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# PREVIEW POLICY REPORT

## FOR G20 SUMMIT IN ARGENTINA

**Global governance needs to be in tune with new realities and aim for sustainable future**

# | Foreword |

G20, the epitome of multilateralism, represents long and sustained efforts by leading economies in the world to jointly address common issues arising in the era of globalization. Leaders of the G20 nations are due to meet in Buenos Aires, Argentina on Nov 30 and Dec 1 to discuss issues under the theme of building a sustainable and fair consensus on development.

As our distinguished contributors point out in this report, G20, a mechanism of global governance, is at a critical juncture: We need to embrace change and reform with courage, or the bloc will be undermined against the backdrop of unilateralism and populism.

Despite the challenges, however, we can discern positive signs, of which one of the most prominent is sustainable development sought by a majority of the global community. A large portion of the report is dedicated to this topic through diverse perspectives – from poverty reduction to green finance.

The report was produced by China Watch Institute in collaboration with the Institute of World Economics and Politics of the Chinese Academy of Social Sciences. The IWEP is China's representative think tank in the Think20, whose knowledge and endorsement greatly enriched the topics and broadened the scope of the report.

In this report, we are pleased to invite 16 leading scholars worldwide to contribute and we would like to express our sincere gratitude to all of them.

China Watch Institute, China Daily's communication-led think tank, has produced three such reports this year, offering timely, thought-provoking research and analysis on China-related issues.

*China Watch Institute*

# PREVIEW POLICY REPORT FOR G20 SUMMIT IN ARGENTINA

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**PREVIEW POLICY REPORT**
**FOR THE 2018 FOCAC SUMMIT**

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# Adjusting directions and priorities of the G20 towards the future

By ***ZOU ZHIBO***, senior research fellow and vice-director of the Institute of World Economics and Politics, Chinese Academy of Social Sciences

It is always helpful when forecasting future development to look back on why and how a particular situation arose. Global governance is a case in point. The term refers to the joint participation of governments, international organizations and civil society in the coordination, arrangement and management of major global issues regarding the peace and development of mankind.

The theory of global governance was first proposed in 1990 by German statesman Willy Brandt. Two years later, the Commission on Global Governance was initiated by 28 globally renowned experts. The commission published Our Global Neighborhood report in 1995, which formulated the concept and values of global governance, and explored the relations between global governance and security, economic globalization, the United Nations reform and the rule of law.

The outbreak of the Asian financial crisis in 1997 exposed fatal flaws in financial systems at both international and national levels. To fix such

problems required the concerted efforts of all countries.

Therefore, in Cologne, Germany, in June 1999, financial ministers of the G8 – the eight industrialized countries – proposed to create an international forum that took in 12 other major economies. The forum, later known as G20, aims to shun financial turmoil by enabling multilateral dialogue between all stakeholders on international economic and monetary policies to help stabilize the global financial and monetary systems.

After the international financial crisis that crippled the financial world in 2008, the G20 was upgraded from a ministerial forum to a summit of state leaders, and the first summit was held in Washington DC in November of that year.

Bearing in mind the background, we know that the term "global governance" was coined to address common issues that emerged in the globalization process, and the G20 mechanism was created to deal with financial problems in the context of global governance.

However, global governance keeps evolving along with the profound changes in globalization and global mechanisms. Compared to 20 years ago or even two years ago, calls for protectionism and unilateralism have risen and this counters the trend of world development and impairs interests of all countries. Even worse, they will catalyze bigger problems – a distorted world order, the confrontation of big powers, geopolitical conflicts, etc. – that concern peace and stability, fundamental issues of humankind.

The G20, a key platform of global governance, should constantly adjust itself to the changing world, and in particular, respond quickly to issues relating to the future of humanity.

At present, the G20 has many distractions, deviating the concept of global governance from its priority. It is imperative for the G20 to clarify and focus on its missions, and chart the future course of development. In my view, the G20 should give priority to the following five aspects.

First, safeguarding multilateralism. This is a political mission of the organization.

Rising populism, protectionism, unilateralism and bellicose military strategies seen in some countries will undermine the global economy, trigger rivalry between big nations and exacerbate geological conflicts. In fact, a multi-polar world, economic globalization and diverse cultures are in the best interest of all nations, bound to prevail.

The G20 should hold high the banner of multilateralism, a consensus reached by most countries, both developing and developed ones. The G20 should express its voice unequivocally that it will defend peace and stability in a changing world, fight against any form of unilateralism that deviates from the UN Charter, and champion free trade, globalization and human development.

Second, accelerating reforms in international mechanisms. International mechanisms and rules should be adjusted since the global political landscape has altered. On one hand, the rise of emerging economies calls for a fairer and more reasonable international order. On the other hand, the US is walking away from a range of multilateral and bilateral agreements, discarding the current US-led order. Therefore, it is urgent to reform the existing international mechanisms. The G20 should push forward reforms in the UN, the WTO and other institutions to strike a balance in a shifting landscape.

Third, promoting regional economic integration. Regional economic integration conforms to the trend of globalization. Speeding up negotiations on regional free-trade agreements is urgent, in response to the counter-trend activities such as setting up trade barriers. G20 member states, all major economies, should facilitate regional free-trade agreements like the Regional Comprehensive Economic Partnership, and promote the established agreements like the Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

Fourth, drumming up aid to developing nations. The development gap is still widening. It is reported that the richest 85 people own as much wealth as the 3.5 billion poorest combined; that is to say, the 85 persons have taken the lion's share, about 47 percent of the world wealth. The uneven development has come to the fore in the era of globalization, becoming an increasingly thorny issue in global politics and economy.

Eradicating poverty is the ultimate mission of the UN, and a prerequisite to reducing international conflicts and stemming terrorism. Therefore the G20 needs specific and effective action plans in this regard, such as infrastructure, investment and finance, education and industrialization in the developing world.

Last but not least, protecting the environment. The future of humanity is at stake when the environment continues to deteriorate, through industrialization and resource-exploitation growth model. Even worse, the US announced its plan to withdraw from the Paris Agreement, a heavy blow to global environmental protection. In response, the G20 should make the environmental issue a priority and facilitate it at different levels from agenda setting, mechanism arrangement to concrete actions. ◆

# G20 faces a challenging world amid rising nationalism

By ***NICHOLAS STERN***, I.G. Patel Professor of economics and government at the London School of Economics and Political Science

The leaders of the G20 nations, who are due to meet later this month in Buenos Aires, Argentina, should promote greater international collaboration across the world to push back the tide of narrow and blinkered nationalism that threatens to make this the worst of centuries.

The past seven decades since World War II have been a period of extraordinary achievement in improving life expectancy, advancing education, reducing poverty and promoting growth in income. And to some extent we have seen progress on democracy and human rights too. Things really have become better.

But will that process of improvement continue? We can probably be confident of strong progress in education, and substantial advances in health over the next few decades. There are, however, major question marks over domestic and international economic policy.

The global economy will double in the next 20 to 25 years at an annual growth rate of around 3 percent. The world's infrastructure will likely double within 15 years. The population of the world's urban centers will double in around four decades, and these cities and towns will be shaped by decisions over the next two decades.

In particular, the infrastructure and investments we make in the next two decades will be decisive for our future. If it is anything like "business as usual", the world's future looks deeply dangerous, with greenhouse gas emissions that set us on a course to rises in the global average temperature of 3 C or substantially more, as the recent report by the Intergovernmental Panel on Climate Change makes clear. The world has not experienced such temperatures for millions of years and they could dramatically change where and how people could live, potentially leading to movements of hundreds of millions or billions people, with widespread and lasting conflict.

But fortunately, the world now has a shared agenda built around the Sustainable Development Goals and the Paris Agreement on climate change that were negotiated in 2015. Delivering that agenda will require a spirit of internationalism that must be shared much more broadly than simply amongst the negotiators of the international agreements. It has to be within the population as a whole.

There is so much the G20 can now do to take the lead in building a stronger, safer and more cohesive world. A key player will be China, particularly through its Belt and Road Initiative, which is an ambitious plan to help build infrastructure and connectivity with trading partners. It is also part of China's intended change in the structure of its own economy: As it moves up the value chain, it envisages partnering with manufacturing sectors in economies with lower wages.

The future of sustainability depends greatly on the quality of that infrastructure. There are more than 65 countries potentially involved in the Belt and Road Initiative, with a combined population of more than 4 billion. The effects on the Earth's climate could be devastating, if the development of their infrastructure follows the same high-carbon and polluting path as that followed by China over the last three or four decades, and before that, by the rich world.

China has begun a process of decisive change towards sustainable growth which is embodied in the 13th Five-Year Plan, from 2016 to 2020, and which

will likely accelerate in the 14th plan. The other G20 nations should collaborate with China as it changes its own economy to become higher quality and more sustainable, and works with other countries on infrastructure, with the purpose of promoting a much cleaner and sustainable pattern of growth across the world.

As the world moves towards this new sustainable, cleaner and stronger economy, it must be recognized that this will involve innovation and change. For some that will involve loss of jobs or dislocation in work. If the world is to avoid the negative politics in some rich countries that has produced the narrow nationalism, then that change and dislocation must be managed much better around the world than we have seen in the past. This means training and re-training, finance for entrepreneurship, moving new opportunities to affected locations and so on. In this way the cohesion and solidarity within and across nations can be maintained, enhanced and rebuilt.

It was remarkable that the world came together in 2015 to create the global agenda of the Sustainable Development Goals and the Paris Agreement, with more than 190 countries backing each. That agenda embodies both shared values and ambitions, and a creative and dynamic response to our choices. Together, we can deliver on that agenda and make this the best of centuries, with collaboration across generations and across nations. ◆

# Governance club faces rules challenge

By ***XU TAO***, research fellow of the China Institutes of Contemporary International Relations and director of Eurasian Social Development Institute of Development Research Center of the State Council

The G20, originated from the G7, is a quintessential global governance model of the 20th century. Even though it never became a full-fledged institutionalized organization, G20 aims to coordinate economic growth, fend off risks of energy and financial crises, and enable dialogue on sustainability between industrialized and emerging countries.

Its progenitor, the G7, emerged in the 1970s, when the rich world was reeling from the dollar crises and oil crisis. Initially, six advanced nations – France, the United States, Japan, the United Kingdom, West Germany and Italy – held informal gatherings to resolve differences in financial and energy policies and weather more severe economic crises to come. Canada later got on board, making it a loose forum.

From its birth to the early policies it adopted, the G7 was an example of Cold War geopolitics. Even after the former USSR collapsed in 1991, the former Soviet states, big or small, were generally treated as aliens and remnants of the USSR. However, confidence buoyed by victory in the Cold War, the G7 magnanimously welcomed Russia to the club as a major industrialized player.

At that time, scholars and think tanks in the West became less interested in possible crises arising from arms races and economic contentions, and more concerned about how to develop an effective system to integrate these economies of various sizes, none of which was ever part of the free market. Therefore, in the advent of the 21st century, finance ministers of the G8 decided to upgrade their forum to G20. This "the more, the merrier" club was to enable dialogue on issues of mutual concerns between developed countries and emerging markets, as well as a tool to maintain global economic stability.

In retrospect, the G20 has certainly contributed to the stability of the world economy, maintaining a just and inclusive world economic order, and promoting a stable environment to support the steady growth of emerging markets and developing countries.

However, many changes have since taken place to reshape the world economy. Major governance bodies and ideas of governance have changed, too. Therefore, G20, as a forum for governance, will have to change as well.

On the one hand, capitalist globalization continues to amass wealth at a dizzy speed and widen the development gap across the globe. On the other, developed nations with their financial prowess and cutting-edge technologies have intentionally pushed the global South to the lower end of the industrial chain. But Western powers are losing their grip. Their capacity to chart the course of the global economy and distribute wealth have been undermined by the decentralization of global strategic resources and the transfer of modern technologies.

As a result, the global governance institution, which took almost two decades to take shape, has been hammered by rising populism and unilateralism.

But the fatal blows are from its founding nations, which laid down the ground rules for a post-Cold War world.

For example, after Donald Trump was elected president, the US has declared to withdraw from Trans-Pacific Partnership Agreement, the Paris Agreement, UNESCO, the Iran nuclear deal and United Nations Human Rights Council. Recently, US government has even threatened to pull out of the Intermediate-Range Nuclear Forces Treaty. The big nations in the West are seemingly calling it quits before anyone else leaves the game.

Some pundits ascribed the situation to declining Western power and insecurity it has triggered. But the growing insecurity of those nations does not stem from their waning financial or manufacturing powers, as both research and data show they are generally in good shape, but from their diminishing control of the rules that they created in global governance. Gone are the days when they could manipulate those rules. Now they have to face up to a brand new global economic landscape of seismic changes.

In July, Chinese President Xi Jinping said at the BRICS Business Forum in South Africa, "Our world is undergoing profound changes unseen in a century". He also said "the next decade will be a crucial one in which new global growth drivers will take the place of old ones"; "the next decade will see faster changes in the international landscape and the international alignment of forces"; and "the next decade will see a profound reshaping of the global governance system".

Changes in global growth drivers mentioned by President Xi indicate the redistribution of wealth and resource endowment, as well as the transformation in the pattern of international relations. Ultimately, they lead to changes in international political and economic rules.

In this era of changes, the biggest variable is the rise of emerging economies and developing countries like China. They are going to claim higher percentage of global GDP and demand a bigger say in setting the rules. If the late-bloomers become the counterweight to the established, sparks will fly at the annual G20 summit.

Of course, globalization has shown that a zero-sum game would get us nowhere and all nations swim or sink together. Not every Western nation is pursuing beggar-thy-neighbor policies. When Trump is scheming to roll back "Made in China 2025", German Chancellor Angela Merkel pledges to align Germany's Industry 4.0 with China's manufacturing development plan.

Global forums need vision, wisdom and innovation. In this tempestuous times of great changes, the G20 alone cannot come up with a one-size-fits-all solution for all the problems. But just as political scientist Joseph Nye said, this year's G20 Summit can provide a platform for big nations to exchange ideas on rebuilding global governance. ◆

# The state of the world economy

By ***JIM O'NEILL***, chair of Chatham House

This time a year ago, the world economy seemed to be getting on a better plane. A number of cyclical indicators all suggested the world economy was growing around a 4 percent rates in the latter half of 2017, raising hopes that this would allow a multi-year end to the decade of 4 percent growth shared by many countries. These indicators included South Korean trade exports, the first country to report trade every month, which for the year as a whole reported the fastest rise in exports it had ever. Many countries were reporting accelerating monthly business confidence surveys as shown for example by purchasing managers indices (PMI). And some particularly troubled areas from earlier in the decade such as the eurozone, were showing especially encouraging signs. And at last year's annual IMF meetings, the fund revised up their world GDP estimate, something that continued at their spring meeting this year.

Now one year later, an only too familiar trend of this decade has returned and at the recent IMF meetings, the fund revised down their forecasts for 2018 and 2019. Those same cyclical indicators I referred to, with the slight exception of the United States, are all turning lower. The monthly German IFO index for example, a very useful barometer of both German and euro area business activity has

turned lower for a number of months, as have most euro area PMI surveys. South Korean export data has generally trended softer as the year has gone on, and a number of countries have got worrying signs, ranging from Argentina to Turkey. And of course, China is showing plenty of cyclical weakness even without the trade spat with the US. The US has been enjoying a cyclically strong 2018 so far but I share the views of many that much of this has been purely due to the large fiscal stimulus that President Donald Trump introduced but will fade into 2019.

There are also some specific policy issues that have grown that I shall discuss.

In Europe, we have some very peculiar political developments breaking out, the latest of which is the apparent decline of the two major centrist political parties in Germany, the CDU and the SPD. This has resulted in the news that Chancellor Angela Merkel will step down in 2021 but has immediately announced she is stepping down as head of her CDU party. This has potentially important implications given how stable the German political scene has been for years. And then of course, a standoff has developed between the Italian populist government and the European Union over Italy's unconventional fiscal plans. I have some sympathy that Italy needs policies to help it achieve stronger nominal GDP growth, not least as there is no way of that country can reduce its debt ratio without stronger nominal growth. But they cannot openly flout agreed EU rules as this would destroy the central premise of EU economic policy. Of course, given Italy's debt, neither they nor Europe could afford anything close to the crisis that Greece endured. This is a worrying thing that hangs over Europe on top of the cyclical weakness.

Then we have the usual consequences of a tightening US monetary policy and the usual dilemmas this always seems to bring for global financial markets, especially those massively dependent on the role of the dollar. Countries with large external current account deficits such as Turkey, and a number of others, often requiring to refinance dollar denominated debt at a time of rising US interest rates and weakening local currencies, will face considerable

uncertainties. An oddity of this situation is that this repeatedly reoccurs even though the US economy is not as important to the rest of the world as it is to global financial markets. This is a structural weakness of the world financial system and ultimately is not helpful for the US economy. The US exports more to many of these countries than it once did, and any weakness overseas will feed back into the US, which means 2019 doesn't look great for the US economy in my view.

This is compounded by the style of the US trade dispute that Trump has chosen to take to China. Between the two countries, nearly 85 percent of all global nominal GDP this decade has come from them, so a genuine persistent trade dispute between them almost by definition is negative for both and the world in general. One can only hope that Trump will agree a deal with China, rather than take even more extreme steps. It may be true that China has adopted some unfair trading practices but the idea that this particularly punishes the US in terms of trade is hard to objectively support. After all, Apple, an iconic modern US company sells as many expensive iPhones to Chinese consumers as it does to US ones.

Even without this trade problem, China was experiencing some serious fresh challenges. It appeared to deliberately accept a lower path for economic growth as it tries to conquer some of the domestic corporate and local regional debt burden, but it hadn't bargained for this trade challenge from the US at the same time, all on top of the rising dollar, and the same challenges of a dollar denominated debt that many other countries face. China will need to consider more domestic fiscal stimulus especially for its consumers, and give some concessions on trade, especially ones that may have some justification.

This forthcoming G20 meeting may be a more important one than many of us conceived of, even a few months ago. I hope the spirit of 2008 cooperation can be pursued 10 years later! ◆

# Global trade governance and Sino-US trade friction

By ***SU QINGYI***, senior research fellow and deputy head of Department of International Trade at the Institute of World Economics and Politics, Chinese Academy of Social Sciences

One important aspect of Sino-US trade friction is that there is a big divergence between China and the US in their views on China's fulfillment of its commitments to the WTO. In its report to Congress on China's WTO compliance in 2016, the US Trade Representative said it was a wrong decision for the US to support China's accession to the WTO. However, in June, China released a white paper, China and the World Trade Organization, stating that China has not only fulfilled its WTO entry commitments, but also went much further in the scope and depth of opening up.

Theoretically, there should have been no disagreement on China's WTO compliance between China and the US or any other WTO member. This is because first, the commitments China made on its WTO entry in 2001 were explicitly written in three documents: the Protocol on the Accession of the People's Republic of China to the WTO and two reports from the working party on the accession of China to the WTO. The two reports specified China's promises to open up its services market and the protocol defined the

country's other promises outside the realm of the services market. Second, what China has done over the years since its WTO entry should also be clear to all. There ought to be no disputes on whether China has met targets on the timetable and made improvements in a number of fields. Third, starting from 2006 the WTO has been conducting a biannual Trade Policy Review of China. Every member can check China's fulfillment of its commitments within the WTO framework. If anyone has complaints about China, the two sides can resolve the problem within the WTO review mechanism. In fact, the WTO's Dispute Settlement Mechanism can be employed to force China to make readjustments.

The US holds a different opinion but it is unable to specify which particular WTO rules China has violated. To illustrate my point, I would like to cite three examples from the latest report by the USTR to Congress this year on China's WTO compliance.

The first is about industrial policy. The report accused China of limiting market access for the benefit of its domestic companies by making policies such as technology transfer, "Made in China 2025", indigenous innovation, investment restrictions, subsidies and export restraints. But the report failed to mention which policy breached WTO rules. It had an even deeper misunderstanding of "Made in China 2025" by interpreting it as a conspiracy which supports domestic companies to steal foreign technologies and ultimately dominate international markets with Chinese products. The accusation was utterly groundless.

Another is that the report said that inadequacies in China's IPR protection present serious barriers to US exports and investment. As a result, China was placed on the Priority Watch List in USTR's 2017 Special 301 report. It is a typical "America First" mindset to claim that the level of IPR protection in China has a negative effect on the US. According to this logic, every WTO

member is entitled to accuse other members of violating WTO rules if it faces restrictions.

The third is about the opening-up of the service sector. According to the report, the US maintained that there were still many restrictions on China's service sector and the level of opening-up was not enough simply because the US share in China's service import was lower than its average global market share. Obviously, the report was written around US own interests, aiming at broadening market access for its own service providers. It criticized China mainly because the service sector in China was not as open as it had expected.

On the whole, the report accused China of non-compliance mainly because China's current policies did not meet US interests.

The USTR report believes that China's practice was not market-driven and the WTO could not stop China's market distorting practices. It believes this violated the US interests and inflicted losses on its domestic industries. According to the US, though WTO rules constrained part of China's behavior, the rules did not discipline the full range of China's behavior since they were not part of China's WTO pledges. Therefore, the US would resort to other means to press China into making corrections.

Obviously what the US does is unwarranted. First, the US is smearing China by confusing WTO rules and its own interests in judging China's level of opening and market practices. When most of the WTO members recognized China's efforts, it was not wise for the US to play up this issue. Second, the US turns a blind eye to the enormous contribution China has brought to the world, including the US, and it is so selfish that it blames China for not serving US interests. Third, it was irresponsible of the US to focus only on its own interests and advocate "America First". It is not right for the US to require other countries to make changes only to serve its own interests.

More importantly, if the US believes that China's behavior is not disciplined by the WTO, it can work with other countries to push for WTO

reform, instead of circumventing the WTO. The WTO's multilateral trading rules should be respected by all its members. So far, a number of WTO members have expressed the willingness to push for reform of the WTO, including the US, but its action does not match its words.

US complaints on China's WTO compliance reflect its expectations on WTO reform. It holds that the WTO needs new rules to constrain China's behavior. China is willing to participate in WTO reform to make it more adaptable to new developments in economic globalization and take it as an opportunity to push for its own reform and opening-up in relevant fields.

To sum up, although Sino-US trade friction is a challenge to global trade governance, WTO members, including China and the US, can also take it as an opportunity to transform global trade governance, especially the WTO. During this process, the G20 can play a big role as its members are very representative. If G20 shares a unanimous view on various areas of WTO reform, then it will be much easier for all members to reach a consensus. ◆

# G20 and sustainable development

By ***IVONA LADJEVAC***, head of the regional center Belt and Road, Institute of International Politics and Economics, Belgrade

There are open doubts about the G20's perspective to succeed in a matter in which other global governance organizations and institutions failed. The G20, as a new institutional form of cooperation, accomplished its goal in mitigating effects of the world economic crisis. Its multi-layer response to the challenges consisted of the stabilization of financial markets, coordination of financial regulatory reform and launching a global economic stimulus, was effective. It was proof that G20 activities could have a positive outcome in managing the global economy that is more than ever exposed to spillover effects. In that respect, the G20 should be far-sighted to recognize an early spark of a new crisis that could burst out and dismantle the financial system.

Although at this moment there is not any indication that such scenario will happen soon, the G20 leadership has various and important tasks to fulfill such as "to promote greater inclusiveness, fairness and equality in pursuit of economic growth and job creation". G20 finance ministries are aware that differences among countries about development, trade and budget imbalance are significant. Also, they are aware that they have great potential for generating new disturbances. Not only that the world would be faced with economic consequences, it would be challenged by ordinary

people provoked by inequality and unfairness that they perceive as a direct product of globalization. Since two-thirds of the world's population create 85 percent of global economic output and 75 percent of international trade live in G20 member states, it is understandable why the G20 has set sustainable development as one of its goals and defined its mission as advancing "strong, balanced, sustainable and inclusive economic growth".

So far G20 countries have undertaken efforts in that direction, but there is a requirement for deep transformation. Obviously governments are the key players, but the role of business and civil society also is very important. Coordination between them is necessary in order to create strategy and to plan activities that would be effective. In other words, there is a necessity of shared accountability in diminishing discrepancy between developing and developed countries.

In order to create a broader strategy that will advance international cooperation in economic and financial policies various efforts have been taken. Some countries even institutionalized sustainable development action plans, strategies and coordination units. On the other hand, high-income countries still are far from that, considering competitiveness as unaltered, they put its narrow goals above sustainable growth. Such position implies a rigid neglect of the existence and impact even of the most challenging global trends such as climate change, aging populations and effective use of resources. Special attention should be paid towards a widespread populism. This trend is not potentially dangerous because of its stands on world trade and globalization, but because of its neo-nationalist position. An effective response can be given only through the network of the international political and economic agreements that would offer opportunities to construct systemic outcomes.

Being one of the main inter-governmental platforms capable to address economic challenges, the G20 has taken actions in order to overcome policy and market-driven barriers, to close financing gaps, to innovate financing mechanisms and to improve financial integrity. All these actions equally took into account public and private financing. Along with that, obstacles that could

disrupt its securing are identified. In the area of public financing it is very likely that growing and competing demands will appear as one of possible constraints. Special attention should be paid to signals of high indebtedness, corruption, money laundering and tax evasion. Constraints differ when it comes to private financing. In that case they arose from below market expectations and an ineffective assessment of related risks and opportunities.

All constraints mentioned above should be equally treated and systematically taken into account that strong, inclusive long-term growth and sustainability, and a well-balanced financial system are top priorities. Preconditions for such action is the decisiveness of the G20 to advocate a more systematic approach of all actors involved including more collaboration. Collaboration on both policy and operational levels could be that particular driven force necessary for successful and transformative change of the financial system. An effective collaboration model should be based on a governance framework established on common principles and a transparent operational system. Apart from that is a necessity to involve all countries. That is the only way to consider the interest and situation of all developing countries. That is the only way that will make possible creating effective policies and implementation modalities.

In a long run such policies and modalities will affect the existing inclusion gap and introduce new mechanisms of debt resolution. Parallel with that are financial flows that should be followed in order to stop all inadequate or inappropriate transactions that could easily create either fragile or conflict situation.

To summarize, sustainable growth requires explicit measures taken at national, regional and international levels in the areas of economic, industrial, environmental and social policies. At the same time, it requires deploying of both private and public finances. Overcoming barriers across the global financial system and securing stable growth are the G20's top priorities that are going to be addressed in the forthcoming period. ◆

# BRI fuels cooperation with Latin American and Caribbean countries

By ***YANG ZHIMIN***, research fellow at the Institute of Latin American Studies, Chinese Academy of Social Sciences

Since the beginning of the 21st century, China-Latin America economic and trade relations have seen constant, stable development. Latin America has become one of the most dynamic regions for China's foreign trade cooperation. According to statistics from the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), China has become the second-largest partner in goods trade, the third-largest export market and the second-largest source of imports in Latin America since 2014.

Latin America is also the second-largest market for China's overseas investment. By the end of 2017, the stock of China's direct investment in Latin America exceeded $200 billion. So far, more than 2,000 Chinese companies have invested in Latin America, creating more than 1.8 million jobs there.

The close economic and trade cooperation between China and Latin America could be attributed not only to the complementarity in terms of resource endowment and economic structure, but also to the great importance to each other at a strategic level. A series of arrangements have established, from cooperative mechanisms

and platforms to specific measures that fundamentally guarantee the upgrading and stability of bilateral economic and trade cooperation.

In 2008, the Chinese government issued the first policy paper on Latin America and the Caribbean, providing a sound basis for the development of China-Latin America relations. The second policy paper released in 2016 further expounded the new ideas, proposals and measures towards Latin America and the Caribbean, in light of upgrading the relations to a comprehensive partnership of cooperation.

So far, 24 of the 33 Latin American and Caribbean countries have established diplomatic relations with China. Among them, many are comprehensive strategic partners or strategic partners of China, as well as China's cooperative partners in multilateral mechanisms like G20, APEC and BRICS, and also in South-South cooperation and rule-based global trade system.

Since the Belt and Road Initiative was proposed five years ago, it has been widely expanding the width and depth of China-Latin American cooperation. In May 2017 when the first Belt and Road Forum for International Cooperation, Chinese government made it explicit that Latin America and the Caribbean is the natural extension of the 21st-Century Maritime Silk Road. In February 2018 the second Ministerial Forum of "China-CELAC" released a special announcement on the Belt and Road Initiative.

So far, seven Latin American and the Caribbean countries have joined the Asian Infrastructure Investment Bank, and 14 have signed MOU with China on Belt and Road cooperation.

Boosted by Belt and Road, the bilateral cooperation between China and Latin American countries entered a new stage of integrative, comprehensive cooperation that could be styled as "1+3+6": one plan refers to Sino-Latin American and Caribbean Cooperation Plan (2015-2019), three driving forces that are trade, investment and financial cooperation, and six sectors including energy and resources, infrastructure building, agriculture, manufacturing, scientific and technological innovation and information technologies.

At the same time, the new mechanism on production capacity has been formed. It focuses on three sectors that are key to interconnection – logistics, electricity and information, with integrated efforts from enterprises, society and government. And the financing channels have been expanded to development funds, credit and loan and insurance.

China also introduced substantial measures, including setting up the Fund for China-Latin American and the Caribbean Cooperation, special loan for infrastructure projects, special-purpose loans, preferential loans for agricultural cooperation etc.

Looking into the future, China-Latin American and the Caribbean economic and trade cooperation has extensive prospects. On the one hand, China has huge market demand and outbound investment capacity. It is estimated to import as much as $2 trillion of commodities from countries and regions involved in the BRI in next five years. The first Chinese International Imports Expo, held in Shanghai in early November, is expected to serve an opportunity of negotiating the free trade zones as well as increasing imports to China.

On the other, there is a shortage of infrastructure in the Latin America and the Caribbean. According to the Latin American Development Bank, the accumulative investment in airport construction in Latin America is expected to reach $53.15 billion by 2040, to meet the surging demands of tourists that increases at an average rate of 8 percent.

Currently the economy and policies in Latin America and the Caribbean are undergoing drastic, in-depth changes and adjustments. It however will give impetus for the further innovation of the cooperation model between China and Latin America. ◆

# Cooperation between Argentina and China in the area of nuclear energy

By ***CARLA OLIVA***, chair of the China and Argentina Study Group, Rosario National University (UNR) and senior member of UNR's Center for International Studies

Nuclear energy is an increasingly important means of meeting the growing electricity needs of our societies. This energy, along with wind, solar and hydropower, can generate electricity without contaminating the environment by avoiding dependence on fossil fuels. The main difference between nuclear energy and the other three options is that it is the only one capable of producing and supplying enormous amounts of electricity on a global scale. For this reason, nuclear energy is key to achieving sustainable development. However, it currently contributes very low percentages to the world's total electricity consumption. In addition, it faces questions related to its security, punctually due to the potential dangers of an eventual incident.

Argentina has a strong scientific and technological structure in the field of nuclear development for peaceful purposes whose origins date back to the 1950s with the creation of the National Atomic Energy Commission.

Despite the marches and counter-marches that followed, around 2003, the nuclear plan was reactivated with the objective of overcoming the

effects of the energy crisis that affected the country. As a result, the Atucha II nuclear power plant (which was added to Atucha I and Embalse) was completed and the CAREM reactor was designed and built with proprietary technology. Argentina has come to export facilities, equipment and systems related to nuclear technology through the state-owned company INVAP.

For its part, China, in the framework of its strategy of economic growth, initiated its nuclear program by adapting foreign technology – in particular French, Canadian and Russian – and then evolving autonomously based on large investments in research and development. In recent years, Beijing has bet on the nuclear industry as a matter of national security, conceiving it as one of ways to sustain economic growth with a reduction in environmental pollution. China builds more nuclear power plants per year than any other country, mainly because nuclear energy is key to its "green economy" plan that aims to increase the use of non-fossil fuels by 20 percent by 2030.

In 2014, China approved the third-generation Hualong 1 reactor. This high-tech design with entirely Chinese intellectual property is not yet in operation as the reactor, whose containment dome was installed in 2017 at the plant in Fuqing, Fujian province, will be launched in mid-2020.

The rapid advances in the material and the vast domestic market have prompted Chinese authorities to promote the expansion of their nuclear technology on a global scale. Through its economic and political influence, the government supports its state-owned enterprises in their expansion abroad. In addition, it provides financing for the realization of projects through long-term loans, which makes its offers very attractive.

China has great challenges ahead: It must solidify its brand, prove its reliability, respect international standards, exhibit internal and international experience and obtain international approval. As a result, the government has implemented an extremely dynamic policy. The global expansion of its nuclear technology allows China to sit at the table of the great powers, permits it to

offer a solution to the difficulties of coupling economic development with environmental protection at lower costs than its competitors and provides an extraordinary source of income.

The nuclear cooperation between Argentina and China dates back to 1985, when they signed the Agreement for Cooperation in the Peaceful Uses of Nuclear Energy. Thirty years later, in February 2015, they signed a new agreement in Beijing, called the Agreement for Cooperation in the Peaceful Uses of Nuclear Technology. While the 1985 agreement laid the foundations for future cooperation, the 2015 agreement was signed within the framework of a prior rapprochement policy aimed at the construction of nuclear power plants with Chinese technology in Argentina. In this sense, it advanced to the point of including cooperation for the transfer of nuclear and non-nuclear material for reactors, equipment, facilities, and technologies. Through this, it provided a legal framework for the agreements that were being negotiated.

This milestone in the cooperation between Argentina and China, unprecedented until now because nuclear energy is still a relatively new technology, began in 2014. That year, the governments of Cristina Kirchner and Xi Jinping signed a framework agreement for the construction of a fourth nuclear power plant in Argentina, the Atucha III, which would be added to the three in operation. This plant would be built with Canadian CANDU technology and Chinese equipment, services, and financing. In November 2015, under the framework of the G20 meeting in Antalya, Turkey, a final version of a framework contract was agreed upon for the construction of a fifth nuclear power plant in Argentina, the Atucha IV, that would be equipped with the Hualong 1 reactor – which at the time was a prototype, also with Chinese financing.

Argentina became part of the group of countries that relied on Chinese nuclear technology, joining Pakistan, Turkey, South Africa, Romania, and the United Kingdom. Because of this, Argentina acted as an exponent of China's

nuclear technology in Latin America. Its relevance lies in the fact that it is a partner with a tradition in the development and application of nuclear technology for peaceful purposes that contributes to the Chinese need to show acceptance and solidify its presence abroad.

Argentina's presidential elections in December 2015 modified the environment in which contracts with China had been negotiated, not only related to nuclear cooperation, but also to other areas of the bilateral agenda. The triumph of the opposition candidate Mauricio Macri led to a revision and partial adjustment of some of the clauses of the treaties signed by the previous government with Beijing. The agreements for the construction of the nuclear power plants and their progress were now influenced by Argentina's political decisions and economic conditions.

Thus, in the middle of a strong currency crisis in May 2018 the Argentinian government announced to China the cancellation of the Atucha III project to avoid the indebtedness that its construction would imply. On the other hand, the Atucha IV continues to be the object of negotiations based on the Chinese interest in equipping it with the Hualong 1 reactor and making its nuclear technology visible. In relation to this plant, one of the objectives of Argentina would be to guarantee that it provides 50 percent of the technology and a completely local workforce. Likewise, the government must show an agreement that mitigates the criticism of the scientific field in the face of the budget reduction it faces. According to some information, both countries are planning to sign an agreement after the G20 Summit to be held in November 2018 in Buenos Aires. Just like in 2015, once again a G20 summit will provide a favorable environment for political interaction between the two countries.

These agreements are framed in a context of transition in the international system. It opens new scenarios that will define the configuration of the world order in the coming years. Part of those scenarios include the conflicts

between China and the United States. In Latin America, this struggle is visible in the significant Chinese initiatives that compete with the Americans, overcoming the commercial and financial scope when reaching sensitive areas such as nuclear cooperation, which helps China gain influence in the region.

It must be acknowledged that the Chinese government has been pragmatic, considering the difficulties raised from Argentina and renegotiating the agreements, mainly to avoid damaging its goal of internationalizing its nuclear technology. We believe that Argentina must sustain its international commitments by promoting the transfer of technology and knowledge. It is very probable that Argentina and China will reach an agreement to develop nuclear power plants, a fact that would allow us to analyze how Argentina's role evolves as an exponent of nuclear cooperation with China in Latin America and what domestic and international impacts it entails. ◆

# G20-Belt and Road synergy needed for infrastructure

By ***ZHU JIEJIN***, associate professor with School of International Relations and Public Affairs, Fudan University

Infrastructure investment, an important agenda for G20 summits as well as a core component of the Belt and Road Initiative, may become a platform where G20 and Belt and Road Initiative (BRI) could form synergy.

Infrastructure investment was listed as one of the two major topics by the host Argentina for the 2018 G20 summit, which may help developed economies and emerging markets reach the goals set in the Roadmap to Infrastructure as an Asset Class and the G20 Principles for Infrastructure Project Preparation. This will in turn attract flows of private capital into global infrastructure investment.

As more countries participated in BRI, the mechanism is becoming more multilateral and institutionalized at an accelerated pace. The second Belt and Road Forum for International Cooperation will be held in 2019.

Against this backdrop, favorable policies will create a window of opportunity to promote the G20 infrastructure agenda and to form synergy between G20 and BRI mechanisms by enhancing global governance coherence.

But there are still challenges hindering progress in G20 infrastructure investment. A

host of problems need to be tackled, including how to persuade the US and European countries to attach more importance to infrastructure investment within the G20 framework. Reviewing the past G20 summits, we can find that it was the inaction of developed countries that led to the sluggish progress in G20 infrastructure investment, which is an issue of enormous interest to emerging and Asian economies.

For example, South Korea, in its preparation for the 2010 G20 Seoul Summit, engaged in extensive consultations with various developing countries and international organizations, and decided to officially list infrastructure investment in the G20 agenda. This proposal received strong support from emerging economies including China, India and Brazil, as well as several Asian economies including Japan. They jointly established a high-level working group for infrastructure investment and asked the World Bank and other multilateral development banks to map out an action plan for infrastructure investment.

However, the 2011 G20 Summit in Cannes paid no real attention to the infrastructure initiative. France did list infrastructure investment in the Summit, but then French President Nicolas Sarkozy emphasized issues that had a bearing on his re-election such as health and labor. When it came to infrastructure, the Cannes Summit only expressed support in principle for the high-level working group, but made no substantial commitment to expand global investment.

Although the 2012 G20 host Mexico is a developing country, it emphasized its status as a member of the Organization for Economic Cooperation and Development (OECD). Therefore, it chose such issues favored by developed countries as health, the environment and green growth, and ignored infrastructure investment.

Considering the cool reaction of developed countries, emerging economies began to find a way out by themselves starting from 2012.

At the Fourth BRICS Summit in New Delhi, leaders discussed the possibility of establishing a new development bank to meet the urgent

infrastructure investment needs of developing countries. In August 2013, on the eve of the G20 Summit in St. Petersburg, BRICS countries reached a consensus that the New Development Bank would start with initial capital of $50 million and that they would arrange for further consultations on quota structure and governance. In 2013, during his visits to Kazakstan and Indonesia, Chinese President Xi Jinping proposed the building of the Silk Road Economic Belt and the 21st-Century Maritime Silk Road and to establish the Asian Infrastructure Investment Bank through joint efforts.

To prevent emerging economies from setting up a separate kitchen and in an effort to become a bridge between developed countries and emerging economies, Australia gave infrastructure investment a strong push at the 2014 G20 Brisbane Summit and put forward the proposal of a Global Infrastructure Initiative. Two notable achievements since the G20 Seoul Summit were made. First, the World Bank agreed to set up a Global Infrastructure Fund committed to pooling the capital resources of institutional investors like sovereign funds and pension funds and the professional know-how of the World Bank, and to encouraging private capital for infrastructure construction in developing countries. Second, the Global Infrastructure Hub was set up headquartered in Sydney, the only formal international organization in this sector, with the aim of sharing best practices, investment strategies and risk management tools, and to become a platform linking investors and projects and optimizing cooperation between governments and private capital.

In sharp contrast to Australia, the 2015 G20 Antalya Summit did not achieve any substantial results, although host country Turkey listed infrastructure investment among the topics and issued a financing report written by the IMF, the World Bank and the OECD.

At the 2016 G20 Hangzhou Summit, China listed infrastructure investment as a core topic and made prominent achievements. First, the summit adopted the OECD's Guidance Note on Diversification of Financial Instruments for Infrastructure and SMEs. Second, it issued the Joint

Declaration of Aspirations on Actions to Support Infrastructure Investment, proposed by 11 multilateral development banks, which calls for cooperation between old and new development banks and optimizing the infrastructure investment environment in developing countries. Third, the Global Infrastructure Connectivity Alliance was launched to enhance coordination and collaboration in this regard. The Secretariat of the alliance is based at the World Bank, aiming to engage in joint efforts with the Global Infrastructure Center, the OECD, other multilateral development banks and G20 members interested in the project.

However, at the 2017 G20 Hamburg Summit, Germany proposed to enhance infrastructure investment in Africa within the African Partnership, but failed to come up with any tangible measures.

In general, the biggest challenge is that the G20 adopts a rotating presidency. When emerging and Asian economies assume presidency, they give infrastructure investment due attention. But when the presidency rotates to traditional OECD countries, they tend to emphasize health, labor, environment and gender issues, and never really stress infrastructure investment. This leads to the G20's infrastructure investment deficit in leadership, continuity and execution. Against this backdrop, if we could synergize the BRI and G20, and leverage China's strength and leadership, we could provide support in leading infrastructure investment and offer new solutions to improving global governance through BRI. ◆

# Tapping potential of rural areas key to reducing hunger

By ***VINCENT MARTIN***, United Nations Food and Agriculture Organization Representative in China and DPRK

The challenges to ensure food and nutrition security for all in a contemporary world are complex and intertwined with a broad range of global political, financial and social development issues. Great progress has been made through the centuries in transforming our agricultural systems and this created the conditions needed to feed a growing world population. The results are evident. Today, we live longer, we are healthier and more people than ever before in history have access to food, in both quantity and quality.

However, as reported in The State of Food Security and Nutrition released by the United Nations Food and Agriculture Organization and four other UN agencies in October 2018, the number of people suffering from hunger remains unacceptably high and has been on the increase for the third year in a row reaching 821 million people. After many years of advances in fighting against hunger, we returned to levels of undernourishment that we witnessed a decade ago. Worse still is that today, multiple forms of malnutrition co-exist and obesity is on the rise worldwide, affecting 13.3 percent of the global adult population. If the trend continues, the

number of people who are overweight or obese will surpass the number of undernourished people in the world.

Meanwhile, a staggering amount of food is lost or wasted every year representing one-third of the food we produce, equivalent to 1.3 billion tons of food each year that ultimately does not reach our plates. In developing countries, the situation is aggravated by poor infrastructure and facilities for storage, processing, packaging and marketing. The implication is not only on the availability of food supplies but also on its enormous environmental footprint, generating annually about eight percent of total anthropogenic greenhouse gas emissions. These, in turn, will take their own toll on agriculture and our efforts to feed today's hungry and the additional two billion people we will need to feed by the middle of this century.

The question we need to ask ourselves is: How much time is left to get back on track for achieving the Sustainable Development Goals, especially SDG-2 which aims to eradicate hunger and all forms of malnutrition by 2030?

To address these challenges, we need a new way of thinking because the approaches we've become accustomed to through the centuries and in recent decades may no longer be as effective to help feed the population of tomorrow.

In search of alternatives, the focus must be on policy making – one that decisively shifts to more inclusive solutions that foster investment in rural areas, which remains central to the global objective of ending hunger by 2030. In doing so, there is scope for creating job opportunities, preserving our landscapes and cultures, limiting ill-prepared migration, fighting climate change and ultimately feeding the world. A rural focus is indeed critical as approximately 80 percent of the extreme poor today are living in these areas – and they are the most food insecure of all. The untapped potential of women in rural areas of many countries – giving them equal access to credit and land for example – would too be a huge help in producing more food with existing human resources.

For far too long, and in general, rural areas have been seen as poverty traps, but they can be dynamic and a source of social innovation. Transforming food

systems through rural development strategies and sustainable, climate resilient agriculture practices are central to this process and can unlock their potential. As such, rural towns and secondary cities can play a crucial role in structural and rural transformation by strengthening rural-urban linkages, creating higher demand for goods, services and food, helping to develop territorial markets (short circuits) and inclusive value chain models while generating employment that leads to poverty reduction (the FAO report State of Food and Agriculture 2017).

However, policies targeting investment in rural areas alone are not sufficient and must go along with a "whole food system" approach, building on everyone's participation and better individual choices, including on the way we consume food. We also need more solidarity at local, regional and global levels. In a globalized world, cooperation between countries is indeed becoming increasingly important to deliver international public goods and turning into an SDG mindset. As such, the Belt and Road Initiative launched by China, and its agriculture development component, has the potential to influence the food systems locally, regionally or globally and bring development and market opportunities to remote areas which have largely failed to benefit from the expansion of global trade for the last four decades.

However, to achieve effective rural development and alleviate poverty, BRI infrastructure investments are a "necessary but insufficient" condition. The impact of infrastructure investments on rural poverty and food security will depend on many different factors. Well-designed measures, that benefit both women and men, and complement infrastructure investments, are necessary to ensure that poverty alleviation, food security and pro-poor outcomes can be achieved. Private sector investment in activities such as agricultural production, logistics, storage and processing, are also encouraged and will be key to achieving the above-mentioned goals. To ensure that private agricultural investments benefit local communities and promote rural development, efforts should be made to ensure the investments and business models adopted use an inclusive and sustainable framework. This will benefit

both investors and local communities, by applying international standards such as the CFS-Principles for Responsible Investment in Agriculture and Food Systems, the Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security, and the OECD-FAO Guidance on Responsible Agricultural Supply Chains.

If there is no one-size-fits-all solution for solving such a complex global issue, there are reasons for hope and opportunities are emerging to unlock the potential of rural areas to meet the needs of many. Initiatives are flourishing around the world in this area, paving the way for more sustainable and inclusive food systems. From local to global, such initiatives must be connected and scaled up, supported by public policy and stimulated by private investment, if we are to have any chance of achieving the SDGs by 2030. If implemented successfully, such approaches can create the conditions to sustainably feed a growing population and fight poverty at the same time. ◆

# Summit should concentrate on multilateralism

By ***SHEN CHEN***, assistant researcher at the Institute of World Economics and Politics, Chinese Academy of Social Sciences

Multilateralism has three connotations at least. One, it is a diplomatic concept based on diffuse reciprocity and opposite of unilateralism or isolationism. Two, it is a diplomatic mode involving three or more countries. Three, it is an international instrument based on the concept of diffuse reciprocity and the principle of consultation and consensus, a salient example being the multilateral trading system.

As bargaining and compromise are often the case, it thus gives smaller countries a certain say and influence, and even sets the stage for them to join against big ones. Under this framework, big countries are prone to moral risks and material costs for their intention to seek control over other countries.

The G20 is an institutional form consistent with multilateralism. Compared to the G7, it is regarded as more diverse and representative as it also includes most influential emerging economies. With regard to rules, its resolutions, though lacking coercive power, facilitate all parties to reach a consensus and jointly carry out actions. In addition to member states, the G20 also invites multilateral organizations such as the

WTO and the IMF to participate, which highlights its importance in the multilateral governance system.

Over the past decade, G20 has facilitated dialogues and cooperation among major economies, and promoted reforms of the global financial governance mechanisms, which helped avoid a sustained economic recession. Despite the recovery in global growth, the global economy still faces downside risks due to trade protectionism and geopolitical tensions. However, the G20 members now lack a sense of urgency, posing a challenge to the initiative and effectiveness of its coordination.

It cannot be denied that post-war multilateralism was achieved under US hegemony. The US relied on its unparalleled strength to create a multilateral framework based on the so-called Constitutional Bargain that restricts hegemons to a set of relatively fair and stable rules. Out of the optimism of postwar multilateralism, Robert Keohane proposed a cooperative picture: When the US declines, other countries would, from the perspective of reducing transaction costs, continue to protect the existing international system.

The G20 has indeed constructed a multilateral framework accommodative to hegemonic cooperation, providing countries with more stable information channels and behavioral expectations, and greatly reducing uncertainties in national policies.

However, even if countries agree on matters of principle reached within the group, there are big differences in understanding and implementing them. As a result, bridging differences and reaching compromises are both the main goal and the difficulty for G20.

Recently, it has become even more difficult to pursue multilateralism with rising nationalism and populism in a few major economies. US government is willing to undermine or even withdraw from the rules and agreements created by the US itself in pursuit of pleasing US conservatives and some protectionist voters. The practice has created an international environment harmful to multilateralism. The US used its strong political and economic influence to

blackmail other countries. As a result, after reaching a compromise with the US, some countries were limited by terms and could not reach any agreement with the remaining countries which were thus trapped in a dilemma: Either to accept the unfavorable agreement or to be isolated and treated differently.

The reason for the Trump administration's non-cooperation is that under the existing international system (such as the multilateral trading system), the US benefits less than other countries do. Non-cooperation leads to losses for both, but the loss for others (such as financial turmoil or economic recession) is greater than that for the US. In sum, Trump has completely abandoned the Constitutional Bargain, the cornerstone of multilateralism in favor of a calculation of relative power and interests.

Multilateralism cannot impose effective constraints on its member states. The G20, for example, operates on the principle of consultation and consensus; so the US can veto any resolution that is not in line with its own policy even by 1:19. The past two years have proved that general international opposition failed to contain the US' damage to multilateral rules in areas of trade and climate. Of course, the G20 will not fail to support multilateralism. It accounts for 85 percent of the world economic aggregate and is the only international mechanism today that brings together the heads of the world's 20 most important economies.

Therefore, the G20 should not aim too high, but focus on safeguarding an amicable environment and maintaining basic principles of multilateralism.

In the long run, the international system depends not so much on hegemonic oppression and economic inducement as on normative principles such as free trade, sovereign equality and preferences of developing countries – that are all contained in the concept of multilateralism and will definitely prevail. The principle of multilateralism will not end with the withdrawal of hegemons or the alternation of hegemony. From this angle, the G20 should transform its function from crisis response to normative communication which pursues justice and equality. Based on previous experience in finance, taxation, infrastructure and anti-corruption, the G20 is capable of putting

forward a general document upholding the concept of multilateralism and reforming the rules of multilateral cooperation.

As G20 countries take turns to hold the presidency of the summit, host countries often play an important role in the drafting of the agenda and post-meeting declarations, with many articles reflecting their respective perspectives and positions. Despite the large differences among the member states, for the G20's own sake, host countries are better off diluting self-interest or ambitions and play the role of honest brokers to seek common ground.

Specifically, the host country should not deliberately ignore or emphasize certain specific positions. It must be pointed out that due to differences in resources, political systems, history and culture, some multilateral rules may not accord with an individual country's national conditions, affecting its political or economic security.

Therefore, the G20 should not only boycott protectionism by certain countries, but also adhere to the necessary limits of sovereignty to safeguard the basic rights and interests of all. ◆

# Is it possible to save the planet? Yes, but …

By ***JORGEN RANDERS***, president of the Club of Rome China, professor emeritus of climate strategy in BI Norwegian Business School

Nearly 50 years ago the Club of Rome made the world aware that physical growth cannot continue forever on a finite planet. In fact, the famous report *The Limits to Growth* that the club commissioned in 1970 warned that rapid growth in population, use of resources and pollution would have to stop within 100 years if humanity was not going to destroy the global environment and face social decline as a result.

In other words, the Club of Rome warned that if the world continued to pursue human wellbeing through physical expansion, the long term result would be a decline in wellbeing as a result of environmental damage and social conflict over scarce resources.

Last week the Club of Rome celebrated its 50-year anniversary in Rome. As part of the celebrations it received three new reports that supported the 50-year-old message and proved its continued relevance. All reports are based on scientific reviews of what has happened in the world since the club issued its first warning. All say that global society has made great progress over the past 50 years: Hundreds of millions of people have been freed from poverty – many of them in

China – and technology has reduced the footprint per unit of GDP.

However, all three reports also warn that human progress has increased the human pressure on all global boundaries, and has begun to exceed some of them – particularly in the climate arena. Global warming and the associated climate change and extreme weather are emerging as the main threat to human wellbeing for the rest of this century.

The reports stressed that global poverty remains a huge problem, and that all human beings have a right to a decent life. But they said it will be impossible to reach this goal, and many of the other UN sustainable development goals, unless the rich reduce their ecological footprint.

Fortunately the reports did not just sound the alarm once again. They also suggested a way forward. That proposal is most clearly described in the report "Transformation Is Feasible!". This report builds on a computer model similar to the World3-model used in the original The Limits to Growth report to the Club of Rome in 1972.

The analysis shows that if global society follows business-as-usual decision-making in the decades ahead, the world will not achieve general wellbeing for all, not by 2030 as the UN has decided, nor by 2050. Furthermore, the analysis shows that if global society tries to accelerate the move toward higher wellbeing through higher rates of economic growth, this will fail. It is true that more of the social sustainable development goals will be achieved, but the move will increase the pressure on global boundaries, accelerate environmental decline and lead to more global warming, sea level rise and extreme weather.

So what can be done? "Transformation Is Feasible!" says the best way ahead is to concentrate on five "transformational" measures. They are unconventional, a far cry from the marginalism that characterizes common democratic decision-making, and will be resisted in many quarters. But according to the authors they are the simplest way to move toward increased wellbeing for the global majority:

First, phase out all use of fossil fuels in an orderly manner by 2050. This measure alone will reduce emissions of $CO_2$ sufficiently to keep global warming below 2 C.

Second, shift agricultural practices (including forestry) toward green procedures that can feed all without depleting the soil and without emission of other greenhouse gases.

Third, move to a new development model for poor countries. More bluntly, follow the Chinese model, which has successfully doubled the income of the average Chinese every decade since 1978. No other system of governance has achieved anything like this.

Fourth, redistribute income, for example by increasing the taxes on the top 10 percent of the world's richest people, enough to pay the bill for a brisk move to a low-carbon and more egalitarian society, where everyone has the right to free education, health, unemployment benefits and a pension.

Fifth, support the impressive decline in global fertility over the past 50 years by offering to each and any woman free education, maternal health and contraception.

On its 50-year anniversary the Club of Rome resolved to pursue these measures. It also resolved to establish its association in China, complementing the 36 national associations for the Club of Rome that have emerged over the past 50 years. ◆

# G20 and climate governance

By ***TIAN HUIFANG***, senior research fellow and deputy director of World Energy Department at Institute of World Economics and Politics, Chinese Academy of Social Sciences

Climate change represents one of the largest risks to sustainable development. While the G20 agenda extends far beyond climate change, it has become an important platform to promote the implementation of the Paris Agreement, in particular after China as G20 presidency launched a Green Finance Study Group in 2016.

The 2018 G20 Summit in Argentina is just ahead of the COP24 in Katowice, Poland in December. One of the key insights from the G20 Argentina's priorities is promoting adaptation to climate change and extreme weather events with a focus on infrastructure, education, capacity building and job creation, as well as developing a long-term pathway of low greenhouse gas emission.

Four climate-related topics have been continually discussed and are expected to make important progress.

First is climate and sustained infrastructure investment. Addressing climate change requires significant investment in infrastructure for development. The G20's influence on multilateral financial institutions, development banks, and the private sector – all key players in this process – is essential to achieving these goals. Thus discussion

in this regard at G20 should aim to establish appropriate political frameworks, financing instruments and economic incentives to boost investment in climate-resilient infrastructure, to promote technological innovation, and to mobilize the resources needed to implement these projects.

Second is green and sustainable finance. Green finance concerns the financing of investments that generate environmental benefits as part of the broader strategy to achieve inclusive, resilient and sustainable development.

In 2016, leaders of G20 states for the first time recognized the need to "scale up green finance" setting out a series of steps to make this happen. Key countries issued strategies for greening their financial systems, with China in the vanguard launching a 35-point program. Importantly, these policy moves were closely connected with the rapid growth of green finance in the marketplace. The green bond market went from strength to strength, with an over $162 billion issuance during 2017, and estimated volume of $210 billion in 2018.

In 2018, Argentina renamed the G20 Green Finance Study Group, and identified three topics: promoting sustainable asset securitization, developing sustainable private equity and venture capital, and using fintech to develop sustainable finance.

Further progress on Green finance has also been made in other platforms. In 2017, Germany's G20 presidency advanced a "GreenInvest" dialogue platform to engage developing countries building national green finance systems to mobilize private investments towards a sustainable future. By the end of 2017, a Central Banks and Supervisors Network on Greening the Financial System was established by eight central banks including China, France and Germany to strengthen the global response and to enhance the role of the financial system to manage risks and to mobilize capital for green and low-carbon investments.

Third, climate-related finance risk and disclosing. The expected transition

to a lower-carbon economy is estimated to require around an investment of $3.5 trillion, on average, in energy sector a year for the foreseeable future, generating new investment opportunities. However companies that invest in activities that are susceptible to climate-related risks may be less resilient to the transition and investors may experience lower returns.

To help organizations identify and disclose the relevant information, and help investors, lenders, and insurance underwriters assess climate-related risks and opportunities, the Financial Stability Board (FSB) established a Task Force on Climate-related Financial Disclosures (TCFD) in 2015 to developed voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to stakeholders.

In 2017, TCFD provided a framework for companies to develop more effective climate-related financial disclosures through their existing reporting processes. While, as a TCFD 2018 review report showed, the climate-related financial disclosures are still in early stages, limited disclosure of environmental information has prevented many assets from going green.

The Task Force will continue to promote and monitor adoption of its recommendations in future, and develop methods and tools for green investing.

Fourth, transitioning towards more flexible and cleaner energy systems. A secure, economically efficient, greenhouse gas neutral energy supply is a fundamental prerequisite for economic growth and prosperity.

The G20 is expected to formulate a G20 energy action plan to better manage climate risks and ensure a reliable investment environment to promote de-carbonization initiatives. Building on the Energy Efficiency Leading Program agreed in 2016 G20 Hangzhou Summit and the Toolkit on Renewable Energies created under the Turkish presidency of 2015, Argentina presidency tries to give an action-oriented approach to assess the accessibility and affordability of energy in Latin America and the Caribbean.

A timetable for ending fossil fuel subsidies is also high on the agenda. Argentina will push forward the issue to encourage wasteful consumption, and energy data transparency.

In general, limiting temperature rise within 1.5 C requires coordinated solutions and international cooperation, including enabling ambitious adaptation and mitigation action, developing fair transparency and compliance arrangements and mobilizing means of implementation, especially with respect to finance, to support country and global action.

Although the decision of the US government to withdraw the Paris Agreement could add considerable uncertainties on global climate governance in future, one thing is clear – the shift to climate-consistent, green and, ultimately, more sustainable finance is unstoppable. From G20 agenda setting and progress, we can find that momentum is building to align the financial system with sustainable development goals, including climate imperatives. ◆

# Fighting climate change through a common carbon pricing initiative

By ***EDMOND ALPHANDÉRY***, former finance minister of France

The speed of globalization is fostering the community of destiny of all the people around the world. We can see it in the major challenge to mankind which is climate change. On this issue Europeans and Chinese have a lot in common.

Despite the numerous initiatives to reduce carbon emissions across the globe, the world desperately remains on a global warming trajectory of more than 3 C compared to pre-industrial era, far above the COP21 target. Without a powerful device to accelerate reduction of carbon emissions, global warming will continue blowing disastrous consequences, starting by multiplication of extreme weather events, ending up in mass migrations and hence geopolitical instability, jeopardizing life on our planet.

On July 16 in Beijing, at the 20th EU-China Summit, the two sides which celebrated the 15th anniversary of the EU-China Comprehensive Strategic Partnership, "acknowledged the urgency of addressing climate change and the importance of giving full effect to the Paris Agreement".

It has to be acknowledged that China, by launching what has become the world's largest carbon emissions trading market last Dec 19, is showing its ambitious goals to contribute to the

fight against $CO_2$ emissions. Since the launch of pilot carbon markets in China in 2011 the price of carbon has remained low: less than 30 yuan ($4.3) per ton. But according to the deputy head of the NDRC's climate change department, the price of carbon needs to rise in China to 200-300 yuan. A level that, when he made this declaration in December of last year, he hoped China to attain by 2020.

In the EU, European authorities agreed at the end of last year on an agenda to reach carbon emissions reduction target of 40 percent under 1990 levels. Since 2008 when the price of carbon was hovering over 240 yuan per ton, it has varied from 28 yuan in 2013 to below 64 yuan at the end of 2017. Since the beginning of this year, due to the recent decisions implemented, it has been steadily rising and is presently hovering around 200 yuan per ton. But we cannot be sure that the level presently attained will be sustained. We cannot exclude, as we saw in the past, a disequilibrium in the Emissions Trading Scheme (ETS) market leading to its downturn.

Up to now the EU has favored control of the quantities of carbon emissions over its price. It is unfortunate that the EU gets deprived of the most powerful device which is the signal given to all those who emit carbon of the price they have to pay.

We know now that this price mechanism is efficient. For instance, a $CO_2$ price was introduced in the United Kingdom 2011 budget and put into force in 2013. $CO_2$ emissions were reduced by 15 percent from 2012 to 2015. During the same period, $CO_2$ emissions fell by 5 percent only in the rest of the EU.

All around the world, putting a significant price on carbon is gathering momentum. Many initiatives in this direction have been undertaken in Canada, the US, Nordic countries and elsewhere. The World Bank has even put in place a "Carbon Pricing Leadership Coalition" in order to rally all those, public and private, who believe that carbon pricing is the best device to fight global warming.

It is not necessary to appeal to price mechanisms: common sense tells us that with a higher price of carbon, activities which induce high GHG emissions become more costly relative to those which require less or no carbon. The best incentive for producers and consumers to shift their behavior from highly carbon intensive to low-carbon or even free-carbon products is to raise the price of carbon.

If the EU wants to reach its objectives and keep its lead in the fight against global warming, it is due time that it makes a paradigm shift towards a carbon price-based system. The EU should be setting up a control of the amount of emissions permits available on the market of ETS so that the price of carbon does not fall under a floor which evolution over time could be planned long in advance.

We have to overcome political and social resilience to this carbon price targeting. We should not fool ourselves: The economic structures will have to adapt themselves to the energy transition and it is much better for industries to do this transformation in a smooth and foreseeable price environment which contrary to preconceived ideas would lead to more economic growth and more employment.

In order to encourage the European authorities to make a paradigm shift towards a carbon price based system, personalities coming from the European civil society, the business community, the academic world, elected bodies, be there heads of utility companies, industries or think-tanks, policymakers, are putting in place a Task Force which will promote the emergence of more efficient energy transition policy in Europe based on the use of the ETS market for giving a significant price to carbon.

When China launched its carbon market in December of last year, Climate EU Commissioner Miguel Arias Cañete said in a statement from Brussels: "As the US government turns its back on the fight against climate change, China, the EU and many others are forging ahead… With both the EU and China committed to emissions trading, two major international players are

championing carbon markets to meet their commitments under the Paris Agreement and curb emissions cost-effectively."

The EU-China leaders' statement on climate change and clean energy on July 16, 2018 in Beijing confirmed their commitment to step up their cooperation. This is very good news. In the detailed description of their cooperation, there are excellent initiatives which are most welcome. Let me add one of them, which in my opinion, would dramatically change the fight against global warming. There is no doubt that the resilience to adapt a price of carbon in the various countries of the world comes from the fact that firms are afraid of losing relative competitiveness due to the price of energy, and it is due time to start creating a level-playing field across the world.

Let me make the following suggestion which ambition is up to its huge potential impact: if the EU and China decided to engage into a protocol where they would agree to converge to the same price of carbon gradually enlarged to all emitters of $CO_2$ in the two blocks, they would give an extraordinary powerful signal to the rest of the world. And I have no doubt as well, at a time where the US under Trump is giving in to the temptation of isolationism, that such an initiative would strengthen the links between Europe and China. They would together give a signal of their common appreciation of the threat ahead to mankind, and it would prove that both China and the EU are together courageously and efficiently coping with the major challenge of our time. ◆

# China and G20: Lead by example on climate change, development finance

By ***KEVIN GALLAGHER***, director of the Global Development Policy Center at Boston University's Pardee School of Global Studies and co-chair of the T20 Task Force on International Financial Architecture for Stability and Development

As global heads of state convene in Argentina this month for the much anticipated G20 Summit, G20 leaders should commit to calibrating global development finance towards the Paris Agreement and the Sustainable Development Goals.

China has emerged as the world's leader in combating global climate change domestically, but its global development finance overseas is not aligned with such leadership. The United States has abandoned its leadership at home and abroad by quitting the Paris Agreement and eliminating regulations on coal and other climate change commitments. It will thus be up to China and other global actors at the G20 to lead.

In many ways, China has become a responsible stakeholder when it comes to climate change and global development finance. Not only was China a key participant in the Paris Agreement, it has spurred investment in solar and wind technologies that have led to a global drop in prices and the rapid diffusion of clean energy across the world. China is a leader in global development finance as well.

According to research at Boston University's Global Development Policy Center, the China

Development Bank and the Export-Import Bank of China now provide as much financing to foreign countries as the World Bank does. What is more, as part of China's ambitious Belt and Road Initiative and beyond, China has created approximately $170 billion in bilateral and regional development funds across the world that recently received a pledge of another $60 billion from China. China also helped create the New Development Bank with Brazil, India, Russia and South Africa, and the Asian Infrastructure Investment Bank with nearly 80 countries in Asia and across the globe. This financing couldn't come at a better moment.

According to the McKinsey Global Institute and the World Bank, unmet global infrastructure needs until 2030 top more than $3 trillion annually if they are to be conducted in a manner that is low carbon and socially inclusive. Yet, Global Infrastructure Facility, an initiative for public-private partnerships supported by the G20 and the World Bank, has attracted a mere $84 million and committed just $37 million.

To echo the G20 Eminent Persons Group, set up by the G20 to recommend reforms to the global financial system to promote economic stability and growth, new development finance will need "governance structures and internal incentives should be reoriented towards achieving development impact, rather than deployment of their own financing".

To be put more bluntly, additional development finance for the same set of development projects will stray us away from our common goals of a lower carbon and more socially inclusive world economy. Indeed, approximately 70 percent of global carbon emissions come from the existing infrastructure footprint of power plants, buildings and transport.

China has made some important steps, but China's overseas financing is not aligned with its Paris commitments nor the commitments of the host countries where it invests. On the positive side, the China Development Bank has been active in green bond markets, issuing a $500 million bond certified by the Climate Bond Initiative for low carbon wind, transport and water projects in China and Pakistan. Moreover, the China-led Asian Infrastructure

Investment Bank and the BRICS-led New Development Bank (where China is a major shareholder) have committed to sustainable energy as a core goal.

These efforts are a step in the right direction for sure but fall short of what is needed. Although China has emerged as the world's climate leader for its domestic policy, 80 percent of its overseas investments in energy are in fossil fuel extraction and generation – including billions of dollars in financing for overseas coal plants.

At the summit in Argentina, G20 leaders should commit to calibrating such finance towards a climate change goals. Some development finance institutions have been moving in this direction. The World Bank and the Asian Infrastructure Investment Bank have strict limits on coal finance, the World Bank also pledged to end financing for oil and gas. The Inter-American development bank will begin screening all projects for climate impacts.

Despite these steps, US President Donald Trump is under pressure to reverse this pledge, and he has already dismantled many of the regulations on coal and other harmful fossil fuels at home.

China can lead by example by aligning its global development finance institutions such as the China Development Bank and the Export-Import Bank of China with its domestic climate goals and the goals of recipient countries – by limiting investment in coal, oil, gas and other fossil fuels and focusing on cleaner renewable energies. Such a policy shift would not only make China the true global leader on climate change, it would also mean significant growth for China given that Chinese firms are now world leaders in solar and wind technology.

If China leads, other G20 countries will be less apt to be swayed by the irresponsible efforts by the US government on climate change, and help steer the world economy and the earth's climate in a better direction. ◆

# The role of the G20 in fostering sustainable growth via green finance

By ***DANAE KYRIAKOPOULOU***, chief economist and head of research at the Official Monetary and Financial Institutions Forum

Aligning the financial system with sustainable development to ensure economic prosperity compatible with a 2 C global temperature rise limit will require the involvement of actors across the financial system from international organizations, national policymakers and regulators to the private sector including ratings agencies, stock exchanges and investors.

The G20 is uniquely placed to lead this agenda, and has done so since April 2015 when it asked the Financial Stability Board to consider climate risk. This led to the launch of the industry-led Task Force on Climate-related Financial Disclosures to develop recommendations on climate-related financial disclosures while the G20 Finance and Central Bank Deputies meeting in December of that year in Sanya proposed the launch of the Green Finance Study Group (subsequently enhanced to be the Sustainable Finance Study Group). Under China's presidency of the G20 in 2016, green finance was officially added to the group's agenda, a momentum maintained under the German and Argentinian presidencies.

The multilateral commitment to promoting sustainable growth through green finance by the

G20 is increasingly important at a time when US President Donald Trump is reversing previous efforts by the United States to lead the agenda. Perhaps paradoxically, his decision in June 2017 to withdraw the US from the 2015 Paris Agreement – revealing a familiar undercurrent of global politics and a move from multilateralism to bilateral relations – has provided impetus and created momentum for others to advance efforts. Rhetoric is being matched with action, and the G20 is playing an important role in areas such as knowledge-transfer, standards-setting and coordination.

Irrespective of political debates, the financial sector is becoming increasingly aware of the risks from climate-related developments. Environmental degradation can affect financial asset values directly. Natural disasters such as storms, flooding, droughts and fires can lead to large financial losses. If insured, these will directly affect insurance firms through higher claims. If uninsured, the burden will fall on households and firms and reduce the value of investments held by financial institutions. In turn this could increase credit risk for banks if these assets serve as collateral for bank loans, leading to a reduction in credit supply and hurting household consumption and business investment.

There could also be a potential influence on monetary policy from climate-related volatility in headline inflation resulting from food and energy price shocks. Aside from natural disasters, even gradual changes in weather patterns such as reduced snowfall and rising sea levels in tourist areas can affect the value of equities and bonds, real estate and infrastructure assets.

There is also risk presented by the legal and adjustment cost that the financial sector will incur in transitioning towards a lower-carbon economy. Changes in climate policy, technology or market sentiment to avoid a more than 2 C rise in global temperature could cause a reassessment of the value of a large range of assets presenting risks to financial stability and the soundness of financial firms.

Climate risks could even have wider systemic impacts, for example through economic disruption, resource shortages, damages to the capital stock

and infrastructure, and associated reductions in productivity and increases in sovereign default risk.

The realization that climate risks are financial risks is a first step, but is not enough by itself. Financial markets often lack information about their exposure to such risks of sufficient quality and quantity to ensure appropriate allocation of capital. Policymakers and regulators are responding to this need under the recommendations of the G20.

In August 2016, the People's Bank of China (PBOC), China's central bank, along with six other ministries, launched Guidelines for Establishing the Green Financial System. The guidelines' objective is to mobilize and incentivize more capital investment in green sectors, enabling the transition to a low-carbon economy. The guidelines also stress the important role played by the securities market in financing green investment and require a gradual establishment of a mandatory environmental information disclosure system for listed companies and bond issuers.

Just over a year later, in December 2017, the central banks of France, the Netherlands, the United Kingdom, Germany, China, Singapore and Mexico founded the Central Banks and Supervisors Network for Greening the Financial System (NGFS) to allow central banks and supervisors to exchange experience, share practices and contribute to the advancement of environmental and climate risk management in the financial sector. The network's first progress report was published in October 2018, highlighting the role central banks can play as regulators but also as investors in advancing the green finance agenda.

So far, only the PBOC among NGFS members has a dedicated policy to promote green finance via monetary policy, and the central bank has also introduced green bond standards and green banking regulation. Additionally, China is the only major economy where compulsory requirements for listed companies to disclose their environmental plans and spending are in place, a critical initiative to help drive global markets towards the funding of more green projects.

Investors are also contributing, with the green bond market acting as a prime example of channeling funds towards green initiatives. While still small (green bonds outstanding total around $400 billion), the market is growing fast and annual issuance has been doubling since 2015. For two years in a row, China has been the world's largest issuer of green bonds, issuing $37.1 billion in 2017, almost a quarter of the global total in that year. This is up from $24.9 billion in 2016, the year in which China overtook France ($16.0 billion), Germany ($8.8 billion) and the US ($7.1 billion).

Climate change is too urgent a threat to allow for any complacency. The G20's work has created important momentum and it is crucial that this continues to drive the agenda. Specifically, the G20 should lead in promoting the standardization of green finance practices and enhance transparency and disclosure of environmental risks on a global scale, to help overcome the barrier of information asymmetry and inadequate analytical capacity with regards to green investments. More broadly, innovative financial solutions will be needed to overcome the maturity mismatches between the long-term returns of green assets and the short-term interests of investors and savers.

Finally, especially in developing countries, the low level of market development can act as a barrier for accommodating green finance investments. As an emerging economy within the G20, China has the responsibility to ensure that developing markets that may lack the fiscal space and ability to raise funds through capital markets can receive the necessary technical and potentially also financial support in implementing national sustainable finance roadmaps. ◆

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