and other relevant international organisations have provided invaluable assistance to the G20 in this process, validating and where necessary challenging G20 actions against strong objective analysis. Their contribution to this process should continue. Alongside this:

- the IMF should enhance its surveillance role by updating and codifying its multilateral surveillance function to drive further improvements in its ability to monitor global risks.

### Financial sector governance

The financial sector is the most integrated part of the global economy but the governance of its regulation has lagged behind what the system presently needs. The Financial Stability Board (FSB) was set up by the G20 in 2009 as part of the response to the global financial crisis, succeeding the Financial Stability Forum. The FSB has made very significant progress within a short period of time. But the challenges it faces and the tasks conferred upon it mean that the FSB needs to be strengthened so that it can continue to effectively address some of the underlying problems that led to the crisis – by driving greater coordination among financial standards, preventing regulatory arbitrage arising, inter alia, from inconsistent and partial national implementation of standards, and ensuring that there is sufficient understanding of how macroeconomic and financial sector risks interact.



Many international bodies and authorities are leading on aspects of these core problems in different parts of a very diverse international financial sector. But the FSB is the only body able to play a coordination role across these issues. This role now needs to be reinforced and made more visible. The FSB Chair, Mario Draghi, has led a process, initiated by Leaders at the Seoul Summit, to examine ways in which the FSB's capacity, resources and governance can keep pace with growing demands. As a result, the FSB has: taken steps to improve the efficiency of its internal processes; established a standing committee to assess its resource needs; and committed to extend its consultation of non-members on its policy work.

The FSB, under its next Chair, must build on these achievements, and place itself on a more effective, enduring and independent organisational footing for the future. In doing so, the FSB should maintain its existing links with the Bank for International Settlements. The G20 should ask the FSB to take first steps before the end of this year to:

- intensify its monitoring and assessment of global standards implementation, working with international standard-setters, to prevent regulatory arbitrage;
- strengthen and formalise the basis on which it coordinates the work of international standard-setting bodies to promote greater coherence, through Memoranda of Understanding that embed concrete coordination mechanisms;
- further strengthen its collaboration with the IMF on multilateral surveillance by initiating a liaison committee to oversee this work; and
- establish itself as a legal entity by early 2012 to provide it with the identity, authority and capability it needs to fulfil its comprehensive remit.

### Governance of global trade

The World Trade Organization (WTO) is at the centre of the multilateral trading system, and its role in taking forward the Doha Development Round has occupied public attention for the past decade. This report does not discuss Doha, which is addressed elsewhere in the G20's agenda. It focuses instead on the WTO's wider responsibilities in relation to the governance of the multilateral trading system. For example: it is the guardian of the rules that govern the global trading system; it operates a unique Dispute Settlement Mechanism; it carries out surveillance of the system; and from the start of the global economic crisis, the WTO has prevented protectionism by monitoring the actions of G20 members. These and similar activities are crucial to the efficient and equitable operation of the global trading system.

Practical actions to strengthen this system are even more important at this time of economic uncertainty. Many of the ideas around enhancing the WTO are not new. But some of these important reforms could be taken forward now to bring the WTO's activities and rules more closely in line with current economic and commercial realities, and at the same time make it easier for developing countries to participate. This will reinforce the WTO at the heart of global trade governance. The G20 trade ministers should propose, starting at the WTO Ministerial in December, that the WTO and its members address four specific issues among other subjects on its agenda:

- enhancing the WTO's efforts to monitor free trade agreements, identify protectionist measures and recommend remedies to rectify them;
- concluding and implementing key reforms to the WTO's Dispute Settlement Mechanism;
- instituting more regular updates to existing global trading rules through the WTO's remit to do so outside the context of ongoing multilateral negotiations, as envisaged in the Marrakesh Agreement of 1994; and
- considering innovative approaches to trade liberalisation, such as regional and plurilateral agreements, in a manner that is compatible with the multilateral framework.

### **Towards more effective global standards**

Alongside the work of formal institutions, a large body of international standards and rules exists across a range of policy areas. Many of these were developed by advanced economies, reflecting their collective needs at the time. But the world economy now includes a much greater number of actors. As economic interests converge, all of the key actors need to be involved in the development of existing and, where the need arises, future standards so that they become more global in nature.

The G20's informal character has enabled a diverse set of major economies to come together and solve problems on an equal footing. This approach of involving all of the key actors, with political endorsement from the G20, has just begun to be applied to the development of existing standards and rules, such as in the area of tax transparency and information exchange. The G20 should build on this and encourage opportunities to further develop standards and their governance by:

- endorsing the political importance of developing existing and future standards, by involving all of the key actors to ensure that these standards become truly global; and
- supporting high-level principles that guide a more open, inclusive and practical process of developing and governing these standards.

### Greater coherence in future governance

Taken together, the practical proposals set out above should help to improve the effectiveness of the key institutions, standards and rules that govern international economic activity, and lead to better collective outcomes overall. But looking more broadly at the institutions grappling with the current and future challenges of economic globalisation, there is clearly a need to strengthen their overall coherence. This is a much larger subject than can be addressed in this report. But there are some important approaches that the G20 could support.

There are a large number of established institutions and processes, especially those tackling challenges in cross-cutting areas such as energy, the environment and development: the essential challenge is to make these institutions work better *together*. The solution in many cases is not formally changing mandates or creating new bodies. Such changes can consume huge amounts of political energy. And in today's fast-changing world, challenges often evolve more quickly than institutions can be restructured to address them. Rather, existing institutions must be given clearer and stronger political direction to work together, analysing global problems and proposing actions in a more joined-up way to achieve common goals. The G20 should:

- signal the importance that its Leaders attach to international institutions working around clear and common goals;
- encourage ongoing efforts, such as ahead of next year's Rio+20 Summit, to strengthen the coherence of global sustainable development governance, including through the process of agreeing high-level goals; and
- commission international institutions to work together in providing the G20 with joint analysis or prescriptions that support the work of its members, respecting these institutions' own decision-making processes.

# Part 1: The G20's future role and direction

## The need for political consensus

- 1.1 The G20, representing 85% of the global economy, is a unique group of the world's major economies whose Leaders come together to discuss and solve problems on an equal footing. Since G20 Leaders first met in Washington in September 2008, the G20 has succeeded in developing macroeconomic policy coordination; shaping and driving forward a substantive common agenda to reform international financial regulation; facilitating consensus on reforming the governance of the international financial institutions; and promoting a new, more growth-oriented approach to wider economic issues such as development.
- 1.2 The G20's emergence has raised significant questions of global governance. These have come at a time of intensifying integration in the global economy, characterised by emerging markets that are growing in economic and political influence; by increasingly complex and interdependent challenges; and by the development of economic and financial activities that are quickly outpacing the institutions and rules that had been established to support the effective functioning of the global economy.
- 1.3 Clear and effective governance is crucial for tackling the challenges posed by this unprecedented level of economic integration. Effective governance depends on the work of supranational institutions and the coordination of individual countries' policies. But these can only work if there is strong political consensus among the countries involved. Although the global economy is increasingly integrated, political accountability is essentially national.
- 1.4 Political consensus is a scarce resource. As Leaders convene in Cannes under the French Presidency of the G20, the world is at a critical economic and political juncture. Three years since the start of the most severe world recession confronted by this generation, the policy actions taken will, more than ever, shape the foundations of the world's future prosperity. The political responses to global challenges are the economic choices that Leaders make on behalf of their citizens. But to achieve the best outcomes for their citizens, Leaders need to better understand how their choices affect other countries' policy responses and how to achieve optimal outcomes for all.
- 1.5 Formal, treaty-based institutions whose members have established rights and obligations, such as the United Nations and the Bretton Woods institutions, have long existed to underpin and coordinate the actions of nation-states. But all institutions reflect the specific time and circumstances of the world in which they were founded. As global realities change and new challenges emerge, practical

ways of generating and refreshing the political consensus for addressing these challenges must be found to mobilise existing institutions and processes, and to ensure that their collective efforts are sustained through time.

- 1.6 Improving governance should not necessarily require the creation of new global institutions. There is no shortage of institutions addressing global economic activity. Rather, it requires the development of political consensus. Formal, and informal institutions – such as the G20 – are not alternative or conflicting paths to stronger governance; instead, they are complementary parts of one international system that bridges the gap between ever increasing economic integration on the one hand, and the national accountability and national politics of the countries within the system on the other.

### The G20's role in global governance

- 1.7 The G20 has, since its creation in the first wave of the global financial crisis, been an informal and Leader-driven group. Its informal and political character has helped to forge political agreement in key areas of national economic policy, and to deliver outcomes through formal international institutions. But at this time of global economic and political transition, the ability of informal groups such as the G20 to strike political agreement at the highest levels is a necessary condition for the effectiveness of more formal institutions. Its role should be to promote and catalyse consensus-building through:
- providing the space for the key global economies – advanced and emerging alike – to come together on an equal basis to discuss and resolve economic issues openly and in the spirit of enlightened self-interest, without the historical legacy of North–South divisions that may still affect institutions which were developed in a different economic and political context;
  - enabling leaders of the world's major economies to find the political will necessary to coordinate and mutually assess their respective economic policies, agree approaches or solutions to the broad economic challenges of globalisation, and hold each other to account for the commitments they make;
  - sustaining political consensus on a continuous basis, to ensure that commitments from political leaders are followed through over time; and
  - setting an example for greater effectiveness and coherence among the range of international institutions, standards and rules that are governing international economic activity.

## Legitimacy and engagement

- 1.8 The G20's ability to play an influential and constructive role in global governance rests on it providing decisive leadership on the challenges of economic integration. Many of these issues affect not just the G20's membership, but many other countries and interests that are not directly represented at the table. This report does not recommend reopening the debate on G20 membership now. However, to enhance the legitimacy of the G20's consensus-building role, Leaders should commit the G20 to becoming much more structured and transparent in its engagement with other actors in the global system.
- 1.9 This can be developed at two levels: improving the G20's overarching relationship with other actors in the global system, and facilitating more subject-specific involvement in the G20's work. On the first, **the G20 should become much more consistent and effective at engaging non-members, relevant international institutions and other actors** in its agenda-setting, sharing information and consulting about its work. Box 1 illustrates this with an example of how the engagement between the G20 and the United Nations (UN) could be strengthened.
- 1.10 Second, the quality and relevance of **the G20's output on specific topics can be improved by welcoming the effective participation of non-members, international institutions and others in its work**. Participation should include actors whose interests and views are pertinent to the outcome of particular discussions on a subject. The issue of development is an example where this variable geometry approach is being pioneered by the G20.
- 1.11 In taking this forward, the G20 should strike a balance between being open to wider but targeted participation in its work, and maintaining its efficiency through time. Given the G20's broad economic agenda, it has worked closely with and drawn on the established and technical expertise of international institutions that generally have a more diverse and abundant membership. Going forward, and as recently recommended by the Global Governance Group (3G Group), **the G20 should ensure that when it commissions work from international institutions, it does so in a transparent manner, allowing these requests to be considered within their governance structures, and respecting these bodies' own decision-making processes**. As much as the G20's ability to build political consensus matters, the willingness of others to contribute to this consensus is also important for strengthening global governance.

### **Box 1: Strengthening engagement with the United Nations**

In contrast to the informal nature and selective membership of the G20, the UN is a formal, treaty-based organisation with universal membership and a wide mandate, including security, economic, financial and social issues. In recent years, the G20's growing role has caused some in the UN system and among its members to raise questions about the G20's legitimacy, ability to deliver on its past commitments and potential overlap with the work of existing formal institutions. Engagement efforts between the two have been ad hoc, based on the priorities and the resources of each G20 Presidency. These efforts are now improving, but are still short of being systematic.

Both the UN and the G20 play complementary roles in the global system. This makes it even more important to find practical ways for the two to communicate more frequently, and to support each other's objectives. To increase mutual trust and transparency, the G20 can help the UN to increase its understanding of the G20's agenda. The G20 might also find ways of bringing the UN system's technical expertise to bear on its work, to enhance the overall effectiveness of its discussions and decisions.

To achieve this, the G20 should strengthen and systematise its engagement with the UN through a variety of channels that provide a steady stream of information and opportunities for productive exchange. As first steps, the G20 should:

- endorse the 3G Group's proposal to regularise the practice of briefings and consultations with the UN membership;
- ensure that each G20 Presidency appoints a senior official within the Troika to oversee this engagement and maintain continuity; and
- coordinate with the UN to make use of existing processes for feeding in and highlighting issues, such as through the UN General Assembly's practice of holding informal thematic debates, to allow matters of mutual UN and G20 interest to be debated by the UN membership.

To make this enhanced engagement succeed, the G20 and UN should work closely with each other to maximise the value of such cooperation for both sides.

## The G20's own governance

### The power of informality

- 1.12 Some have suggested that an informal group such as the G20 can only be credible if it becomes a formal institution, with formal rights and obligations for its members. It has been argued that the global system lacks a more legitimate and overarching level of formal economic governance, with some proposing that the group of G20 Leaders should become a formal level of governance sitting above the International Monetary Fund and World Bank, drawing on their constituency-based system to achieve universal representation.
- 1.13 These views presuppose that creating a formal, more overarching layer of global economic governance is sufficient or necessary for overcoming political barriers to action. And such governance may well evolve in the future. But the reason that leaders of the world's major economies turned to an informal approach in the crisis was not the lack of more formal mechanisms. Rather, that approach enabled them to reach consensus quickly, flexibly and effectively, working within the international governance system rather than having to rebuild it. And it enabled them to explore the scope for political agreement outside the constraints of more formal, binding institutions and structures. This has been the G20's greatest asset, and so this approach offers, for the foreseeable future, the best route to effective governance. **The G20 should maintain its informal and Leader-driven character for the foreseeable future, and give itself, and others in the world, a clear declaration of its role and purpose within the global system.**
- 1.14 Being 'informal', however, does not mean the G20 should be unstructured or does not need to follow through on its political commitments. Since its inception, unlike other informal groups, the G20 has developed detailed action plans and monitorable, time-bound commitments to maintain momentum through rotating Presidencies. This approach has helped the G20 manage the tension between being Leader-led, with its members taking the chair in turn, and being effective over time.
- 1.15 The G20 needs to build on this as it develops. Its resources, particularly its Leaders' time and political capital, are limited. It must therefore manage its formal agenda accordingly, by balancing the changing agenda of an annual Presidency with the need to retain focus and to avoid overstretch.



- 1.16 In parallel, the scope of the G20's agenda has been subject to much debate. In practice, the G20 represents 85% of the world economy. It should therefore focus on the challenges of economic globalisation broadly defined, and provide political impetus where it is most needed, where it can make the greatest impact, or where an absence of continued political engagement now could risk future crises.

### Strengthened capacity and internal processes

- 1.17 For the G20 to balance successfully between managing the shared agenda of the world's major economic powers and retaining the group's dynamism, Leaders should consider practical ways to strengthen its capacity in a way that enhances the G20's overall effectiveness. The G20's primary role is to generate and sustain political consensus. But it needs to be able to play that role in many diverse circumstances – from periods of crisis in which it will function as a crisis committee, to periods of relative stability where its role will be more about driving a longer term agenda among its members.
- 1.18 Given the G20's limited capacity and the need to engage Leaders, the way in which the G20 manages its agenda strategically affects both its effectiveness and its ability to retain Leaders' engagement in its work. To manage its work programme, it needs clear and strong internal processes to avoid overburdening its agenda over time, while retaining the flexibility to engage its Leaders on pressing issues when necessary. The G20's agenda is the preserve of all its members and drawing up commonly agreed working practices is essential for keeping the G20's work focused, manageable and sustainable. This report recommends that **the G20 should develop agreed working practices to maintain its operational effectiveness through time**. Box 2 provides a non-exclusive list of possible working practices, drawing on previous G20 discussions, that should be examined for agreement by G20 members.
- 1.19 Beyond working practices, there is a spectrum of options for increasing the G20's capacity, culminating in a permanent Secretariat with a policy function. But to avoid jeopardising its Leader-led and informal character, the G20 needs to avoid transferring its steering and policy development out of the hands of its members.

### Box 2: List of possible G20 working practices

**Interaction among Leaders:** Leaders should be able to have informal and more interactive discussions during summits. The preparation of the agenda, structure and the physical set-up of each summit should maximise the opportunity for such discussions.

**Summit timings:** G20 Leaders should be able to convene as necessary during times of crisis and as global economic conditions might dictate. However, during periods of stability, G20 summits should assume an annual rhythm and take place at a regular point during the year, with each Presidency lasting one calendar year.

**Capacity to mobilise quickly:** To support G20 Leaders' ability to convene as necessary during times of crisis, the G20 must be effective during crises. If events require urgent and timely discussion, the G20 Finance Ministers, Central Bank Governors and Sherpas should be able and ready to convene conference calls and meetings at short notice if events require urgent and timely discussion.

**Troika meetings:** The Troika should have regular meetings during each Presidency year. An indicative rhythm of meetings might include: early on in each Presidency; after the first quarter; mid-year or ahead of the year's penultimate Sherpa meeting; and shortly after each G20 summit.

**Sherpa-level process:** The G20 should make effective use of its Sherpa network. Presidencies should consider inviting Sherpas to submit input on the year's achievements, areas for improvement and observations about the G20's direction of travel. To inform and maintain the focus of the G20's work, each Presidency might periodically organise seminars or joint meetings between Sherpas and external experts to discuss key economic issues, or convene a longer meeting for this purpose over each summer period.

**Ministerials and working groups:** The G20 should be very cautious about launching new and additional processes that last beyond individual Presidencies. During periods of relative stability, the G20 only has one annual summit and so this limited time must be used effectively. Its work programme must be managed closely and carefully, to avoid duplication and unnecessary proliferation. At the same time, the G20 must also have the flexibility to address urgent issues as they arise. Therefore:

### Box 2: List of possible G20 working practices (continued)

- The establishment of any permanent or multi-year ministerials or working groups should be approached very carefully, and require the agreement of the full G20 membership.
- To ensure that the G20 can flexibly address the key issues of the day, Presidencies should be able to set up subject-specific taskforces, following consultation, to progress and prepare topics for their annual summit. Such taskforces should disband after the conclusion of the Presidency under which they were created.
- The G20 should review its ministerial and working group arrangements on a regular basis to assess their usefulness and relevance, either through the Troika's planning processes or by agreeing automatic sunset or review clauses as required.

**Engagement:** The Presidency should facilitate more consistent and effective engagement between the G20, non-members, international organisations and others by appointing a senior official from its Sherpa office to manage this throughout its Presidency, with the small secretariat providing continuity between Presidencies. Where appropriate, G20 Sherpas could be deployed to support subject-specific and/or regional engagement, drawing on other planned events as appropriate.

**Participation of international financial institutions (IFIs) and international organisations (IOs):** The G20 attaches much value to the contributions by IFIs and IOs to its work, and should ensure that they continue to make these contributions in specific areas where they have established expertise. So as to facilitate Leaders' own interactions, these representatives should participate in or be seated at the Leaders' table for the discussion of specific issues, as appropriate. In particular, Leaders' discussions should be informed by trenchant and candid analyses from international institutions to help frame the key questions across different parts of the G20 agenda.

**G20 output and accountability:** The main summit products should be regularised to maximise consistency and comparability, and comprise a short summary of key decisions taken, accompanied by a longer annex that records in detail the specific measures agreed by Leaders. To improve the general public's understanding of the G20's work, the Presidency should produce, on its own authority, a short and accessible factsheet setting out the key achievements of the year and progress made against past commitments.

- 1.20 Establishing a permanent policy Secretariat for the G20 now could be seen as an over-reaction to the G20's needs, undercutting the G20's member-driven quality without offering clearly discernible benefits. Instead, this report recommends that **the G20 should expand its capacity by formalising the Troika of past, present and future Presidencies; and underpin it with a small secretariat, possibly staffed by seconded officials from G20 countries and based in and chaired by the Presidency.**
- 1.21 The function of this small secretariat would be to maintain continuity in the G20's engagement efforts, and to ensure that progress is being made across its inherited agenda and ongoing work programme. The secretariat could reside in and be chaired by the country holding the annual Presidency. It could act as part of the Presidency team, and draw its staff from Troika members and officials seconded from G20 members as desirable.

## Part 2: Addressing gaps in governance

2.1 The deepening integration of the global economy has highlighted the importance of adequate, effective and coherent governance to support collective action in numerous areas of economic cooperation. Where governance gaps exist, the G20 has a role to work together with the relevant institutions to provide a stronger political direction for improvement, recognising the immense value of the information, technical analysis and policy ideas that these institutions contribute to the G20's own deliberations. In turn, these institutions have a responsibility to their own members and future sustainability to swiftly implement reforms on which there is consensus. This section of the report covers the governance of economic policy coordination, financial sector regulation and global trade.

### Deepening economic policy coordination

- 2.2 In 2009, G20 Leaders agreed upon the need for quota reforms in the International Monetary Fund (IMF) to reflect the growing weight of dynamic emerging markets and developing countries, and on the importance of moving towards equitable voting power in the World Bank to reflect countries' evolving economic weight and the World Bank's development mission. Reforms were also agreed to improve both institutions' management and practical impact by enhancing the transparency and efficiency of their respective structures and operations.
- 2.3 Reforms to the World Bank Group (WBG) and the Regional Development Banks (RDBs) have been critical to supporting the growth agenda set by G20 Leaders. In particular, the G20's agreements gave political impetus to the WBG to develop new and more flexible instruments, enhance its poverty focus, increase the speed and agility of its operations and undertake a number of internal governance reforms.
- 2.4 Many of these reforms are already under way. The remaining reforms at the WBG and the RDBs, and the need for continuing review and improvement, will require strong support from the institutions' shareholder members to ensure that they are able to respond effectively to the changing global economic environment, and to tackle the cross-cutting challenges of poverty and climate change.
- 2.5 The historic quota and governance reforms of the IMF, agreed in 2010, will enable it to play a more effective, credible and legitimate role in supporting the operation of the international monetary and financial system. G20 Leaders must now set an example and follow through on their political commitment to

fully implement these quota and governance reforms ahead of the 2012 Annual Meetings; only a quarter of the G20's membership have done so to date. And they must also follow through on the commitment to continue the dynamic process aimed at enhancing the voice and representation of emerging markets and developing countries, including the poorest, through a comprehensive review of the quota formula by 2013 and completion of the next regular review of quotas by January 2014.

- 2.6 Alongside governance reform, the IMF has assisted the G20's Mutual Assessment Process (MAP) with analysis of policies and recommendations to achieve the G20's overarching goal of strong, sustainable and balanced growth agreed at the Pittsburgh Summit in 2009. The G20 has committed to work together to undertake a joint assessment of how individual countries' economic policies fit together and how to deliver better outcomes for all, to put the global economy firmly on the path towards a stronger, more sustainable and balanced growth. In order for the MAP to be successful, greater ambition and commitment are needed by all G20 members to achieve better outcomes for their citizens.
- 2.7 The contributions of the IMF and other relevant international organisations to this process have been invaluable, validating and where necessary challenging G20 actions against strong objective analysis. However, this is just one way in which the IMF contributes to global economic policy coordination: the IMF has a much broader role in relation to all the countries in the world economy.
- 2.8 The IMF must also enhance the surveillance of its membership and the global economy as a whole. This would support the G20's economic policy coordination efforts and also improve the IMF's overall effectiveness.

### Strengthening multilateral surveillance

- 2.9 The global financial crisis was a wake-up call for the IMF's work on surveillance. Although the IMF was able to identify risks emerging in different parts of the world through its bilateral surveillance, it was less equipped to spot systemic problems or warn of potential spillovers through the financial sector. These deficiencies have been well documented and the IMF has made good progress to address these, supported by the G20's strong desire to see fundamental improvements in this area.

- 2.10 For example, the IMF has now brought together the main messages and findings from both its bilateral and multilateral surveillance to provide a more consistent assessment on the risks facing the global economy as a whole. It also introduced ‘spillover’ reports for systemic economies to capture the impact of their policies on the global economy. To better assess macrofinancial risks, 25 systemically important financial centres have agreed to let the IMF carry out mandatory in-depth analyses every five years. The IMF is also working closely with the Financial Stability Board (FSB – see page 23) on Early Warning Exercises which focus on global tail risks.
- 2.11 The IMF’s Triennial Surveillance Review takes stock of these positive changes, and considers ways in which the quality, scope and traction of its surveillance could be further enhanced. The G20 now needs to build the consensus required to give the IMF a clearer mandate to deliver multilateral surveillance over the longer term so that Board Members, Ministers and G20 Leaders can better understand and respond to current and potential global systemic vulnerabilities. The IMF’s surveillance of the global economy is a unique and vital public good. For the future, its coherence and comprehensiveness could be improved in four ways:
- **Stronger financial sector surveillance through partnership with the Financial Stability Board:** The IMF has a strong role to play in strengthening global financial stability. Building on the progress made, the IMF should collaborate more closely with the FSB to ensure that the latter’s appraisal of financial system vulnerabilities and understanding of financial regulatory and supervisory risks are properly embedded in the IMF’s surveillance and assessments. Financial stability analysis should also be strengthened as part of the IMF’s Article IV process, and the G20 should put its political weight behind the IMF’s Data Gaps Initiative to ensure that policy-makers have the necessary information and analytical tools to perform systemic risk assessment.
  - **Consistent presentation and detailed analysis of risks:** The IMF should also take steps to ensure that the economic risks identified across its work are evaluated in a more coherent fashion. Additionally, the IMF should prioritise work to develop its analytical tools so as to broaden its assessment of so-called external stability risks; these include exchange rates, foreign exchange reserves and global liquidity. Those assessments need to form a standard part of IMF bilateral and multilateral surveillance documents. For example, publishing an assessment of external balances – which must stress the limitations of this early analysis – would be a step forward.

- **Stronger accountability and coordination:** The International Monetary and Financial Committee (IMFC) is responsible for advising and reporting to the IMF's Board of Governors. As part of this role, the IMFC should be able to hold the IMF's surveillance to account by being more proactive in setting its forward surveillance agenda – using the Managing Director's Action Plan to debate and agree priorities. In turn, the IMF should use its Consolidated Surveillance Report to present a clear and consistent view of global risks to IMFC members alongside clear analysis of how policy commitments are being delivered. With that information, the IMFC can have an open and frank debate on the necessary policy responses which can feed into the G20's efforts to coordinate economic policy.
- **A clearer IMF role in multilateral surveillance:** Much of the IMF's recent work to improve how they assess the links between countries in the modern global economy was produced as a result of ad-hoc decisions. To ensure that the IMF continues to examine risks within individual countries as well as how policy decisions taken in one can affect others, there is now **a clear case for updating and codifying the IMF's surveillance role to drive improvements in the focus and quality of the IMF's overall advice, and its ability to monitor global risks** – agreeing a new integrated surveillance decision would be one way to achieve this.

## Financial sector governance

2.12 The financial markets have become the most integrated and interlinked part of the global economy. International coordination of financial standards and of their implementation by the competent authorities is critical for the maintenance of financial stability. A number of bodies have evolved over time to promote and contribute to such coordination, but the crisis demonstrated that they were unable to sufficiently resolve conflicting regulatory standards, to drive action to respond to significant lags or gaps in the development of these standards or to prevent arbitrage caused by their uneven implementation in different jurisdictions.

2.13 The complicated relationship between these bodies, together with the time it took to upgrade some key rules and standards – such as prudential regulation for banking institutions – meant that the governance of the financial sector did not keep up with the cross-border and rapidly evolving nature of financial services activities. As a result, growing regulatory arbitrage became evident, and the combination of shortcomings contributed to the severity of the recent global financial crisis.



2.14 As an immediate response to the crisis, G20 Leaders, Finance Ministers and Central Bank Governors set up the FSB as a successor to the Financial Stability Forum, endowing it with a stronger mandate to coordinate the work of competent authorities and independent standard-setting bodies (SSBs) at the international level. The FSB brought together advanced and emerging countries for the first time, covering the world's major financial markets, to shape the global regulatory reform agenda on an equal footing.

#### Next steps for the Financial Stability Board

2.15 Under the leadership of its first Chair, the FSB has made very significant progress across a challenging reform agenda. In particular, and under the direction of the G20, the FSB concentrated on generating new and strengthened standards and developing regulatory policy to address post-crisis priorities. But this role is just a part of the FSB's current mandate.

2.16 As the regulatory reform process moves from policy development to national implementation, the FSB needs to consider shifting more of its operational focus onto other important parts of its mandate. These include monitoring and assessing the implementation of agreed standards; reviewing and coordinating the work of SSBs; undertaking surveillance of macroeconomic and financial risks together with the IMF; and supporting contingency planning for managing cross-border financial crises. All these are essential elements of effective financial regulatory governance.

2.17 The FSB's capacity and effectiveness will come under increasing scrutiny as its workload grows. The G20 anticipated this at the Seoul Summit in 2010, when G20 Leaders asked the FSB to bring forward proposals to strengthen its capacity, resources and governance to keep pace with growing demands. In response, the FSB Chair has taken forward a set of practical improvements to the FSB by introducing more efficient internal processes; strengthening its engagement with non-members through regional outreach groups, embedding the process of more inclusive consultation on the FSB's policy work; and ensuring greater transparency and accountability by its members with regard to their adherence to key international financial standards. These are welcome and necessary steps for enhancing the FSB's credibility and public accountability as a member-driven organisation.

2.18 Looking ahead, G20 Leaders should now build on these measures and agree to further strengthen the FSB's capacity and governance and place it on a more enduring and visible organisational footing. This decision to reinforce governance in this area is a political rather than a technical one. The FSB's direction and capability will help to determine the ability of the overall financial governance system to pre-empt potential vulnerabilities and address the deficiencies in current international regulatory coordination efforts that can have adverse effects on global growth.

### Robust implementation of regulatory standards

- 2.19 Since the global financial crisis, the FSB has taken forward country and thematic peer reviews that evaluate its members' implementation of specific standards agreed by G20 and FSB countries. These operate as an ongoing process, with the current set of reviews scheduled through to 2013.
- 2.20 However, regulatory arbitrage in the global financial system remains a real threat which undermines market and economic confidence. To counteract this, the FSB should more clearly exercise its mandate to advise on and monitor the meeting of regulatory standards. It could also play a more central role in providing authoritative assessments to prevent allegations of non-compliance in some jurisdictions as a justification by others for not acting.
- 2.21 The FSB is putting in place a comprehensive, coordinated implementation framework for priority reform areas such as financial sector remuneration and the Basel III prudential reforms. SSBs, with their independent sectoral expertise, must form a fundamental part of this monitoring framework. **Working with SSBs, the FSB should intensify its monitoring and assessment of global standards implementation to prevent regulatory arbitrage**, focusing on cross-sectoral regulatory standards, and being vigilant towards the potential spillover effects caused by differentiation in national implementation.
- 2.22 The FSB's governance needs to match this greater emphasis on monitoring national implementation. Exercising articles in the FSB's charter, the FSB Chair has made proposals for restructuring the Steering Committee to include representatives of executive branches of government, such as national treasuries or finance ministries, given their responsibility for the implementation of global standards into national law. The G20 should signal the importance of the FSB taking forward this re-balancing.

### Clearer coordination of standard-setters

- 2.23 The FSB's role in coordinating the work of SSBs is at the forefront of its mandate. SSBs each have their distinct areas of technical competence, and provide independent expertise on sectoral standards within the broader financial regulatory framework. The financial crisis demonstrated the critical need for a body that has the role of coordinating these standards across the board and that is able to facilitate the resolution of inconsistencies.
- 2.24 Most importantly, this coordination function needs to enable an overall assessment of whether new and existing global standards, taken individually and as a whole, produce a coherent regulatory framework that meets the overarching goal of increasing financial stability. Coordination should also ensure that standards to address financial stability concerns reflect the full range of possible policy options, including those not within the purview of regulators and standard-setters, and take into account impacts on the wider economy.
- 2.25 To fully exercise its coordination role, **the FSB should strengthen and formalise the basis on which the coordination of SSBs takes place, through Memoranda of Understanding that embed concrete coordination mechanisms.** The FSB can better fulfil its existing mandate by providing more visible oversight and coordination of the overall coherence in international standard-setting, and provide prompt feedback on the policy development work of SSBs. Where gaps, problematic overlaps or interdependencies in global regulation are emerging or are likely to surface, the FSB should, at the request of the G20, work with relevant SSBs to jointly address these issues and report back to the G20 on areas where regulation may be insufficient or inconsistent.

### Strengthened multilateral surveillance

- 2.26 The G20 currently requires the FSB to collaborate with the IMF in identifying and reporting on macroeconomic and financial risks through Early Warning Exercises. As part of ongoing discussions, the IMF is working to further embed multilateral surveillance responsibilities in its mandate, providing the global economy with a crucial public good.
- 2.27 In turn, the FSB offers a comparative advantage in understanding and assessing financial system and supervisory risks, an appreciation of which enhances the credibility of overall surveillance. In doing so, the FSB needs to evaluate whether standards developed by SSBs add up to a net increase in financial stability, and whether enough is being done to police the regulatory perimeter.

2.28 The FSB's cooperation and information-sharing with the IMF should also be further improved so that its appraisal of financial risks is properly reflected in multilateral surveillance. The FSB's predecessor and the IMF agreed a concordat in November 2008 which broadly defined the roles of the two bodies and the demarcation between their activities. **Building on this, the FSB and the IMF must strengthen their collaboration on multilateral surveillance by setting up a liaison committee to oversee this work.** This committee might, in the medium term, develop a more comprehensive Memorandum of Understanding between the two institutions.

#### A clearer institutional status for the Financial Stability Board

2.29 Since the Pittsburgh Summit, G20 Leaders have depended upon the FSB to deliver a very ambitious agenda. However, the FSB has actually operated along extremely informal lines, supported generously by the staff and resources of the Bank for International Settlements (BIS) and its members. To ensure continuity, it is imperative that the FSB continues to be member-driven and maintains its existing links with BIS.

2.30 Given the continued challenges of financial regulatory governance, the FSB's comprehensive mandate must be preserved. However, the G20 now needs properly to equip the FSB to ensure that its activities meet its written mandate. The FSB currently has no legal personality or separate identity. This means that its identity, and hence its authority, is blurred – it cannot enter, for example, into staff or other contracts with other legal entities. This is a basic constraint to endowing the FSB with a clearer identity, more resources and, ultimately, enhanced authority and independence as a coordinating body.

2.31 For the FSB to discharge the full range of tasks conferred on it, and to implement the reforms proposed above, the G20 needs to put the FSB on a more effective, enduring and independent organisational footing for the future. **The G20 should ask the FSB to establish itself as a legal entity which provides it with the identity, authority and capability it needs to fulfil its comprehensive remit.** The FSB should take first steps to examine options for achieving this before the end of 2011, with a view to full implementation by early 2012.

## Governance of global trade

- 2.32 The G20, constituting 80% of global trade, has a significant interest in ensuring the well-functioning of the global trading system. The World Trade Organization (WTO) was created in 1995, based on the founding agreement of the General Agreement on Tariffs and Trade (GATT) signed in 1947. This report does not discuss the WTO's Doha Development Round mandate, which has been the subject of much public attention. The conclusion of Doha would, in itself, make a significant step towards reinforcing the global trading system, hence the ongoing efforts in that regard. Rather, this report focuses on practical ways in which the WTO's exercise of its wider responsibilities can maintain and further reinforce the global trading system.
- 2.33 International trade can be an engine of global growth and development. But to achieve that, the rules and structures of the multilateral trading system must keep pace with the current economic and commercial realities in the global economy. When the GATT was founded, it had only 23 members, accounting for 61% of world trade. The WTO now has 153 members (with another 30 jurisdictions in accession processes), constituting over 97% of world trade. During this time, the global economy has changed considerably, with trade in goods almost 33 times higher in 2010 than in 1950. Yet many of the rules currently operating in the WTO, such as those that govern free trade agreements, anti-dumping, dispute settlement and other issues, date back to the GATT and before. Moreover, trade in services still only accounts for 20% of global trade despite accounting for around 70% of global output.
- 2.34 The WTO is the guardian of the rules-based multilateral trading system, and its activities are crucial to the system's efficient and equitable operation. Therefore, pragmatic efforts must continue to be made to reinforce the WTO's role at the heart of trade governance. Many of the ideas around reforming and enhancing the role of the WTO are not new, and have developed over the years. In view of the upcoming December Ministerial of trade ministers, the G20 should direct its trade ministers to call on the WTO and its members to examine four specific issues that would strengthen its effectiveness: namely, instituting more regular updates to existing global trading rules; concluding and implementing key reforms to its Dispute Settlement Mechanism (DSM); enhancing its surveillance role; and considering innovative approaches to advancing trade liberalisation.

## The WTO's surveillance role

### Protectionism

- 2.35 At the height of the economic crisis, G20 Leaders tasked the WTO Secretariat, working together with the Organisation for Economic Co-operation and Development (OECD) and the United Nations Conference on Trade and Development (UNCTAD), with preparing regular reports on protectionist measures taken by G20 countries. These joint reports, led by the WTO, played a major role in preventing a broadly anticipated slide towards protectionism, but focused mostly on quantitative rather than qualitative analysis.
- 2.36 The WTO already has significant powers to monitor the actions of its members, particularly through the Trade Policy Review Mechanism. However, this has mostly been achieved through peer review, with a large degree of self-notification and analysis after the fact. This means that the WTO has performed its surveillance function by relying on incomplete information regarding members' trade regimes, particularly in more complex and evolving areas such as services and investment.
- 2.37 **The WTO should examine how its efforts to identify protectionist measures and recommend appropriate remedies could be enhanced.** Building on existing processes, regular reporting by the Secretariat of protectionist measures taken by WTO members could provide more quantitative analysis of individual measures. These could focus on the measures which are most trade-distorting, and be accompanied by recommendations on rectifications so as to bring them into line with WTO rules. WTO members themselves should provide timely information on their trade measures when invited to do so, and take advantage of opportunities to report the actions of others.

### Free trade agreements

- 2.38 The number of regional and bilateral free trade agreements (FTAs) has increased exponentially in recent years. The WTO itself, in its 2011 World Trade Report, recognised that its work needs to reflect the growing wave of FTAs and ensure that they do not weaken the multilateral system. In addition to its ongoing work to identify protectionist measures, **the WTO should examine how its efforts to monitor FTAs could be enhanced.** One starting point could be to take forward existing proposals for the WTO to compare provisions across FTAs and identify common elements among them. This exercise could form the basis for

developing voluntary guidelines for FTAs. The purpose would not be to develop a one-size-fits-all approach, but to bring greater coherence to the complex and expanding web of regional and bilateral trade agreements.

- 2.39 The WTO could also work to ensure that more vulnerable developing countries are able to engage in FTA negotiations on a more equitable basis, in line with its existing work to build capacity within the poorest countries to negotiate and implement agreements. Overall, these proposals would help to simplify the trading environment and provide the certainty which exporting businesses require.

#### Refining the Dispute Settlement Mechanism

- 2.40 Most commentators and the broad WTO membership agree that the WTO's DSM works well. This is borne out by the high level of compliance, even in cases where the threat of retaliatory action is a minor factor. Nonetheless, there are some areas where further improvements are desirable to ensure that the DSM continues to function effectively, particularly as the functioning of the DSM depends on the broader credibility of the WTO and the buy-in of members to the rules-based system.
- 2.41 The WTO started a review aimed at updating the DSM in 1997, but this is yet to be completed. **It should now consider concluding and implementing key reforms to the DSM.** In addition to important negotiations in the Doha context, there are a number of priority areas where additional refinements to the system could be considered. For example, many businesses and governments have concerns regarding the length of the process. The fact that 50% of cases are appealed is a contributing factor. Panellists in the earlier stages of a dispute case could be chosen in a more systematic fashion. This would help to ensure greater consistency across cases and may reduce the number of appeals.
- 2.42 There are a number of other areas where improvements could be made. For example, smaller, more vulnerable countries sometimes lack the economic weight to induce compliance on the part of offending countries. The process could also be accelerated to reduce timescales and ensure that trade-distorting measures are corrected sooner.

### More frequently updated trading rules

- 2.43 Multilateral trade rounds, once agreed, are designed to update some of the WTO's existing rules. This should continue to be the case and the proposals in this report are not intended to disturb the ongoing Doha negotiations. But alongside this, the WTO already has the ability to update any part of its rulebook outside of the 'big bang' trade round negotiations, as envisaged in the Marrakesh Agreement of 1994. Given the gap between the rate at which the global economy is evolving and the speed with which the WTO updates its rules, **there is a good case for the WTO instituting more regular and incremental updates to existing trading rules through its remit to do so outside the context of ongoing multilateral negotiations.** This could ensure that the global trade rulebook is aligned with global trade realities and new emerging issues.
- 2.44 Countries that wish to join the WTO must sign up to the rules. However, the process for the least developed countries (LDCs) joining the WTO could be made more accessible. This could, for example, involve simplifying the burdensome request-and-offer process for determining market access commitments to ensure fair and consistent bound tariff profiles, or alternatively strengthening the guidelines for members negotiating with acceding LDCs. The detailed work to describe and review acceding countries' trade regimes could be simplified for acceding LDCs and the Secretariat could share the workload with the acceding LDC to compile the necessary information.

### Innovative approaches to trade liberalisation

- 2.45 The multilateral framework for achieving trade liberalisation is the bedrock of global trading relations. Within that framework, and in parallel with extensive multilateral trade rounds, WTO (and previously GATT) members have at times taken forward trade liberalisation and updates to the rulebook by other means.
- 2.46 For example, agreements have been struck on a plurilateral basis, in areas such as information technology, and, as mentioned previously, the number of bilateral and regional agreements has increased substantially in recent years. These agreements are an explicit recognition of a shared desire between groups of countries to achieve further economic integration over and above the already positive consensus embodied in successive multilateral rounds. The G20 has been clear on its commitment to trade liberalisation, and as the global economy continues to develop in new directions, the appetite for such agreements is unlikely to diminish.



2.47 Taking these past developments into account, the G20 should, alongside its existing trade agenda, instruct its trade ministers to work with the rest of the WTO membership to **explore innovative approaches to achieving further trade liberalisation in a manner that is compatible with the multilateral framework**. These innovative approaches – which could include regional and plurilateral agreements – will need to, and can, support multilateral deals and strengthen the WTO's role at the heart of global trade governance. Countries may have different conceptions on how plurilateral agreements might be taken forward. However, their key advantage is that they offer an effective way of progressing with trade liberalisation where there appears to be consensus, especially where there is a critical mass of WTO members with a significant stake in increasing and deepening trade flows within a given sector.

## Part 3: Towards more effective global standards

- 3.1 Global governance consists of not just international institutions, but also a large body of standards, rules and norms that govern global economic activity. This body of soft law covers a large number of areas, from corporate governance, anti-money laundering and anti-corruption to competition. These conventions are in many cases not legally binding: they range from sets of principles and voluntary best practice to politically agreed guidelines, standards and norms.
- 3.2 The current set of standards and norms were drawn up by a specific set of actors – mostly advanced economies – and reflect the specific circumstances and economic integration challenges at the time of their development. However, as new and significant economic actors emerge, and as the structure of the global economy evolves, the international processes and fora that continue to develop these standards should become increasingly flexible and involve all major or relevant actors at an earlier stage, especially where there are close or mutual interests.
- 3.3 The G20 has already brought to bear its ability to forge political consensus across diverse economies on two important areas in which existing standards are being developed:
- **Financial regulatory standards:** The G20 expanded the Financial Stability Forum into the Financial Stability Board to include all G20 members, and other non-G20 countries with large financial markets, so that a set of diverse countries with their respective regulatory experiences could come together and shape a common global regulatory reform agenda.
  - **Tax Information Exchange:** Following the London Summit, the Global Forum on Transparency and Exchange of Information for Tax Purposes was restructured and expanded to bring diverse countries together to promote international standards of strong mutual benefit. An inclusive governance structure was created in which jurisdictions participate on an equal basis, under a clear framework agreed by all members. Over 100 jurisdictions now participate in the Global Forum and it continues to expand as the benefits it brings to its members are increasingly recognised.

### Developing genuinely global standards

- 3.4 With a growing number of global economic actors, the underlying need for soft law to coordinate and govern behaviour has, if anything, grown in a globalising economy. There is therefore a strong case for developing and extending existing standards and rules to embrace key participants more readily and at an earlier stage of their economic development, as is already happening in some areas. Building on the G20's spirit of bringing together the world's major economies, **the G20 should endorse the political importance of developing existing and future standards, by involving all of the key actors to ensure that these standards become truly global.**
- 3.5 Furthermore, **the G20 should support high-level principles that guide a more open, inclusive and practical process of developing and governing these standards:**
- **Participation on an equal basis:** To achieve the objective of developing and extending standards and norms so that they have the buy-in of all major economies and other significant actors, they should all be able to participate in their development and governance.
  - **Mutual interest:** The extension and further development of existing standards should start with areas that are now of most mutual interest and benefit. This will help to build the confidence essential for the process to gather momentum.
  - **Avoiding a race to the bottom:** Open processes should not lead to the weakening of existing standards and norms. Global standards cannot credibly govern economic activity if they end up as lowest common denominator rules. Rather, the objective must be to maintain and enhance the effectiveness of existing and future standards.
  - **Adapting existing institutions:** Many existing standards were drawn up by institutions set up originally to help advanced economies to address their common interests. As the global economy evolves, and as emerging markets also share some of these interests, governance in these institutions should be flexible and find ways – that do not necessarily involve membership – to ensure that new actors can be involved with these standards on an equal basis.

- **Transparent processes:** Finally, an open process for standards and rules should be transparent about why decisions are taken, and how they contribute to the further development and improvement of existing standards. This clarity will help to ensure greater consistency and coherence with other standards and the work of international institutions, which is covered later in this report.

3.6 Box 3 provides illustrative examples of some areas where such moves towards more open and flexible governance are beginning to benefit the process of further developing standards, and to incentivise adherence among a larger group of economic actors. These moves should build on successful models of flexible governance, or adapt the governance of existing institutions where appropriate and desirable.

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### Box 3: Developing standards of mutual interest

#### Anti-corruption

Global economic actors have a shared interest in fighting corruption and avoiding a race to the bottom on standards in this area, especially as corrupt practices move quickly between borders, undermine the rule of law, and damage economic and social development. There are a number of existing conventions in this area, such as the United Nations Convention Against Corruption (UNCAC) and the Organisation for Economic Co-operation and Development (OECD) Anti-Bribery Convention. G20 Leaders agreed at the Seoul Summit in 2010 to accede or ratify and fully implement UNCAC, and to engage more actively with the OECD Working Group on Bribery. Work should continue to ensure that these existing standards are global in nature, with participating countries involved in their development and governance on an equal basis.

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### Box 3: Developing standards of mutual interest (continued)

#### Competition

Equally, there is a strong interest in ensuring that competition and open markets increase consumer welfare, efficiency and productivity growth. Effective and fair competition is frequently opposed by vested interests, which can lead to harmful protectionism. Existing UN and OECD fora for competition policy cover aspects of this, but more can be done to fully address these issues. One option would be to develop overarching principles aimed at promoting robust and effective competition policy in all major economies. Such principles could cover the core functions of competition law and the importance of competition advocacy.

#### Export credits

Global economic actors share a common objective to ensure that there are clear and transparent rules on export credit support. A group of countries have already come together, through the OECD, to agree some common standards that start to constitute a framework for the use of officially supported export credits. Although this framework was established by OECD members, it now includes participants who are not OECD members and who have played a full part in negotiating current export credit standards in the civil aircraft sector. There may be benefits in widening all or part of such agreements to other interested countries along the model of the Global Forum on Transparency and Exchange of Information for Tax Purposes.

#### Development statistics

Many donors coordinate the measurement of and best practice on development aid through the Development Assistance Committee (DAC). Alongside the G20's work on development through the process launched by the Seoul Development Consensus for Shared Growth, the group of global major donors will continue to evolve. It would be useful to continue involving donor countries in the DAC discussions, including options to continue to reform the Committee with more open processes and governance.

# Part 4: Greater coherence in future governance

- 4.1 Previous sections of the report have proposed practical ways to strengthen existing international institutions, standards and rules so as to make them more effective. But the large number of established institutions and processes in place to address global challenges also illustrates the continuing need to make them work more consistently and coherently with one another.
- 4.2 Efficient governance in cross-cutting issues such as food security, energy and sustainable development is important because of the collective impact of these issues on global growth. The complex and interconnected nature of these problems, combined with the sometimes very different stances that countries take in confronting them, have contributed to many institutions being involved in tackling different and, at times, even the same aspects of these problems. There are two main issues:
- **‘Clutter’:** The large number of institutions and processes established has led to poor visibility about what role they are meant to serve. In any attempt to map out the main and auxiliary actors, the picture of who does what, and what functions they fulfil, is unclear. Where rough figures are available – a recent UN report suggested that more than 500 international treaties and other agreements related to the environment have been adopted, with around 50 global bodies overseeing them – they raise the question of organisational and systems efficiency.
  - **Silo working:** This complicated landscape of institutions may have exacerbated the tendency of individual organisations to focus on their own objectives, rather than looking at policy problems across silos. Despite different organisations working diligently towards their own objectives, their policies and actions could, in the absence of an integrated approach, lead to sub-optimal or even counterproductive outcomes.
- 4.3 The two problems are interrelated. The lack of global or other incentives to encourage cross-silo working increases the density of the organisational clutter, especially if new institutions or initiatives are established to fill perceived governance gaps. Even where political consensus on a specific topic is reached, clear political signals and direction become lost as they work their way through the complex governance system. The extent of the coherence problem is difficult to pinpoint, but the estimated cost of the incoherence caused by this could be substantial.

- 4.4 The issue of coherence in international cooperation and coordination is highly pertinent in a globalising economy. For example, the problem of food security is affected by competing uses for land, water and liquid fuels. Compensating for this by increasing agricultural production could lead to natural resource degradation in the absence of a strategy for good sustainable resource governance, and would run up against environmental stresses caused by climate change.
- 4.5 Some have argued that this problem of incoherence can be addressed by countries negotiating new formal institutions that are designed to dispense with current overlaps or gaps. However, this assumes that the factors contributing to the proliferation of existing institutions can be easily or quickly resolved. Rather than taking a structural approach to overcoming the twin problems of organisational clutter and silo working, a more practical way to proceed could be to introduce powerful incentives that encourage inter-institutional cooperation and coordination in order to achieve common ends.

### **Stronger cooperation and coherence**

- 4.6 The world's ability to make progress on cross-cutting issues such as food security, energy and environmental sustainability depends on the effectiveness of the range of international institutions active in these fields. Setting aside their specific mandate, continued efforts should be made to improve the operation of these institutions by promoting greater transparency and accountability, focusing on results, and managing monetary and human resources more carefully to maximise the system's overall impact. Reform programmes are already under way in some institutions; these should continue apace, and be adopted more widely.
- 4.7 However, individual institutions must also engage urgently with others in the global system to ensure that the solutions they are proposing match the nature and gravity of the problem they are trying to address. The case of food security above underscores the importance of more joint analysis on the impact of energy and food policy on global resources. Policy responses to global challenges need to be better coordinated, and actively involve actors who are increasingly influential or have expertise to offer, such as the private sector.

- 4.8 The integrated nature of the global financial sector has already demonstrated how problems in one country can quickly translate into vulnerabilities in another. Similarly, sudden shocks in one commodity market such as energy (through price and supply volatility) can have immediate repercussions on other markets such as food, impacting the poorest. It is often difficult to assess risk in these situations, and so institutions must collaborate more closely to properly understand and respond to potential weaknesses within these cross-cutting areas.
- 4.9 To achieve this, institutions need to share available data and other information more openly. Collaborative efforts to identify emerging vulnerabilities could be supported by market information, so that preparatory work and risk assessments are based on real-time data. The G20 can also play an enabling role in helping institutions to understand these risks. For example, G20 Agriculture Ministers agreed a new Agricultural Market Information System in June 2011 to provide better information on the stocks, supply and demand of four staple crops, complemented by a senior officials' forum for coordinating policy.

#### Joint reporting

- 4.10 The G20 has already taken some initial steps to promote greater governance coherence. It has systemically involved international institutions in summits, Ministerial meetings and working groups. This year, the G20 asked nine organisations to provide a joint inter-agency product which analysed options for addressing global food price volatility. Four organisations also worked successfully in September to provide the G20 with a combined report on fossil fuel subsidies. These exercises have compelled institutions to look past their own objectives and to consider recommendations in a more interdisciplinary context. **The G20 should continue to commission international institutions to work together in providing it with joint analysis or prescriptions that support the work of its members, respecting these institutions' own decision-making processes.**

#### High-level goals

- 4.11 A compelling way of incentivising greater cooperation and coordination is for political leaders to agree high-level goals around which global efforts can coalesce. The Millennium Development Goals are often cited as an effective exemplar of a call to action, set with a deadline for achievement by 2015. These goals sent a signal to relevant international institutions that individual bodies needed to cultivate a shared consensus with others in order to achieve the best outcomes.



- 4.12 Looking ahead, **the G20 should consider how it can lend its support to ongoing international efforts by formal institutions to further develop such high-level goals.** For example, work is under way, ahead of the Rio+20 Summit next year, on what action needs to be taken to deliver growth and progress towards global sustainable development, including the role of high-level goals. This work provides an opportunity to start developing a political consensus on what the appropriate framework for these global goals might be, and how to strengthen the coherence of governance in this area in a manner that is consistent with other potential international processes.
- 4.13 The international process for taking forward commonly agreed, high-level goals should consider their impact on:
- improving the effectiveness of existing institutions and processes, and avoiding their duplication and proliferation;
  - enhancing decision-making, implementation and progress monitoring across existing institutions; and
  - strengthening the transparency of cooperation and communication between existing institutions.





