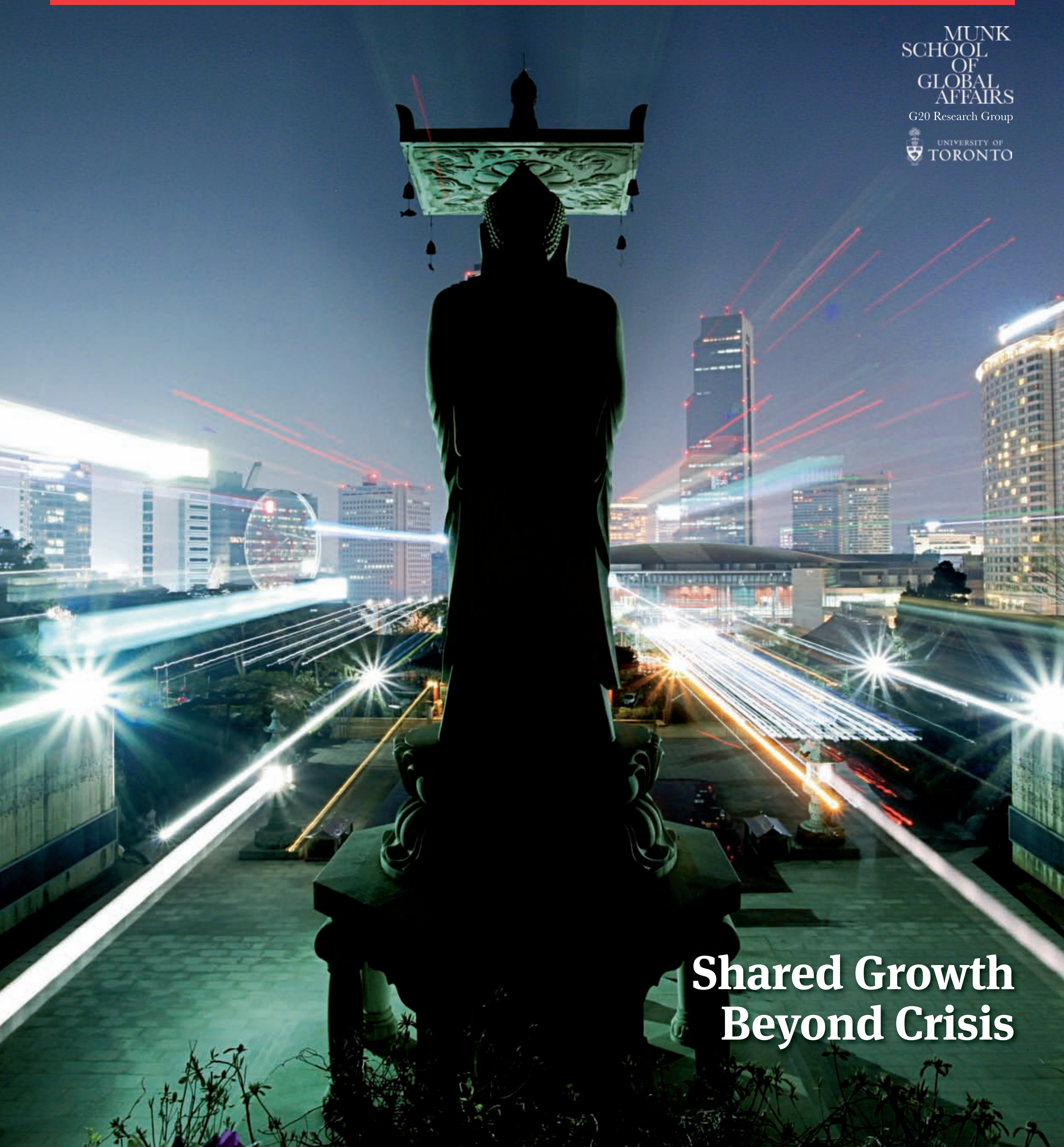
G20

Contributors include

Lee Myung-bak
Stephen Harper • Nicolas Sarkozy
Felipe Calderón Hinojosa • Angela Merkel
Herman Van Rompuy • Pascal Lamy
Robert Zoellick • Achim Steiner
John Agyekum Kufuor
Angel Gurría • Haruhiko Kuroda
Mark Malloch Brown

THE SEOUL SUMMIT — NOVEMBER 2010



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Shared Growth Beyond Crisis


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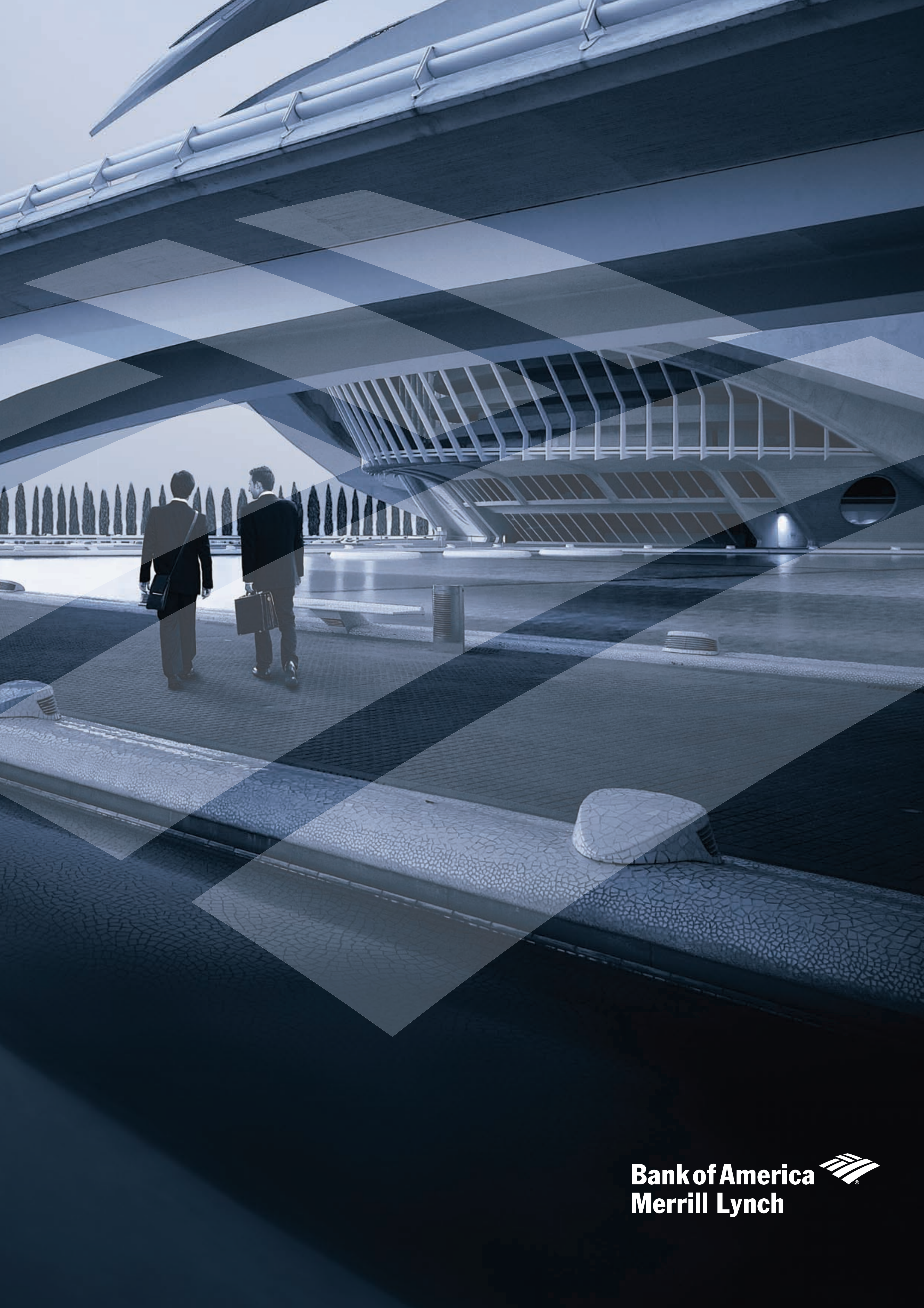
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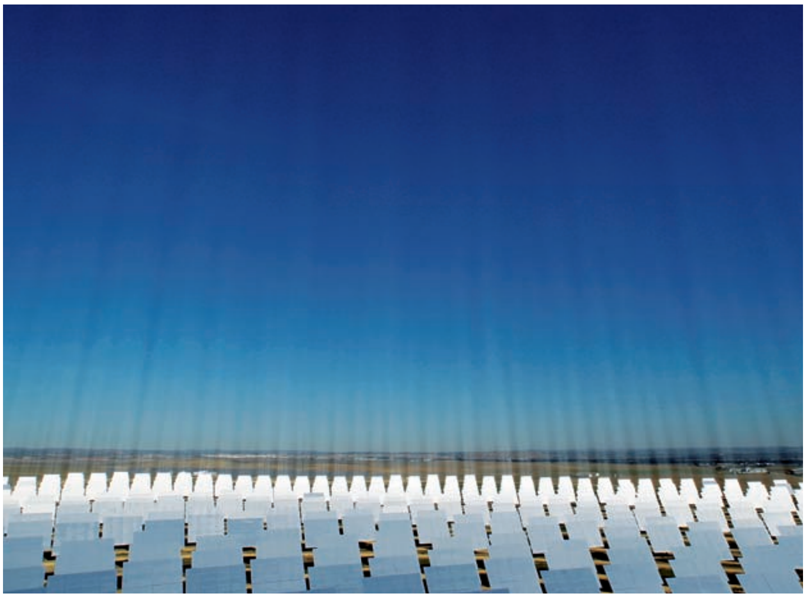

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G20

THE SEOUL SUMMIT NOVEMBER 2010

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Newsdesk Media Inc
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USA Tel: +1 202 904 2423 Fax: +1 202 904 2424

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MUNK SCHOOL OF GLOBAL AFFAIRS
G20 Research Group
UNIVERSITY OF TORONTO

In cooperation with the G20 Research Group
Munk Centre for International Studies,
University of Toronto, 1 Devonshire Place, Room 209N, Toronto ON M5S 3K7, Canada
Tel: +1 416 946 8953
www.g20.utoronto.ca

The road to Seoul: shared growth beyond crisis

Policy coordination will help drive the world toward sustainable and balanced growth

By Lee Myung-bak, president, Republic of Korea

The world economy faces a period of great uncertainty, buffeted by crisscrossing currents as it continues its recovery from the global financial crisis. However, the one fixed point amid the uncertainty is the assurance that the close economic cooperation among the G20 members forged during the recent crisis will continue to serve the world well in the future.

Although the global economy still faces many challenges, there can be little doubt that the unprecedented level of policy cooperation among the G20 countries takes much of the credit for steering the world economy away from potentially much worse outcomes. The newfound status of the G20 as the premier forum for international economic cooperation owes much to its proven successes to date.

As the leader of the country that chairs the G20 and hosts the leaders' summit in November, I promise that the G20 will continue its important role in coordinating policies to guide the global economy toward recovery.

But the G20 is about more than just crisis management. The Seoul Summit will see the G20 take a decisive step toward greater policy coordination. This year the G20 will build the platform for longer-term economic cooperation that will ensure the sustained and balanced growth of the world economy in the months and years ahead. For this reason, the motto for the Seoul Summit is 'shared growth beyond crisis'.

No one should underestimate the size of the task. Ironically, the proven success of the G20 presents greater challenges for policy coordination going forward. While the crisis was raging, the necessity of achieving policy coordination was easily impressed on everyone. As the immediate crisis abates or morphs into regional crises, policymakers need to be on their guard against complacency.

In addition, there may be legitimate differences in views on the appropriate pace and sequencing of exit strategies and the sustainable level of public debt. However, there is a shared recognition of the importance of cooperation, even if there are different opinions on the optimal course to chart. Everyone knows that the effectiveness of each country's economic policy is enhanced when pursued in concert with others. Such shared recognition means that there is much common ground to build on.

The to-do list for the Seoul Summit is long and formidable.

In Seoul, the G20 leaders are expected to pledge to implement financial sector reform to strengthen bank capital and liquidity standards and to address systemically important financial institutions and resolution issues. The new rules will build a more resilient financial system that serves the needs of the world's economies, reduces moral hazard, limits the build-up of systemic risk and supports stable economic growth.

The G20 is also expected to reach an agreement on the reform of the governance of the International Monetary Fund (IMF), following up on the pledges made by the leaders in previous summits. Modernising the IMF's

governance to reflect the relative weights of its member countries in the world economy is an essential element in maintaining the institution's credibility, legitimacy and effectiveness.

As a separate agenda item, Korea is working closely with the IMF on proposals to strengthen a global financial safety net that can help countries deal with capital volatility, financial fragility and crisis contagion with a pre-emptive response to financial markets that become disconnected from economic fundamentals.

The Seoul Summit will also mark a significant milestone for the Framework for Strong, Sustainable and Balance Growth, where policy coordination can be given substance in terms of specific roles for each member country. In this way, the world will move beyond finger pointing on the causes of the crisis, and turn to the forward-looking task of steering the global economy with common purpose.

In previous contributions to this summit publication, I have emphasised the importance of recognising the broader notion of balanced and sustainable growth, beyond achieving balance in a narrowly macroeconomic sense. The broader notion of rebalancing includes closing the gap between advanced and developing countries. Korea has placed this task firmly on the agenda for the G20 through its development initiative.

At the Toronto Summit in June, the leaders set up the Development Working Group, which is chaired by Korea and South Africa, to develop a distinctive development agenda for the G20 that can complement existing approaches.

The by-word of the Korean initiative is economic growth, and how a period of sustained economic growth can be an effective remedy for poverty. Korea is a country with first-hand experience of economic development that propels a country out of poverty — all within the living memory of a substantial fraction of its population. Korea has also experienced the devastating impact of a financial crisis and understands the efforts necessary to secure a robust recovery.

For these reasons, Korea has considerable street credibility when it comes to development issues. However, Korea's experience cannot always be translated directly into off-the-shelf solutions for other countries. The task for the Development Working Group is to distill the lessons that can be applied more broadly into a set of G20 development principles, which will then be backed up with specific undertakings by the G20 leaders.

In placing development as a core agenda item, Korea is keenly aware that many developing countries are not represented in the G20. Korea is conducting extensive outreach efforts through consultations with international organisations. It is conscious of the importance of ensuring that the fruits of strong and sustainable growth are shared evenly among all countries, including the poorest.

Although the financial crisis brought the G20 together and forged an effective coordinated crisis response, it is now incumbent on the global community to translate the momentum that has been generated toward establishing a forum that can take a genuine global leadership role for longer-term issues. The Seoul Summit will play a decisive part in ensuring shared growth beyond crisis. ◆

Namdaemun, Seoul: Korea has experience of the economic development needed to lift a country out of poverty

서울 정상회의로 가는 길: 위기를 넘어 다 함께 성장

대한민국 대통령
이 명 박

세계 경제는 현재 세계금융위기를 지속적으로 극복하고 있으나, 혼란스러운 사태가 연속적으로 펼쳐지는 매우 불확실한 시기에 직면하고 있습니다. 그러나 이런 불확실함 속에서도 확실한 한 가지는, 최근 위기시 형성된 G20간 긴밀한 경제 협력이 미래에는 지속적으로 잘 이루어질 것이라는 것입니다.

비록 세계 경제가 여전히 많은 도전에 직면하고 있지만, G20 국가간의 유례없는 정책 협력으로 세계경제가 보다 악화될 수 있었던 결과를 피할 수 있었다는 점은 의문의 여지가 있을 수 없습니다. G20이 세계 경제 협력의 최상위 포럼으로 새로운 지위를 부여된 것은 현재까지의 입증된 성공에 기인한 것입니다.

11월 G20 서울정상회의를 유치하고 G20의 의장국 역할을 하는 한국의 지도자로서, 나는 G20이 세계 경제를 회복의 길로 이끌도록 하는데 정책을 공조하는 주요한 역할을 지속적으로 해나갈 것을 약속합니다.

한편 G20은 단순히 위기 관리를 넘어 더 많은 것과 관련됩니다. 서울 정상회의에서 G20은 장기적인 정책 공조를 향한 결정적인 조치를 취할 것입니다. 금년에는 G20을 통해 세계경제가 향후 몇 년간에 걸친 지속적인 균형 성장을 보장할 수 있는 장기적 경제 협력의 틀을 마련하는 것을 볼 수 있을 것입니다. 이러한 이유에서 서울 정상회의의 모토는 "위기를 넘어 다 함께 성장" 인 것입니다.

그 누구도 이러한 과업을 과소평가해서는 안 됩니다. 아이러니하게도, 정책공조에서 G20이 이미 성공하여 향후 정책 공조를 더 진전시키는 과정에서 더 큰 도전을 받을 수 있습니다. 위기가 절정에 달하면 모든 사람들은 정책 공조를 위한 필요성을 쉽게 인식하게 됩니다. 그러나 눈앞의 위기가 약화되거나 지역 차원의 위기로 전환할 때, 정책결정자들은 안도감에 빠지지 않도록 경계해야 합니다.

또한, 출구전략의 적절한 시행 순서와 속도 및 지속가능한 공적 부채의 수준에 대한 견해는 나름대로 정당한 견해차가 있을 수 있습니다. 그러나 비록 최적 수단에 대한 이견이 있을 수 있으나, 협력의 중요성에 대한 공통된 인식은 여전히 존재합니다. 어떠한 경우라도 개별국가의 경제정책 효과는 주변 국가들과 함께 이루어질 때 높아진다는 점은 모두가 알고 있습니다. 이렇게 공유하는 인식은 상호 쌓아올릴 공동 기반이 많다는 것을 의미합니다.

서울 정상회의의 과업 리스트가 많고 얕잡아볼 수 없습니다.

서울에서는 G20 정상들이 은행자본 및 유동성 기준 강화와 체계적으로 중요한 금융기관(SIFI)과 청산 문제 제기 등을 해결하기 위한 금융부문 개혁 이행을 약속하는 것을 기대하고 있습니다. 이러한 새로운 규제들은 보다 복원력 있는 금융시스템을 구축할 것입니다. 이런 시스템은 세계 경제의 수요를 충족시키고 도덕적 해이를 줄이고, 체계적 위험의 늘어나는 것을 방지하고, 안정적인 경제 성장을 지원할 것입니다.

또한 G20은 IMF의 지배구조 개혁에 대한 합의가 이루어지기를 기대합니다. 이는 기존 정상회의에서 정상들의 합의를 이행하는 것입니다. 세계경제에서

각국의 상대적인 비중을 적절히 반영하기 위해 IMF 지배구조 개혁을 현대화하는 것은, IMF의 신뢰성, 정당성 및 효과성을 유지하는 핵심적인 요소입니다.

별도 의제로서 한국은 국가들이 경제실물과 분리되는 금융시장에 사전 대응책으로 자본변동성, 금융취약성 및 위기 확산 등에 대처하는 것을 도우기 위해 글로벌 금융안전망 강화를 위한 제안을 IMF와 긴밀히 협조하여 만들어 가고 있습니다.

또한, 서울정상회의에서는 강하고 지속가능한 균형 성장을 위한 협력체제(Framework)를 위한 중요한 이정표가 될 것입니다. 동 협력체제는 정책 공조를 통해 G20 회원국들에게 실질적인 내용을 제공할 수 있을 것입니다. 이와 같이 위기의 원인에 대해 잘잘못을 따지는 것을 넘어 공동 목표를 통해서 세계 경제를 이끌어 가는 미래 지향적인 과업에 우리 자신을 몰두할 수 있을 것입니다.

나는 지난 번 기고에서 좁은 거시경제 의미의 균형을 넘어 보다 지속 가능하고 균형된 성장 개념을 인식해야 한다는 중요성을 강조한 바 있습니다. 재균형의 보다 넓은 개념은 선진국과 개도국간 격차를 줄이는 것을 포함합니다. 한국은 개발이니셔티브를 통해 동 임무를 G20 의제에 확실히 올려 놓았습니다.

지난 6월 토론토 정상회의에서 정상들은 개발에 대한 기존의 접근방법들을 보완할 수 있는 차별화되고 분명한 G20 개발 의제를 발전시키기 위해 한국과 남아프리카 공화국이 공동 주재하는 개발실무그룹을 설치하였습니다.

코리아 이니셔티브’는 경제성장입니다. 지속적인 경제 성장을 어떻게 빈곤 해소를 위한 효과적인 수단으로 활용할 수 있느냐는 것입니다. 한국은 경제발전을 통해 빈곤을 성공적으로 퇴치하는 과정을 직접 경험한 국가로서, 많은 국민들은 아직까지도 이러한 역사를 기억하고 있습니다. 또한, 아시아 금융위기의 엄청난 충격과 함께 견고한 경제 회복을 확고히 하는데 필요한 노력을 잘 알고 있습니다.

이러한 이유에서 한국은 개도국과 신흥국가들과 공유할 수 있는 성공 및 실패 경험을 통해 얻을 수 있는 다양한 교훈들을 가지고 있습니다. 그러나 우리는 모든 국가들에게 직접 언제나 적용될 수 있는 해결방안이 될 수 없다는 것을 알고 있습니다. 개발 실무그룹의 임무가 G20의 개발원칙에 보다 광범위하게 적용될 수 있는 교훈들을 잘 다듬어 정제하는 것입니다. 동 개발 원칙들은 각국 정상들이 구체적인 실천 사업을 통해 지원할 것입니다.

한국은 개발을 핵심의제로 하면서 많은 개도국들이 G20 에 대표되지 않고 있다는 점을 민감하게 인식하였습니다. 이에 한국은 국제기구 및 지역 기구와의 협의를 통해 폭넓은 외연확대 노력을 하고 있습니다. 우리는 최빈국을 포함한 모든 국가들이 강하고 지속 가능한 성장의 결실을 공유하는 것을 확실히 보장하는 것이 중요하다고 알고 있습니다.

금융위기로 우리가 함께 효과적으로 공조를 통해 위기 대응하였으며, 이제 보다 장기적인 이슈들에 대해 진정한 세계적 리더십 역할을 할 수 있는 포럼을 구축하기 위해 지금까지 생성된 모멘텀을 전환하여야 합니다. 서울정상회의는 위기를 넘어 다 함께 성장을 보장하는데 결정적인 역할을 수행할 것입니다. ◆

From Canada to Korea: advancing global leadership through the G8 and G20

Leaders at the G8 and G20 summits in Canada united on many global political, security and economic issues. The Seoul Summit needs to keep the momentum going and ensure that promises are kept, while future priorities are brought to the fore

By Stephen Harper, prime minister, Canada

In June 2010, Canada had the honour of hosting two international summits back to back. G8 leaders met in Muskoka on 25-26 June, and G20 leaders met immediately after in Toronto, on 26-27 June. At these summits, I had the opportunity to engage in frank, focused discussions with other world leaders on some of the most important global challenges the world is facing today.

Under Canada's G8 presidency, leaders renewed their focus on the most pressing development and peace and security challenges. The Muskoka Initiative on Maternal, Newborn and Child Health was the signature initiative of our summit. G8 members committed $5 billion in new and additional financing for the Muskoka Initiative until 2015. Members expect to mobilise significantly greater than $10 billion by 2015. For its part, Canada committed CA$1.1 billion in new money for the Muskoka Initiative and renewed existing funding of CA$1.75 billion over the next five years, for a total of CA$2.85 billion over five years.

Canada was also able to leverage these funding commitments to encourage support and further contributions from other governments, the private sector and international organisations. Indeed, the Muskoka Initiative was developed in close cooperation with the United Nations and the World Health Organization — the pre-eminent international organisations involved with the advancement of maternal and child health. Financial commitments were secured from a broad range of organisations, including several Organisation for Economic Co-operation and Development member donors and private foundations, such as the Bill and Melinda Gates Foundation. The Muskoka Initiative also made a key contribution to achieving the globally set Millennium Development Goals (MDGs) by building momentum toward the High-Level Plenary Meeting on the MDGs held in September 2010 in New York at the UN. This will make a difference in the lives of women and children in developing countries.

A hallmark of the Muskoka Initiative was a new commitment to accountability, a major priority of Canada's G8 presidency. Donors and recipients alike, including the G8's African partners, have committed to implement the Muskoka Initiative in a mutually accountable fashion. Our commitment will be tracked through an accountability mechanism. To this end, the G8 released the *Muskoka Accountability Report: Assessing Action and Results against Development-Related Commitments*. This is a landmark document that will help ensure the G8 lives up to the commitments it makes. It has set an important precedent for future summits.

G8 leaders spoke with a strong common voice on key security issues, such as nuclear proliferation and security vulnerabilities arising from terrorism, conflict and organised crime. We notably sent clear messages to Iran, urging it to comply with its international obligations regarding its nuclear programme. We condemned the 26 March attack that caused the sinking of the Korean naval vessel *Cheonan* and demanded that North Korea refrain from committing any attacks or threatening hostilities against the Republic of Korea. In addition, we discussed a number of other key situations, including Afghanistan.

The discussions that took place among G20 leaders in Toronto will help ensure that the group lives up to its relatively new role as the premier forum for our international economic cooperation. In Toronto, we agreed that the G20 Framework for Strong, Sustainable and Balanced Growth established in autumn 2009 is key to coordinating global economic cooperation. We identified specific measures to be undertaken over the medium term that will help put the global economy on a path to more sustainable growth. In this respect, a major success in Toronto was the adoption by leaders of targets put forward by Canada that will see advanced economies at least halve their deficits by 2013 and stabilise government ratios of debt to gross domestic product, or put them on a downward path by 2016.

In Toronto, progress was also made on the G20 financial

Canada's prime minister Stephen Harper and Korea's president Lee Myung-bak at the G20 summit in Toronto

sector reform agenda, which will help avoid a return to the excessive risk-taking that contributed to the recent crisis. In particular, leaders agreed that to strengthen financial regulatory frameworks, the amount and quality of capital held by banks must be significantly higher, and that new, stronger rules must be complemented by more effective oversight and supervision. Another key Toronto outcome relates to financial sector responsibility. While the G20 leaders agreed that the financial sector should make a fair and substantial contribution toward paying for burdens associated with government interventions, we also recognised that specific policy approaches will vary from country to country. In this respect, while some G20 members may choose to impose new taxes on financial institutions, most, like Canada, will not enact such measures.

The G20 has been leading a range of reforms that will improve the legitimacy, credibility and effectiveness of international financial institutions. In Toronto, the G20 was able to deliver on a number of earlier commitments, such as ensuring $350 billion in general capital increases for multilateral development banks, which will allow the banks to nearly double their lending in support of development. In Toronto we also endorsed recent reforms at the World Bank and called for an acceleration of efforts to advance additional quota and governance reforms at the International Monetary Fund (IMF).

In recognition of the role that international trade and investment play in supporting global recovery and sustainable growth, in Toronto G20 leaders agreed to renew for a further three years, until 2013, their commitment to refrain from imposing protectionist barriers to trade and investment. We also reiterated our support for bringing the Doha Development Round of negotiations at the World Trade Organization to a balanced and ambitious conclusion and committed to maintain momentum for Aid for Trade.

We made much progress on the global economic agenda in Toronto, but our work is far from complete. When G20 leaders meet in Seoul, Korea, on 11-12 November 2010, we need to maintain momentum on implementing the commitments made in Toronto and at past summits to ensure that there is no backsliding in the recovery of growth and jobs. This includes monitoring the Toronto commitments to rein in government deficit and debt, and building on the policy actions identified in Toronto under the G20 Framework for Strong, Sustainable and Balanced Growth so that in Seoul we can announce a comprehensive action plan to improve global growth and development prospects.

> "A hallmark of the Muskoka Initiative was a new commitment to accountability, a major priority of Canada's G8 presidency"

We also need to maintain the momentum on regulatory and financial sector reform. In particular, in Seoul we need to reach agreement on specific means to raise capital requirements for banks, improve financial sector supervision and address the problems associated with systemically important financial institutions. Regarding international financial institution reform, in Seoul G20 members should be ready to announce that they have fully ratified the 2008 IMF quota and voice reforms, completed the current quota reform and, in parallel, delivered on other governance reforms at the IMF as agreed in Toronto.

The Seoul Summit will also be important for setting forward priorities for the G20 beyond crisis management. In Toronto, G20 leaders agreed to undertake additional work on development and anti-corruption, and we established two new working groups on these issues. We look forward to reviewing their progress and proposals in Seoul.

Canada's 2010 summits demonstrated that the G8 and G20 have distinct but complementary roles to play in addressing global development, peace and security, and economic challenges.

We can all be proud of the achievements made in Muskoka and Toronto, as we look forward to building on this work, in collaboration with G20 leaders in Korea this autumn and with my G8 and G20 counterparts next year in France. ◆

Plans for France's G20 Summit in 2011

International monetary reform, agriculture and governance are just some of the issues on France's 2011 agenda

By Nicolas Sarkozy, president, Republic of France

There are moments in history when fate wavers between the best and the worst possible outcome. Moments when all that has been achieved could be lost or, conversely, lead to lasting progress. We are at one of these moments now.

The global economy has not yet resumed the path of solid and sustainable growth, yet the G20 must prove that it has the determination to pursue the necessary reforms.

At the big table where the decisions are made, new actors have joined the recognised powers. With good reason, they are calling for their rights to be recognised. But they must also accept that with these rights come duties and responsibilities. They must recognise that their amazing success means that they must go beyond the defence of their national interests and must make their contribution to solving the world's problems. This momentum has begun.

In 2011 France will assume the G20 presidency for one year and, on 1 January 2011, that of the G8.

Created at France's behest, the G20 represents 80 per cent of the planet's wealth. It enabled the main economic powers to successfully weather the most severe crisis since the 1930s.

It did so first by supporting world growth in a coordinated manner. Thanks to the G20's efforts, the world experienced renewed growth earlier than expected.

But to save the global economy in the long term, there must also be new rules for the financial system. Reforms that not long ago would have been unthinkable have been decided and implemented: the activities of speculative funds are now regulated; ratings agencies must be registered, the payment of bonuses by banks is defined by strict rules, and penalties are in place in the event of losses or poor performance. Tax havens are disappearing. Five hundred agreements to exchange tax information have been signed since the G20 in London in 2009. Bank secrecy is on the wane, and sanctions have been implemented against tax havens that do not adopt the new international rules.

It was necessary, in fact, to engage in a dialogue to resolve, in the long term, the dangerous imbalances in the global economy. That dialogue was launched with the establishment of the Framework for Strong, Sustainable and Balanced Growth at the Pittsburgh Summit in November 2009. In 2011, it must be deepened and enriched: coordination mechanisms must be consolidated, multilateral oversight must be strengthened and expectations must be raised with respect to the commitments that were taken, including concrete economic policy measures and a timetable.

All in all, the 'crisis version' of the G20 has done a fantastic, even unprecedented, job. Today, now that relative calm has returned, there is a temptation to limit the G20's ambitions to implementing its decisions, supplementing them in 2011 by expanding regulation where it remains insufficient, verifying the implementation of tax exchange information agreements, adopting strong measures to fight corruption, strengthening the mandate of the Financial Stability Board and, more broadly, re-examining the prudential framework of banking institutions to avoid a repetition of the recent crisis.

Completing the work that is under way is important — the G20's credibility depends on it. But is it enough?

Sticking with this agenda would condemn the G20 to failure and the world to new crises.

Paradoxically, it was easier to be bold when the world was on the brink of a precipice and there was no choice. Today, there is the choice either to complete the projects under way and deal with unforeseen developments as they arise or to add those projects that have remained at a standstill for far too long, and on which global prosperity and stability depend. France offers its partners the choice of ambition with a single conviction: that only the G20 has the weight, legitimacy and decision-making power to give these projects of the future the impetus they need.

What are they? France will consult its partners on this subject. For its part, it identifies three: the first is the reform of the international monetary system.

No one can deny that the instability in currency exchange rates is a substantial threat to world growth. Businesses cannot plan for production and exports when the euro suddenly shoots from, say, parity with the dollar to $1.60, before tumbling back down a few weeks later to $1.27.

“Together, can we build a more secure, more prosperous, more just world for all?”

Post-war prosperity owed a lot to the rules and institutions of Bretton Woods. What are necessary today are the instruments to prevent excessive currency volatility, the accumulation of imbalances, and the search for an ever higher level of foreign exchange reserves for emerging countries facing the sudden, massive withdrawal of international capital.

France plans to suggest that this delicate issue be broached with its partners, without taboos but with the necessary caution. Basically, three tracks could be studied.

First, crisis management mechanisms must be strengthened. Since 1990, emerging countries have experienced 42 episodes of sudden international capital withdrawals, jeopardising their stability and growth. These international guarantee mechanisms and institute must become more effective, faster multilateral instruments to prevent and handle these crises.

The tools offered by the International Monetary Fund (IMF) are currently under study. The financial crisis, as well as the crisis of the euro, showed that to guarantee stability, the world must be capable of swiftly mobilising very large sums to deal with irrational market speculation.

Reality has revealed the illusion that opening capital markets is always progress. It is legitimate for countries that depend heavily on foreign capital to take steps to regulate it at times of crisis. The best guarantee against a rise in protectionist risks, in this area as in others, is the development of multilateral rules.

The suitability of an international monetary system dominated by a single currency in a now-multipolar world must be re-examined. The accumulation of foreign exchange reserves in certain countries corresponds to the deepening current account deficit in the United States.

In London, the G20 countries decided on an allocation of 250 billion in special drawing rights. The availability of an international reserve asset that is not issued by an individual country would help strengthen the stability of the system as a whole.

Finally, there must be a better way to coordinate the economic and monetary policies of the major economic zones. The G20 in Pittsburgh established the framework that must allow each member to implement the appropriate economic policies to achieve high, stable growth while reducing international imbalances.

But the G20 must go further, and define a new framework for consulting on foreign exchange developments beyond the G7 finance ministers and central bank governors.

Discussing these issues calmly, within the most legitimate, most effective forum — the G20 — is necessary.

The second project to undertake is controlling volatility in the prices of raw materials, which is happening with the sudden rise of wheat prices.

Who does not remember the hunger riots in Haiti or Africa when the prices of certain foodstuffs suddenly skyrocketed in 2008? Who has forgotten the tragic consequences of sudden rises in the price of oil and gas, followed by equally sudden drops, for the global economy?

First, the G20 should consider the actual functioning of derivative markets in raw materials. Extending regulation to raw materials is possible and desirable. Speculation should also be limited.

Next, with regard to agricultural raw materials, several directions could be explored without preconditions, such as market transparency and storage policies, and also the creation, by international financial institutions, of tools enabling importing countries to protect themselves against exchange rate volatility.

Finally, with regard to the cost of energy, on the G20's agenda since the Pittsburgh Summit, France was given the mandate to propose measures for Seoul and for the 2011 summit to curb price volatility. France recommends transparency measures and a substantial dialogue between producers and consumers to limit exchange rate fluctuations.

The third project proposed for the French G20 presidency is global governance reform.

The G20 has declared itself 'the premier forum' for global economic and financial issues. But it must still give itself the means to work more effectively. Shouldn't we create a G20 secretariat to continuously monitor the implementation of decisions and deal with issues in conjunction with all pertinent international organisations?

Shouldn't the G20 also include new subjects, such as development, on its agenda? Should it not adopt rules of good conduct and best practices for public aid? Should it not debate innovative financing, notably a possible tax on financial transactions? This financing is essential if the Millennium Development Goals and the financing objectives of the Copenhagen climate change agreement are to be met.

And should the G20 not discuss financing a climate agreement? Cancun will be important, but the November 2011 meeting in South Africa will probably be the decisive time to seal an agreement. The G20 summit in France will be held just before that.

France will also suggest a broader debate on world governance. The G20 gave a decisive impetus to World Bank reform; it should do the same, in the coming months, for the IMF. How can it ignore the specialised UN bodies dealing with the economy, jobs, trade…? They all need reform. They all must learn to work together better.

How, in this context, can we not send a strong signal to the UN General Assembly on an interim reform of the Security Council? Without this decisive effort, that reform — debated at the UN for 20 years now — will remain deadlocked for a long time to come.

All nations must answer a simple, decisive question: together, can we build a more secure, more prosperous, more just world for all? ◆

Adapted from an address to the 18th Ambassador's Conference, 25 August 2010, Elysée Palace, Paris.

The G20 as a lever for global development

The Seoul Summit will give G20 leaders the opportunity to move forward and agree on the necessary measures to consolidate economic recovery

By Felipe Calderón Hinojosa, president, Mexico

The countries of the G20, through their coordinated actions and resolute response, have been successful in addressing the international financial and economic crisis that began in 2008. Now it is time for the G20 to shift from its 'crisis mode' and work with vision and determination to consolidate itself as the essential institution of the new global economic governance system. A strengthened G20 will allow us to tackle the frail and uneven recovery with its accompanying persistent unemployment and market instability. It can also become a vital forum for building the solid foundations needed to achieve high rates of long-term global growth and dynamic economic development.

The G20, as a broad forum that includes developed and developing countries from all regions of the world, represents an opportunity to foster the level of international coordination needed in an increasingly complex and interconnected global economy.

Current global problems demand creative and innovative solutions. The G20 summit in Seoul, the first to be hosted by an emerging economy, constitutes an excellent occasion to reaffirm the G20's willingness to build toward these goals.

As a first step, leaders should work together to strengthen the G20 and enhance ownership among all its members by including a greater variety of topics on the agenda. So far, the G20 has focused only on the economic crisis for understandable reasons. However, starting in Seoul, we must ensure that the talks better reflect the concerns and priorities of all members.

The G20 should also redouble its efforts to create positive links with other countries and international organisations. The G20 must not be perceived as a negotiating forum that looks to impose its decisions on the rest of the world. Rather, it should consolidate itself as a constructive player on the global scene, capable of proposing general policy principles and facilitating agreements in wider multilateral forums.

Mexico strongly supported the G20's decision to include development on its agenda. Promoting worldwide development from a broad and cross-cutting perspective should be the G20's ultimate goal, given its broad membership. In this sense, Mexico is actively participating in the creation of multiannual action plans for the G20 summits in the areas of infrastructure, private investment and job creation, human resources development, trade, financial inclusion, food security, governance and knowledge sharing.

As a priority, the G20 must learn from past crises and push for a far-reaching overhaul of the global financial

architecture. The reform agenda for financial regulation and supervision that we agreed on at our first summit in Washington in 2008, and that we have been perfecting ever since, is a step in the right direction. But we must not lose momentum in this process. We face the challenge of building a more resilient, transparent and stable financial system and, at the same time, ensuring that these measures do not increase the cost of capital or reduce the availability of credit for emerging economies. To this end, for instance, Mexico fully welcomes G20 discussions on ways to strengthen financial safety nets.

Modernising and strengthening international financial institutions should be an issue of major concern to the G20. Mexico has been supportive of initiatives to increase the financial capacity, legitimacy, transparency and accountability of major international financial institutions. In this field, an important governance reform has been agreed upon for the World Bank, and the G20 members should show greater flexibility and work harder to attain a similar reform for the International Monetary Fund (IMF) by the Seoul Summit. This reform would be the complementary piece for the recent substantial increase in the capital base, resources and array of instruments of the IMF.

Mexican President Felipe Calderón Hinojosa attends the opening plenary session of the G20 Summit in Toronto, Ontario

> We face the challenge of building a more resilient, transparent and stable financial system

In the current global economic juncture G20 members must show to the international community leadership and determination to face the short-term global economic challenges related to establishing credible fiscal consolidation plans, implementing far-reaching structural reforms and setting a policy framework for a coordinated approach to exchange rate policies. These elements are essential to consolidate a more even global economic recovery and fulfil the purpose of a strong, sustainable and balanced growth for the short, medium and long terms.

G20 members must also reinforce global coordination in the implementation of the regulatory reform and capital requirements for the financial industry. This financial reform should generate a level playing field in the global financial system and avoid unintended negative effects, particularly in emerging market economies.

G20 countries have generally fulfilled their commitment to keep their markets open to trade and investment, and this has proved to be the right choice to foster recovery. Mexico has consistently supported this objective and taken concrete steps in this sense. However, the G20 must still deliver on its pledge to conclude the Doha Development Round as soon as possible. More flexibility and commitment are needed from the main actors in the process. The G20 must tap its potential to broker a deal among those actors and thus facilitate a historic agreement at the World Trade Organization.

Most importantly, the G20 also has the responsibility of recognising the inextricable relationship between economic development and environmental sustainability. As chair of the forthcoming United Nations Climate Change Conference, to be held in Cancun starting at the end of November, Mexico will call on the G20 leaders to join together to ensure the success of the negotiations. We are certain that the political support of G20 will provide a valuable boost to the negotiations.

Mexico will continue supporting the G20's efforts to eliminate inefficient fossil fuel subsidies, as well as on new issues such as the fight against corruption and the protection of the global marine environment. We have always contended that the G20 should be flexible regarding its agenda, and must be ready to tackle new issues if the international situation demands it. The G20 must always strive to produce concrete results and to add value to the work already being done by other international institutions.

In short, at the Seoul Summit G20 leaders will have the chance to transcend the immediacy and urgency of the crisis, agree upon the necessary measures to consolidate the economic recovery and look toward a longer time horizon. The goal is ambitious: to set the foundations of a more equitable, transparent and fair international architecture that effectively promotes sustainable development for all the world's peoples. It is an opportunity we must take. ◆

The German and European contribution to global financial stability and growth

German, European and international cooperation in the G20 highlights a shared commitment to a sustainable, balanced and strong path to economic growth

By Angela Merkel, chancellor, Federal Republic of Germany

"Financial sector reform must be implemented fully and internationally. This also constitutes one of the objectives at the summit in Seoul"

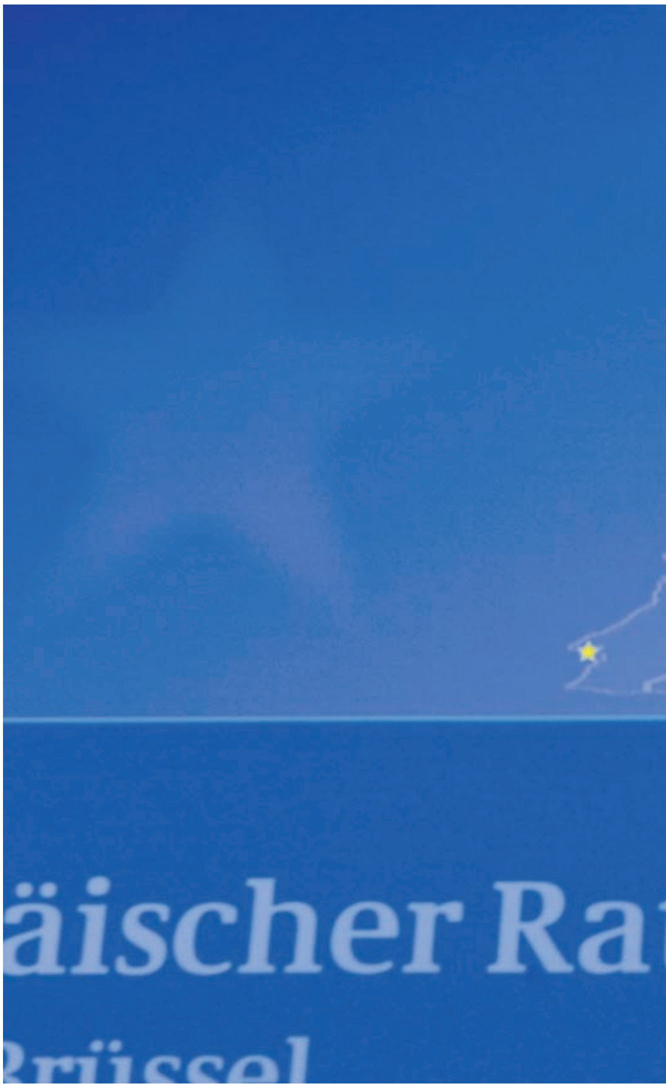
The global economy is once again on the path to growth, gradually recovering from the crisis that erupted in the financial markets. In July, the International Monetary Fund revised its global growth forecast for 2010 upward to a present value of 4.6 per cent. This positive development would hardly have been conceivable had the G20 not reacted to the crisis appropriately.

Of course, the top concern on the agenda was, and continues to be, the reform of the international financial system. The G20 leaders are committed to do everything in their power to prevent such a crisis from happening again. Financial sector reform must be implemented fully and internationally. This also constitutes one of the objectives at the summit in Seoul.

An important step on the way to a financial system that is better able to withstand a crisis is to increase equity standards for banks. An important breakthrough has been reached with the latest proposals submitted by the Basel Committee on Banking Supervision. The requirements for equity — both in terms of quantity and quality — and liquidity standards should be tightened. Germany expressly supports these proposals. To increase the stability of the financial architecture, the new equity regulations must be implemented in all countries of the G20.

In accordance with the G20's goal to create the framework for the restructuring of international financial institutions and to provide incentives to reduce systemic risks, Germany proposed draft legislation in August. The establishment of a restructuring fund is being planned to finance the restructuring or controlled settlement of financial institutions with minimal impact on the financial markets. The fund is supplied by bank fees whose amount will be aligned with the bank's systemic risk.

At the level of the European Union, the European Commission is working on a harmonised legal framework for national restructuring systems. It will soon present proposals for legislation. There has been substantial progress on improving control in Europe. European controls, which will be established as of 1 January 2011,



will improve the quality and coherence of controls in the European Union and will make an important contribution to ensure the stability of the financial markets.

With all these provisions — facilities for restructuring or settlement in case of a crisis, regulations for derivative markets, strengthening of control and avoidance of distortion of competition — the goal that every financial market, every participant in the financial market and every financial instrument is subject to appropriate regulation and control is even closer than before to being met.

The shared commitment to a sustainable, balanced and strong path to growth is one of the important elements of our international cooperation in the G20. With its measures to strengthen the economy — in the total of more than €100 billion — Germany has played a considerable role in halting the downturn. Business enterprises made extensive use of reducing work hours and retaining their permanent staff while employees proved to be especially flexible and accepted temporary reductions in remuneration. The result speaks for itself: the number of unemployed workers today is lower than before the crisis erupted.

The fact that Germany has navigated the crisis better than many other countries is further evidence of the success of its economic and social model of a social market economy, which has been proving itself for decades — a system that is supported by extensive social consensus and good cooperation among government, business and employees. In an international comparison, Germany as an economic location can win points with the exemplary

German Chancellor Angela Merkel says that Germany has navigated the financial crisis well due to its social market economy

> Germany carries a special responsibility within Europe as an anchor of stability

competitive capabilities of its enterprises as well as its stable domestic demand. Today, Germany is once again Europe's growth locomotive.

In most countries, the economic stimulus plans that had to be implemented during the crisis continue to play a supporting role in 2010. However, with increasing economic improvements, it is time to tackle the consolidation of public budgets in order to meet the goals set out at the G20 Toronto Summit. I am convinced that the stability of public finances is an indispensable condition for sustainable growth.

To safeguard the consolidation course, Germany has included a new debt-limiting regulation in its constitution. This new regulation stipulates the reduction of the budget deficit to nearly zero by 2016. The German government is implementing this target through financial planning. It thus complies with the growth-friendly consolidation as agreed to by the G20. This way we establish confidence in borrowers, investors and the financial markets. Germany carries a special responsibility within Europe as an anchor of stability.

With its Europe Strategy 2020, the European Union is pursuing an ambitious programme for more growth and employment. At the centre of this strategy are improvements in research, development and education. Germany not only excluded these sectors from its cost-saving efforts but has also been investing in them more than ever in the current period. It is also expecting growth impulses from our energy concept, which is designed for the long term and spans a bridge into the age of renewable energy sources — providing a more reliable, more economical and cleaner supply of energy.

The worldwide financial crisis has proven once again — even if it occurred in a particularly drastic way — that the markets require a state-run structural framework to prevent them from getting out of control. Given the ever-increasing international interdependence of our economies, this applies no longer solely on a domestic level but increasingly on an international level as well. This must be reflected in the reality of our economic policies. It means that we need suitable and preferably worldwide applicable regulations.

However, the G20 would not fulfill its responsibilities as the most important forum for international coordination of economic and financial policies if it were to limit itself to the questions of financial market reform. The crisis has demonstrated to us, very clearly, the high degree of importance of the concept of sustainability in our economic approach. We also should not wait until foreseeable undesirable developments once again culminate in a crisis. Therefore, the G20's future agenda must accommodate other global challenges as well. Open trade routes and completion of the Doha round of trade negotiations, a secure and sustainable supply of raw materials, and a responsible development policy are a few examples. I very much appreciate the extensive efforts made by the Korean presidency of the G20, especially as it relates to the Development Working Group. I interpret this as a sign that the G20 is on the right track. ◆

Prospects for the Seoul Summit

Leaders at the Seoul Summit are faced with many challenges. As the host country, Korea can contribute by drawing on its wealth of experience as a developing economy

By John Kirton, co-director, G20 Research Group

The fifth G20 summit, taking place in Seoul, Korea, on 11–12 November 2010, stands out as a significant event in several ways. It is the first time a G20 summit has been held in Asia, after two in the United States and one each in Britain and Canada. It is the first time the G20 summit has been hosted by a rapidly emerging economy, rather than by an established G8 power of the past. It is the first time the G20 summit has been designed and delivered in tandem with the Asia Pacific Economic Cooperation leaders' meeting, taking place immediately after the Seoul Summit on 13–14 November in neighbouring Yokohama, Japan. It is also the first time the G20 summit has been held in a region where the Cold War has not ended, and where a hot war could break out at any time. The host is a democratic, developed polity devoted to open trade and now a member of the Organisation for Economic Co-operation and Development. The Seoul Summit comes with a major G20 business summit and a pre-summit scholarly conference, and takes place just after the first meeting of G20 parliamentarians, all bringing civil society into G8 governance in a collective way.

The Seoul Summit comes at a critical time. The fragile global recovery now underway, the European financial crisis that erupted in late spring and the threat of a looming 'currency war' all need careful management. Leaders must convince the new American Congress elected on 2 November that good growth and jobs will soon return. The advanced economy leaders must show suspicious markets eyeing deeply indebted European countries and publics protesting painful austerity measures in France and Britain that they remain committed to the medium-term fiscal deficit and debt reduction targets they prominently promised at their Toronto Summit on 26–27 June 2010. And with the prospect of major quantitative easing in the United States and Japan, the reality of an undervalued Chinese renminbi and recent capital controls in Brazil and other consequential countries, G20 leaders must move back from the brink of what could become a genuine, global currency war.

They are likely to do enough of this to stave off a new crisis and keep the momentum of G20 cooperation alive. Their balanced macroeconomic message from Toronto will be bolstered by taking their Framework on Strong, Sustainable and Balanced Growth and its Mutual Assessment Process to the next level of detail and determination, with all G20 members credibly committing to making the broad array of adjustments necessary for all to be better off. With China again showing greater exchange rate flexibility, as it did on the eve of the Toronto Summit, and with the US delaying its judgement on whether China is manipulating its currency, the spirit of collective responsibility has started to surface again.

With macroeconomic crisis and confrontation contained, the Seoul Summit will focus on delivering the two biggest items on its built-in agenda, on domestic and international finance. Leaders will politically approve the new rules on the quantity and quality of bank capital, liquidity and leverage that the Basel Committee on Banking Supervision crafted in mid September on the G20's behalf. Leaders will guide work on systemically significant financial institutions, cross-border resolution regimes and derivatives, and address credit rating agencies, accounting standards and other related issues, too. They will respond to the predictable proposals for new bank levies and international financial transaction taxes in ways that deflect populist pressures but do not damage the economic recovery and the confident, capital-rich financial system on which it depends.

The second, far more difficult challenge is to complete the promised shift of 5 per cent of the quota share of the International Monetary Fund (IMF) to the rapidly rising emerging economies from Asia from the declining, established continental European ones. This must be done in a way that the legislatures of all IMF members, including coalition governments in democratic polities that will lose influence, can ratify back home. Here the Europeans have been slow to make the necessary accommodations, even as the Americans have used their dominant position in the IMF to induce them to move. Making such a constitutional change in a zero sum game is what only leaders can do. They will do what is necessary at Seoul to avoid breaking their bargain with a patient China, India and Brazil and to show that their G20 is genuinely, as it proclaimed at Pittsburgh in 2009, the permanent, premier forum for their international economic cooperation in the world.

> The G20 is a club of equals that genuinely serves as the premier forum for economic governance

Less likely is progress on the long overdue Doha Development Agenda of multilateral trade liberalisation, despite the activism of World Trade Organization head Pascal Lamy and the free trade convictions of G20 host Korean president Lee Myung-bak. Similarly, mobilising climate finance will be very difficult, as leaders will be tempted to accept China's insistence that the subject be left to the United Nations and its conference in Cancun, Mexico, coming soon after the Seoul Summit. Little beyond stock taking and setting up for the French-hosted G20 summit in 2011 is likely on other important issues, notably food security and price volatility, Haitian reconstruction, corruption and the control of heathcare costs coming largely from chronic and non-communicable disease. However President Lee's impressive credentials as an environmentally committed leader at home and abroad could see Seoul make important progress in eliminating fossil fuel subsidies more rapidly and in fostering green growth as a whole.

Some success has already come on Korea's two additions to the G20's inherited agenda. On financial safety nets, the IMF has responded to meet the need in an appropriately multilateral way rather than a regional one. Korea's commitment to development has also helped the Millennium Development Goals move ahead at the United Nations review summit in September. Seoul will define new principles and an action plan, drawing on Korea's own experience in generating growth through instruments other than public aid.

The Seoul Summit has thus done much good even before it begins. This provides a firm foundation for meeting the formidable challenges the leaders will face on site. By preventing potential crises, advancing macroeconomic policy, mutual assessment and adjustment, delivering banking and IMF reform, and promoting ecologically sustainable development, the leaders will show that their G20 is a club of equals that genuinely serves as the premier forum for economic governance, for both themselves and for the world as a whole. ◆

APEC's contribution to economic recovery

APEC members in Asia are leading the global economic recovery. Under the stewardship of Japan as host in 2010, APEC is focusing on five attributes of growth: balance, inclusiveness, sustainability, innovativeness and security

By Muhamad Noor, executive director, APEC Secretariat

The Asia-Pacific Economic Cooperation (APEC) forum includes the world's most dynamic economies, with nine of its members also being members of the G20. In the past decade and a half, APEC members have contributed more than 60 per cent of the world's total economic growth; they currently represent 40 per cent of the world population, 43 per cent of global trade and 53 per cent of world gross domestic product (GDP).

APEC's members in Asia are leading the recovery from the global economic crisis. Asia's strong rebound, supported by increases in exports and private domestic demand, continued in the first half of 2010, despite renewed tension in global financial markets. The International Monetary Fund (IMF) now projects that Asia's GDP growth in 2010 will be about 7.5 per cent and that it will lead global economic growth.

As the world's growth engine, the Asia-Pacific region therefore bears a responsibility for the future course of the global economy.

The Asia-Pacific region's champion for free and open trade and investment

APEC is doing several key things to contribute to the strength of its members. Since it was founded in 1989, APEC has made achieving regional prosperity through free and open trade and investment its primary goal. APEC's efforts to date have contributed to a reduction in members' average tariffs from 17 per cent in 1989 to 6.6 per cent in 2008. Work in the area continues with an expanded trade and investment agenda aimed at further accelerating regional economic integration.

APEC also places paramount importance on the effective functioning of the multilateral trading system. A strengthened international system is the best source of economic growth, development and stability. Because further reform and liberalisation of trade policies will bolster economic recovery, APEC seeks an ambitious, balanced and prompt conclusion to the World Trade Organization's Doha Development Agenda.

In 2010, APEC ministers responsible for trade extended APEC's standstill on protectionism — a commitment originally made by APEC leaders in 2008 in response to the global economic crisis — until 2011 (and beyond if necessary). APEC's commitment, together with the G20's similar undertaking, has helped contain protectionism. This has underpinned the global economic recovery.

No more growth as usual: APEC's new strategy

The Asia-Pacific region has become the world's growth centre by promoting free and open trade and investment and by strengthening regional economic integration. However, as APEC leaders recognised in 2009, the region needs to develop a new growth paradigm to cope with the changed post-crisis landscape. APEC cannot, the leaders instructed, go back to 'growth as usual'. Accordingly, over the course of 2010, APEC is developing a new growth strategy that takes into account current challenges to long-term prosperity such as environmental imperatives and disparities in economic status.

Under the stewardship of Japan as host of APEC in 2010, the strategy is focusing on five particular attributes of growth: balance, inclusiveness, sustainability, innovativeness and security. These five attributes are intended as guidance for APEC economies on how to pursue high-quality growth.

This strategy also contributes to the global economic recovery and the agenda that APEC shares with the G20. APEC has, in fact, made support of the G20's Framework for Strong, Sustainable and Balanced Growth an express priority. With nine of its members also participating in the G20, APEC plays an important role in dovetailing regional and global actions.

APEC's growth strategy will be put to the leaders when they gather for their annual meeting in Yokohama, Japan, on 13-14 November 2010 immediately following the G20's Seoul Summit.

APEC and the G20

While the G20's objectives to achieve a strong, sustainable and balanced global economy and a stable and secure international financial system differ from APEC's focus on trade and investment, and although APEC does not deal with macroeconomic, financial and monetary policy, the two do have a synergistic relationship. APEC has a 20-year history of getting things done regionally through its multilayered and action-oriented institutional infrastructure (including the levels of leaders, ministers, senior officials and working groups). In addition, APEC has a strong track record in delivering effective capacity-building projects, in particular for its developing members. APEC therefore complements the G20 by translating shared policies and strategies for growth into local action.

The proximity of the G20 summit in Seoul and the APEC Economic Leaders' Meeting in Yokohama will further enhance the complementarity of the two bodies. ◆

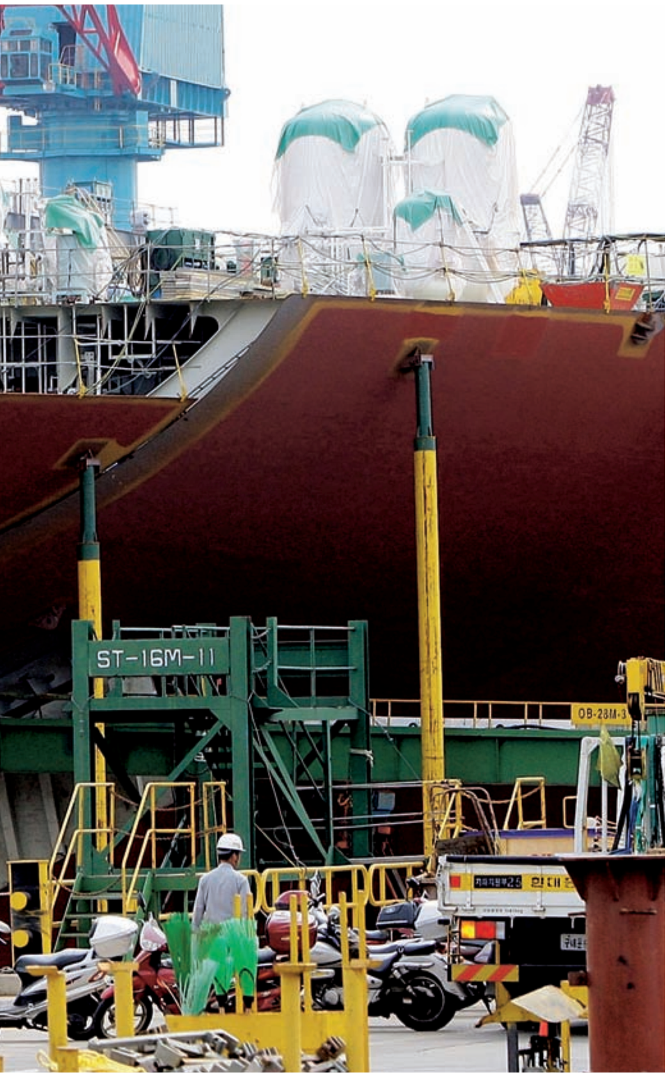
An 'Asian' approach to global development

Asia's economic and industrial boom over the last 60 years offers a wealth of development experience and transferable lessons to other continents

By Lim Wonhyuk, director, policy research, Center for International Development, Korea Development Institute

Since 1960, Asia has grown faster than any other continent. Unique among developing regions, East Asia in particular has managed to narrow the development gap with advanced industrial countries. This superior performance gives credibility to successful Asian countries in development debates because they can make their case based on their track record rather than using untested theories that often form the basis of one-size-fits-all solutions. At the same time, the development experience of successful Asian countries would be of limited practical relevance if it is so region-specific that it cannot be generalised and replicated in other continents. What Asia can contribute to global development depends crucially on extracting correct and transferable lessons from its development experience.

According to the Commission on Growth and Development, since 1950 there have been only 13 economies that have grown at an average of 7 per cent a year or more for 25 years or longer. Nine of them are in East Asia: China, Hong Kong (China), Indonesia, Japan, Korea, Malaysia, Singapore, Taiwan (China) and Thailand.



Construction workers at Hyundai's Ulsan shipyard, Korea. The country has followed a coordinated programme of trade, industry and human resource development to generate growth

The remaining four are Botswana, Brazil, Malta and Oman. The predominance of East Asia in this list may justify the frequent references to 'the East Asian miracle'. But as the presence of the non-Asian countries shows, high and sustained growth is not exclusively an Asian phenomenon.

In fact, development may be conceptualised generally as the result of synergies between enhanced human capital and new knowledge, involving complementary investments in physical and social capital. The fundamental policy challenge is for the state to work with non-state actors and markets to address innovation and coordination externalities while minimising negative government externalities such as corruption. A performance-based reward system, under the principles of the protection of property rights and equality of opportunity, has to be an integral part of the solution.

Since the days of the Industrial Revolution, countries that have effectively responded to the innovation and coordination challenges have become successful — whether they are Asian or not. In the 19th century, for instance, the United States and Germany actively imported technology from abroad and heavily invested in education to close the knowledge gap with the leading economies of the day; they integrated their national market and promoted enterprise development to facilitate industrialisation. More recent successes in Asia and elsewhere are not much different from the experiences of 'late comers' in Europe and elsewhere.

The key is for a country to retain the ownership of its development and develop its own capabilities progressively, even as it actively learns from, and trades with, the outside world. Of course, basic education, health and stability are important for growth and vice versa. Integration into a regional or international production network can bring in much-needed investment and know-how. However, to generate high and sustained growth, a country must develop its own capabilities to add value and respond to shocks. Developing countries typically start their industrialisation in the assembly and production segments of the value chain, using their comparative advantage in labour-intensive manufacturing, such as textiles. Only a few manage to move to higher value-added segments and to shift even higher, because most countries fail to respond to the innovation and coordination challenges of the next stage: technical education, research and development, and infrastructure development. In some cases, countries fail because they rush to promote sophisticated industries without the requisite scale economies and skill accumulation. Close consultation between the government and the private sector is key to solving information and incentive problems in this stage, when countries try to upgrade their comparative advantage. In addition, countries should establish fiscal discipline and prudential regulation and adjust prices to mitigate the impact of shocks. Last but not least, commitment to social cohesion and broad-based growth can help to reduce the risks of growth-killing conflicts.

> "Developing countries typically start their industrialisation in the assembly and production segments of the value chain, using their comparative advantage in labour-intensive manufacturing"

There is nothing particularly Asian about these recipes for development. Of course, countries that suffer from brutal colonial legacies, wide economic disparities, and ethnic and social divisions may find it difficult to engage with the outside world, invest in people and maintain social cohesion. Africa and Latin America may have a greater share of countries marked by these characteristics than Asia. However, successful Asian countries have also had to face some or all of these structural problems and come up with workable solutions. Korea, for example, had suffered from colonial occupation and an internationalised civil war, but pushed ahead with a coordinated programme of trade, industry and human resource development to generate rapid, shared growth. Indeed, it would be defeatist for non-Asian countries to characterise successful recipes for development as 'Asian' and not even try to adopt them.

The Seoul Summit provides a great opportunity to consolidate the G20 development agenda and promote successful recipes for development on a global scale. At the Pittsburgh and Toronto summits, the G20 declared the objective of "raising living standards in the emerging markets and developing countries" and "ensuring a more robust and resilient global economy for all" to narrow the development gap and reduce poverty. In promoting development, the G20 should focus on its core objective of strong, sustainable and balanced growth through international economic cooperation and support global efforts to achieve the Millennium Development Goals. For example, to improve basic health and hence contribute to the growth of low-income countries, agencies and organisations working with the United Nations may provide necessary medicines and offer training to doctors and nurses; the G20, by comparison, may work on improving transportation and delivery infrastructure. The G20 should focus on helping developing countries to go beyond meeting basic human needs and generate self-sustaining growth.

Toward this end, the G20 should establish an interactive information platform where developing countries can access the development experience and knowledge of the G20 members. A network of officials and experts with an intimate knowledge of development challenges should work with partner countries to discover jointly what really works in the local context, while taking as useful references the approaches taken by successful countries in Asia and elsewhere. ◆

The G20 and green growth

Representing two-thirds of the global population, the G20 offers an ideal forum for enabling economic growth in a new era of green growth

By Han Seung-soo, former prime minister of Korea, chair, Global Green Growth Institute

The G20 was born out of crisis. It was established in 1999 in the wake of the Asian financial crisis of 1997-98. It was elevated to the leaders' level in the aftermath of the financial crisis triggered by the sub-prime mortgage meltdown in the United States in 2007 and the ensuing collapse of Lehman Brothers in September 2008. The world is still grappling with the effects of the so-called 'once-in-a-century credit tsunami'. These unprecedented crises have called for unparalleled international responses and cooperation.

In the absence of these financial crises, the G20 would not have emerged as the premier forum for global economic governance. Therefore, the sustainability of the G20 can be said to be inversely related to the prevailing global economic conditions.

When the global financial crisis erupted in the autumn of 2008, the world was on the doorstep of the most severe global economic stagnation since the Great Depression of the 1930s. Consequently, the beggar-thy-neighbour policies of the 1930s loomed very large. However, internationally coordinated policy responses bailed out the global economy from repeating the great errors of the past. At the centre of this international coordination was the G20. As the work of the G20 is closely connected to the world's economic conditions, which have been improving since September 2008, the urgency for such close international cooperation seems to be declining proportionately. When Korea hosts the fifth G20 summit in Seoul on 11-12 November 2010, it will be at a time of an improving economic outlook, following the summits held in Washington DC, London, Pittsburgh and Toronto. The momentum for the G20 to work closely for the benefit of all is beginning to diminish.

If the role of G20 is activated only after a crisis and the G20's united stand relies on worsening global economic conditions, paradoxically the world may need yet another crisis to activate the G20.

However, there is no need for such an extreme event. There are already two major global crises facing the world: the financial crisis and climate change. These challenges are mutually reinforcing and share a cataclysmic relationship. The cost of failure is incalculable. The well-being of billions of lives is at stake, as is an enormous detrimental impact on future generations.

Unfortunately, in addition to the ongoing financial crisis, the crisis stemming from climate change threatens the very foundation of human survival. The frequency of various natural disasters in recent years such as floods,

cyclones, tsunamis, tropical storms, landslides and droughts has meant that the economic crisis has only compounded the climate change problem. The chain of causality of human influence on climate change is both direct and undisputed.

Personally, I have been heavily involved in global climate change issues for some time. As Special Envoy of the United Nations Secretary-General on Climate Change, I travelled extensively, meeting with world leaders to urge them to address climate change issues. In doing so, I emphasised the symbiotic relationship between economic growth and environmental sustainability.

At home and abroad, I witnessed a growing consensus to abandon the conventional economic approach of 'grow first, clean up later'. A new and fresh policy framework, a new paradigm of growth, was needed in its place — one that would enable economic growth, prevent environmental degradation and enhance the quality of life together.

It is against this backdrop that, on 15 August 2009, on the occasion of the 60th anniversary of the founding of the Republic of Korea, President Lee Myung-bak proclaimed "low carbon, green growth" as Korea's new national vision. This vision aims to shift the current paradigm from quantity-oriented and fossil fuel-dependent growth to quality-oriented and renewable energy-dependent growth — in effect, green growth.

By continuously adapting, transforming and modernising its economic and environmental policies

> Low carbon, green growth can be a paradigm for the international community as a whole

President of the Republic of Korea Lee Myung-bak at the Business for the Environment Global Summit, Seoul, 2010. Lee has proclaimed "low carbon, green growth" as Korea's national vision

to the changing realities, Korea is working tirelessly to move forward beyond the crisis. Furthermore, Korea is constantly seeking creative, integrated and forward-looking solutions to these complex issues.

Low carbon, green growth can be a paradigm for the international community as a whole. In order to achieve synergy among energy security, climate change mitigation and sustainable development, the world needs to strengthen mechanisms for greater collaboration and cooperation. This is the very reason why green growth should be an important agenda item for G20 leaders.

Prolonged economic and climate crises will likely worsen the global imbalances between countries and regions. This situation will be exacerbated in the developing world, where growth engines have been exhausted.

Today's global challenges transcend boundaries and affect each individual in the world. Whether through the interconnectedness of the financial system or the environmental life cycle, every one of us has become global stakeholders. I would like to underscore once again the importance of reaffirming our commitment to confronting the economic crisis and climate change through a singular and unified policy framework.

It is in this respect that the G20 should play a leading role in addressing the challenge of climate change on which the future of humanity so critically depends. Although the G20 is itself a product of financial crises, it should be transformed into a premier global forum for tackling climate change by revamping the past paradigm of growth into a new paradigm of growth — green growth.

The world has increasingly come to accept the G20 as the leading global forum even during relatively stable economic conditions, despite its origins in financial crises. In contrast to the G7 or the G8, the G20 — which accounts for two-thirds of world population and well over four-fifths of global output, and has a wider participation with emerging and developing countries as members — is more representative of the world today.

There is much hope that the G20's Seoul Summit will be the occasion to seal the fate of the G20 as the premier global economic forum for all times, particularly for advancing the world economy into a new era of green growth. ◆

Overcoming the crisis in Europe and in the world

In this post-crisis period, the European Union stands ready to play its part in securing and maintaining global economic and financial stability

By Herman Van Rompuy, president, European Council

The G20 has been instrumental in dealing with the immediate economic and financial crisis. The challenge now is to deal with the post-crisis period. The European Union is fully committed to the success of this global endeavour.

The G20 summit in Korea is taking place at a time of renewed challenges to the world economy. Overall, growth is higher than previously anticipated, albeit coming at different speeds throughout the world. However, we still need to continue to act to prevent such a crisis from occurring again. All global actors have to take up their responsibilities in this respect. It begins by ensuring that our own houses are in proper order.

Earlier this year, the European Union acted decisively to restore the stability of the eurozone. In the spring, the financing problems of the Greek government turned into a serious crisis for the euro area as a whole. At the height of the crisis, during the weekend of 7 to 9 May, the survival of the euro itself — and hence of the EU — was in question. Financial markets from Tokyo to New York held their breath. The EU faced this challenge resolutely. We won the battle of the euro, although all problems are not solved yet.

European Council president Herman Van Rompuy (left) and European Commission president José Manuel Barroso at a European Council gathering of EU heads of state, Brussels, June 2010

On 7 May, the heads of state and government of the 16 euro area countries decided to use all means available to safeguard the stability of the euro. Within 48 hours, a safety mechanism was designed: a system of conditional loans of €750 billion (which is now in place). Several member states announced immediate extra budgetary and economic measures. These were bold decisions. They were politically and socially difficult, but they show our collective determination to ensure the stability of the euro.

We also acted to ensure the soundness and stability of the European financial system. Recently, legislation to improve supervision of the financial system was adopted. The system will be in place on 1 January 2011. Before the summer, we undertook stress tests of major European banks: more than 90 per cent passed this successfully. The reform of financial markets remains one of the central elements in our overall reform strategy. These and other measures fulfil our G20 commitments. They have restored confidence in our macroeconomic and financial stability. This new confidence contributed to the ongoing economic recovery.

The way the EU works is not always easy for outsiders to grasp (neither, for that matter, are the intricacies and opacities in other capitals of the world always easy to grasp!). However, in difficult times the invisible and underestimated forces that hold the EU together come to light. People should be assured that should the EU face another daunting situation like it did this spring, we will mobilise the same full-scale political resolve. But our aim is to prevent a new crisis.

In order to further reduce the risk of a public financing crisis, we are strengthening the EU's fiscal rulebook, the Stability and Growth Pact. Stricter compliance with the rules and a stronger focus on debt sustainability should help to keep public finances in check. We will also monitor countries' macroeconomic developments more closely, thanks to the creation of an early warning system to detect the risk of real estate bubbles or of unsustainable patterns in the balance of payments. While keeping the responsibility for macroeconomic policy at the national level, these constraints by the EU's economic governance will create a new convergence in economic developments and economic policy, which is a necessary condition for a monetary union.

> "We are one world. The financial crisis has shown clearly that our destinies are interlinked, financially and politically"

To support the recovery, the focus on restoring confidence in fiscal consolidation must go hand in hand with bold structural economic growth strategies. This is why the EU has redefined its agenda for structural reforms. The Europe 2020 Strategy sets out an ambitious programme to raise the EU's potential, increase employment and promote a greener economy. All 27 EU members share these objectives. All of them are already engaged in implementing them.

Securing strong and sustainable growth is a common priority for all members of the G20. Thanks to intensive trade relations, G20 members can help one another to create jobs and growth for our citizens, provided basic rules of the game are respected by all actors. Close coordination within the context of the G20 remains a key element in this respect. Our coordinated approach to provide exceptional fiscal stimulus was very effective in 2008-09. At the Toronto Summit in June, we agreed on differentiated growth-friendly exit strategies. In Seoul, we need to deliver on the G20 framework for growth, which should become the instrument to coordinate our economic policies. Each country or area faces its own challenges, but acting cooperatively in a consistent manner will benefit us all.

Financial stability is a global common good. Last June, the European Council of Heads of State and Government agreed that member states should introduce a levy or tax on financial institutions to ensure fair burden sharing and contain systemic risk. The EU favours an international approach to this issue to ensure a world-wide level playing field. It will continue to advocate this position at the G20.

Regarding the reform of the International Monetary Fund (IMF), Europe is fully committed to implement the decision of the Pittsburgh Summit in November 2009 concerning quota reform. We are actively involved in the reform of the IMF board, so as to enhance the representativeness and legitimacy of the institution.

We are one world. The financial crisis has shown clearly that our destinies are interlinked, financially and politically. In 2008, the political leaders of the world were able to translate this awareness into the common framework of the G20; this has proved its worth beyond doubt. The challenge of the Seoul Summit will be to keep this level of common awareness and to act upon it. Global economic and financial stability is at stake, and thus the welfare of the world's citizens. The 27 member states and the 500 million citizens of the European Union remain ready to play their part. ◆

G20 and the global economy: time to go structural

The Organisation for Economic Co-operation and Development is calling for governments to formulate a structural approach to recovery and growth

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

The economic storm is behind us, but its outer 'rain bands' might still make the world economy pitch and toss. This is a metaphorical way to depict the current state of the global economy.

On the one hand, the global economic recovery is taking hold, and growth is likely to pick up next year. The Organisation for Economic Co-operation and Development (OECD) draws comfort from the large corrections that have already occurred in balance sheets, residential construction activity and inventory levels. A double-dip recession in G20 countries looks unlikely.

Governments are reaping the benefits of policy coordination crafted in the swiftest manner at the Pittsburgh and Toronto summits. Most governments successfully limited the impact of the crisis, thanks to prompt actions to restore confidence in financial markets and coordinated efforts to bolster demand. Moreover, world leaders refrained from raising new barriers to investment and trade and avoided misguided labour market policies, thus heeding the lessons from past major economic downturns. The key role that trade is playing in the current upturn is there to remind the world of the fundamental benefits of keeping markets open.

Yet the world economy is emerging from the crisis with deep scars. The OECD estimates that the crisis has permanently lowered the level of OECD area economic output by about 4 per cent, due in part to a higher cost of capital and long-term unemployment. At the same time, budget deficits have risen sharply in advanced economies, with government debt in the OECD area likely to outstrip gross domestic product next year.

Further complicating the situation is a slowing pace of economic recovery. While this was expected, the slowdown is more pronounced than anticipated. Moreover, downside risks are accumulating. A renewed decline in housing prices in the United States cannot be brushed aside. That would provoke a negative feedback onto private demand, with possible spillover effects on global demand and growth. In this adverse scenario, financial conditions could worsen if economic weakness led to new losses for banks, possibly amplified by heightened concern over sovereign debt in fiscally weak countries.

Uncertainty about employment prospects is also high and is a factor constraining consumption. Unemployment remains unacceptably high in advanced economies at close to 9 per cent on average in OECD countries, equivalent to around 45 million people. Long-term unemployment has

Angel Gurría, secretary general of the OECD

increased sharply, for example in the United States, Ireland and Spain. A particular concern is that unemployment is concentrated among vulnerable groups, notably youth, unskilled and migrant workers.

Furthermore, the unevenness of aggregate demand is putting pressure on exchange rates. In the context of a hesitant recovery and persistent high unemployment, issues relating to exchange rates are becoming fractious: on the one hand, some governments in advanced economies are under increasing pressure to undertake unilateral protectionist actions; on the other hand, authorities in developing countries are confronted with the destabilising impact of massive capital inflows stemming from accommodative monetary policies in mature economies. Albeit complex, the current situation is no reason to let the protectionist genie out of the bottle, which would threaten the global economic recovery.

In this complex and arduous environment, many policy challenges lie ahead. Yet policymakers have little room to manoeuvre on the macroeconomic front. Macroeconomic policy has to tread a delicate path between much-needed fiscal consolidations on the one hand and support to a fragile recovery on the other. Appropriate macro policies are needed to sustain the recovery and address underlying fragilities: governments need to reconcile policy normalisation with continued support, where and when needed.

In this context, policy recommendations must be carefully differentiated across countries as the latter are now at different stages. The consolidation should be

faster, the weaker the state of public finances, the greater the difficulties to fund debt, the stronger the economy, the lower the short-term multiplier effects, the greater the scope for monetary policy to offset these multiplier effects and the larger the adverse long-term growth effects from delaying consolidation.

The deterioration in public finances, particularly in Europe, calls for consolidation to restore long-term fiscal sustainability. This should be a gradual process, however, in order to avoid nipping the recovery in the bud. Automatic fiscal stabilisers should be allowed to operate along the planned consolidation paths, except in countries where market pressures are a prospective concern. Should the slowdown prove protracted, governments might consider reducing the speed at which they consolidate their budgets, but only in those countries that have less impaired fiscal positions or modest ratios of debt to gross domestic product (GDP).

While leeway is limited on the fiscal front, monetary policy can still help consolidate the recovery. With subdued inflation, a temporary weakening in growth and a somewhat stronger fiscal consolidation than looked likely before the summer, central banks can afford to maintain their very accommodative policy stances somewhat longer. They may even consider further quantitative easing or strengthened commitments to keep policy rates close to zero for an extended period if the recovery would exhibit signs of durable weakening. Slower exits or uncoordinated reversals of policy by central banks will not be the magic bullet, however, and should be used sparingly as they may accentuate volatility in currency markets.

With a limited scope for using fiscal and monetary policy, the OECD calls on governments to go structural. Drawing on its 'Going for Growth' exercise, the OECD has identified a relevant set of structural policies that would help unleash the growth potential of the G20 economies. It encapsulates such policies as pro-competition reforms in product markets and reforms of the education and tax systems, which would result in an increase in labour productivity, as well as the removal of impediments to labour utilisation through an alleviation of the cost of labour, a reduction in labour market dualism and a restructuring of benefit systems.

Selected pro-growth reform priorities would also contribute to external rebalancing. Specific examples include pro-competition reform in product markets in surplus countries, social protection and financial

> The world economy is at a critical juncture that requires more than ever an articulated strategy

deepening reforms in surplus emerging-market economies and entitlement and pro-saving reforms in deficit advanced economies.

Structural reforms also have a strong effect on potential growth. Stylised policy simulations by the OECD illustrate the pay-off of collective action within the G20 by focusing on the effects on economic outcomes of a convergence of policy settings within G20 countries. Pro-growth structural measures can also facilitate fiscal consolidation: OECD analysis shows that a 1 per cent cut in structural unemployment through structural reforms would improve the fiscal position of OECD countries by 0.25 points to 0.5 points of GDP on average (according to the 2010 *OECD Economic Outlook*).

Upon the request of G20 members, these evidence-based results will feed into the development of the G20's Framework for Strong, Sustainable and Balanced Growth. The framework, launched at the Pittsburgh Summit in 2009 and further elaborated at the Toronto Summit in 2010, is a compact that engages countries to work together to mutually assess the coherence of national policies and their consistency with the common objectives agreed at the G20 level: raise output, create more jobs, lift more people out of poverty and significantly reduce global imbalances. In other words, it aims to achieve the G20 credo of a stronger, sustainable and more balanced growth

> The OECD is prepared to help G20 countries look beyond the ongoing recovery

and accomplish the so-called 'upside scenario' for growth that goes beyond the 'technical' recovery from the crisis.

As part of the compact, the G20 advanced economies agreed to fiscal consolidation targets, while all members agreed to reforms to rebalance global demand and enhance potential growth in their economies. At the Seoul Summit in November, the framework will be translated into a concrete action plan that will likely emphasise the role of and need for far-reaching structural policies and reforms.

Considerable progress has already been made by G20 economies in meeting their framework-related commitments since Pittsburgh and Toronto. G20 members have planned or started to implement policies that will help meet leaders' commitments on fiscal policy, measures to strengthen financial regulation and supervision, measures that will promote more balanced global growth and current accounts, and structural reforms to increase potential growth rates. But more action is needed to achieve the objectives of the framework. More coordination is required if governments are to mitigate mounting downside risks and to avoid the self-defeating spiral of go-it-alone policy measures, such as unilateral exchange rate interventions and protectionist barriers.

Against this background of heightened policy challenges, the OECD is ready to help its member and partner countries. The organisation is advising them on how to consolidate their fiscal positions in ways that will not risk choking off a nascent recovery. The OECD structural policy surveillance also offers a basket of policy tools to enhance growth performance by raising productivity and labour utilisation. For the future, the crisis has made the case for 'rebooting' the world's economies and for putting them on a broader and sounder footing. Building on innovation and green growth strategies, the OECD is prepared to help G20 countries look beyond the ongoing recovery and build the blocks of a new and more intelligent type of growth.

The world economy is at a critical juncture that requires more than ever an articulated strategy linking together — and exploiting synergies among — macroeconomic, financial and structural policies. The Seoul Summit is the forum to articulate and agree on such a strategy. ◆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Tackling the jobs crisis

Global unemployment is at its highest ever level. The International Labour Organization is working with leading experts on the issue to promote a job-rich recovery and growth

By Juan Somavia, director general, International Labour Organization

The global financial crisis has imposed many costs on the world economy — none more painful than the impact on the tens of millions of working people who have lost their jobs. Some 210 million people are out of work, an increase of more than 30 million since 2007. This is the highest level of official unemployment in history. The scars of this distress in labour markets will be with the world for a long time.

Three-quarters of the increase in the number of unemployed people has occurred in the advanced economies, with the remainder among emerging and developing countries. In the developing countries, informal economies have grown, leaving about 1.2 billion people still unable to earn enough to keep themselves and their families above the poverty level. Young people have been especially hard hit by the jobs crisis. Past recessions reveal that the cost to all those who become unemployed can be a persistent loss of earnings, reduced life expectancy and lower educational achievement for their children.

There is one other fundamental impact: unemployment is likely to affect attitudes in a manner that increases tensions and reduces social cohesion — a cost that everyone bears.

What is to be done to address the jobs crisis? The government of Norway, the International Monetary Fund (IMF) and the International Labour Organization (ILO) held a major conference in Oslo on 13 September 2010, along with national leaders, senior business and labour representatives, and top experts on this issue.

The purpose of the conference — the first ever between the ILO and IMF — was to help advance thinking on policies that can better cushion the human costs of unemployment and produce strong, sustainable and balanced growth. A joint discussion document titled *The Challenges of Growth, Employment and Social Cohesion* launched the debate.

One key outcome of the conference was the need to have better coordination between employment and social policies and macroeconomic strategies — something that was clearly missing before the crisis. In particular, both institutions agreed to explore the idea of a basic social protection floor for the most vulnerable, to work together on policies to promote a job-rich recovery and growth, and to deepen their cooperation within the G20.

> “There are lessons that can be drawn from the past and best practices to be drawn from the present, as is done in the ILO Global Jobs Pact”

There are no easy solutions to the employment challenge facing the world. The financial crisis has exacerbated the decent work deficits that were all too apparent during the so-called ‘boom years’ before 2008. But there are lessons that can be drawn from the past and best practices to be drawn from the present, as is done in the ILO Global Jobs Pact. It has been widely endorsed, including by the G20.

Experience shows that the policy response revolves around three pivotal elements:

First, a recovery in aggregate demand is the single best cure for unemployment. Many countries moved quickly during the crisis to lower interest rates and provide fiscal stimulus. These policy actions were notable for their

consistency and coherence across countries. Cumulatively, they helped to avoid recession becoming depression — and even more jobs being lost. Now, even as many advanced economies face the need to stabilise or reduce very high levels of public indebtedness, it is vital that policies be implemented in a way that is fair, tailored to individual country circumstances and that does not impair growth and employment.

Second, there are targeted programmes that can be undertaken to help job seekers and ease the pain in labour markets. Some governments have stepped up placement services and expanded labour market programmes aimed at improving skills and encouraging the job search. Others have implemented policies allowing firms to retain workers, while reducing their hours and wages. Such programmes were extensively used by Germany — one of the countries least affected by unemployment — and often implemented through social dialogue. Another step is to extend unemployment insurance benefits and link them to continued job training and job search.

Third, there are ways to accelerate jobs recovery. In particular, subsidies can be targeted at specific groups that are most vulnerable to joblessness — the long-term unemployed or youth. Emerging economies such as China, India, Brazil and South Africa are building social protection floors to reduce poverty and boost purchasing power, and thus to stimulate job creation.

These elements constitute a policy mix that has already been used and will continue to be used — with different emphases in different countries. But again, there are no silver bullets. The integration of employment and social policies with macroeconomic policies must be improved, nationally and internationally. A better understanding of the forces at play in the present state of the global economy is required. And there needs to be more creativity in developing a wider array of policies and programmes that can provide decent work for all who desire it. That is why the ILO and IMF met in Oslo.

People queue at a job centre in Madrid October, 2010. Spain's unemployment rose to more than 4 million in September

The economic rationale is clear. But the history of what happened the last time the world faced an unemployment crisis of this magnitude — the 1930s — holds a stark reminder of the potentially broader implications. Lost jobs mean lost faith in private and public institutions, and even a threat to democracy and peace.

The Oslo Conference served as an important first exercise of the kind of cooperation that is needed to get the world economy back on its feet and workers back in their jobs.

Dialogue — especially between governments, unions and business — will be an essential component of the tough decisions that lie ahead.

The last months of 2010 could be decisive in making sure that recovery is secured and the national and international imbalances that caused the crisis rectified so that the world moves on to a path of strong, sustainable and balanced growth. The Oslo Conference should help to push the jobs challenge to the top of the agenda of international gatherings such as the United Nations Summit on the Millennium Development Goals, the annual meetings of the IMF and the World Bank, and the Seoul G20 Summit.

An economic recovery that does not provide employment opportunities will mean nothing to most people. The world must act together now to tackle the jobs crisis.◆

Strengthening sustainable and balanced growth

G20 leaders pledge that they are committed to reforming the global financial system using a differentiated growth strategy. However, they need to specify individual country responsibilities and policy actions if real progress is to be made

By Robert Fauver, former US under secretary of state for economic affairs and former G7 sherpa

In November 2010, heads of state and government arrive in Seoul to attend a critical meeting of the still relatively new G20 summit. As they gather, the world economy remains fragile, with an uncertainty in the outlook that has not been seen for some time. Stock markets around the world are skittish and foreign exchange markets are experiencing unusual instability. Unemployment rates are proving to be quite sticky in the downward direction despite record fiscal and monetary stimulus by most governments. A significant dichotomy between the relatively strong big emerging countries and the quite weak recovery in the industrial countries has left the world wondering where the global growth stimulus will come from.

Since the beginning of the global recession, international institutions — the International Monetary Fund (IMF), the World Bank and the Organisation for Economic Co-operation and Development (OECD) — and quasi-institutions such as the G7/8 and G20 — have devoted considerable attention to the need to restore sustained growth in the world economy. At the G20's Toronto Summit, the communiqué was very complimentary about the policies undertaken by member countries. These were claimed to be part of a coordinated growth strategy, although only Japanese fiscal consolidation policies were specifically noted. The leaders complemented one another on their progress in reforming the global financial system. Leaders pledged that they "are committed to taking concerted actions to sustain the recovery, create jobs and to achieve stronger, more sustainable and more balanced growth. These will be differentiated and tailored to national circumstances." Unfortunately the communiqué left unspecified what the policy actions would be. And to date little real progress has been achieved in restoring a sustainable global expansion.

> "The G20 members are clearly in different parts of their business cycles and thus the policy priorities are different for individual members"

Recent analysis of the domestic economy in the United States suggests that the recovery is weaker than anticipated earlier in 2010. Real growth rates in the first and second quarters of the year were revised downward. Some economists argue that the US will have entered a double dip period in the fourth quarter, with real growth turning negative again. Others merely call for a continued very slow — 0 to 1 per cent growth — in the second half of 2010. In any event, the domestic economy is not responding to the extraordinary monetary and fiscal stimuli provided over the last two years. Unemployment rates remain very sticky in the downward direction and continue to be in the range of 9 per cent. Net new job creation has been insufficient to keep pace with labour market growth. Consumer confidence continues to be weak, with business investment sharing that bleak assessment of the near-term outlook for the domestic economy.

Most European countries tightened domestic policies — at least at the margins — in the wake of the Greek debt problems earlier this year. Most of the European domestic economies — particularly in the United Kingdom and France — are showing signs of this policy tightening with a slowing of domestic demand growth. The notable exception to the weak European recovery is Germany, where an export-led recovery strategy has shown positive results in fostering growth.

Unfortunately Japan is continuing on its pattern of very slow real growth. Little expectation exists for a strengthening of growth over the course of the remainder of 2010.

The G20 Seoul Summit must focus on the continued weakness in the world economy. While past G20 summits have discussed broad policy goals, it is now time to specify individual country responsibilities and policy adjustments going forward. The G20 members are clearly in different parts of their business cycles and thus the policy priorities are different for individual members. Some should keep their foot on the brake, some should step on the accelerator and some should hold steady hands on the wheel.

A differentiated growth strategy sounds like a good policy goal, but its value to markets and citizens lies in the specificity provided by summit commitments. Here questions abound.

How will Chinese and Indian expansions benefit the world economy? Will they take advantage of their strong growth to open their domestic markets to imports? Will they continue to rely on export strength to sustain their growth? As capacity constraints are reached in some sectors, the role of imports can be critical to reducing

The Shenzhen Stock Exchange, Shenzhen, China inflationary pressures. Are Chinese and Indian leaders willing to commit to increased liberalisation of their domestic economies and import regimes?

In Europe, will recent fiscal tightening aimed at strengthening the national debt outlook for the medium term significantly weaken real growth, or will the reduction in national borrowing free-up private sector investments? What policies will be undertaken to assure the increase in investment opportunities? Will Germany's export strategy work in the face of weak European trade partners and a slow US recovery? If exports slow, what policies is Germany willing to undertake to accelerate domestic demand?

In Asia, how can authorities adjust Japanese policies to increase domestic growth opportunities? Can the very large national debt level be contained and slowly reduced as a share of gross domestic product? Are there trade policies that could increase the flexibility of the domestic economy — free trade agreements with new partners such as the US or the unilateral opening of the agricultural market to reduce food costs and free resources for consumption of other goods? What further liberalisation of the domestic economy could inject new confidence into consumers and business, which in turn could lead to increased domestic investment and consumption?

It will not be sufficient for the Seoul G20 communiqué to provide platitudes about the global economic situation and outlook. Of course all members desire a strong, sustained global recovery and expansion. Of course all want to reduce their respective levels of national debt. Of course all want lower unemployment rates. But just how will these desired results be achieved?

> The Seoul G20 communiqué must spell out specific policy commitments for each participant

The communiqué must spell out specific policy commitments for each participant. And the specific commitments must be consistent with the stated goal of a differentiated growth strategy. Leaders need to reflect on how global imbalances will be addressed — they need to examine the roles of domestic growth, trade liberalisation and exchange rates in fostering the desired global outcome. ◆

Global automakers unveil new models at the Beijing auto show. The success of global economic reform depends on many factors, such as whether China will commit to increased liberalisation of its domestic economy and import regime

The role of the Bank for International Settlements

Although there are no formal ties between the BIS and the G20, senior staff from both communities exchange fruitful dialogue on financial stability issues

By William R. White, former economic advisor, head of Monetary and Economic Department, Bank for International Settlements

Discussions on the reform of the international financial institutions generally focus on the Bretton Woods institutions (the International Monetary Fund [IMF] and the World Bank) and the system of regional development banks. Perhaps that reflects the fact that these institutions exercise hard power. They can provide real money to countries, for both development purposes and for aid in crisis management. Moreover, they generally demand in turn that countries follow their policy prescriptions. Evidently, reforms affecting the governance structure of institutions having real power is important, both to those who ultimately provide the money and to those who wish to borrow it.

In contrast, less attention has been paid to the reform process in institutions such as the Organisation for Economic Co-operation and Development and the Bank for International Settlements (BIS). While they have little hard power, they nevertheless exert significant influence on national policies. They are essentially cooperative institutions whose primary purpose is to bring together national representatives to discuss common problems. Furthermore, these international discussions often lead to the identification of 'best practice' solutions that recognise the reality of growing international interdependencies. Commonly, agreements in these international bodies then result in national legislation and in turn the exercise of traditional sovereign power.

> “Agreements in these international bodies result in national legislation and the exercise of traditional sovereign power”

Bank for International Settlements building Basel, Switzerland

The BIS, established by international treaty in 1930, is the oldest of the international financial institutions. From the beginning, one of its main purposes has been to serve as a meeting place for central bankers wishing to discuss international issues pertinent to the conduct of monetary policy. However, over the last few decades, increasing attention has also been paid to maintaining the health of the financial system, both domestic and global. In the last few years, the topics for discussion have been extended to include systemic interactions between the real and financial sectors, interactions which can bring great economic benefits but also great risks. BIS staff support these discussions by preparing papers for meetings and engaging in extensive research. The relevance of this ongoing work, including many early warnings of impending danger in BIS publications, was dramatically emphasised by the economic and financial crisis that began in the summer of 2007.

Reflecting these expanding interests, both the BIS meetings and their participants have changed enormously over the years. Initially confined to governors and senior officials of central banks, now central bankers of all ranks and with a variety of qualifications have specific meetings directed to their professional and technical interests. Moreover, specialised committees of national experts have been set up to oversee and make recommendations with respect to banking (the Basel Committee on Banking Supervision), financial markets (the Committee on the Global Financial System), and the infrastructure supporting the global financial system (the Committee on Payment and Settlement Systems). In addition, the International Association of Insurance Supervisors, the International Association of Deposit Insurers and the Financial Stability Board (set up recently by the G20) have all made their home at the BIS in Basel. While arrangements vary, the BIS provides significant support in terms of personnel, offices and other requirements.

“Over the last few decades, increasing attention has also been paid to maintaining the health of the financial system, both domestic and global”

Perhaps an even more radical change, officials from regulatory (non-central bank) agencies have become equally involved with central bankers, and the number of countries actively participating at the BIS has also expanded greatly. It is significant that the work of the Basel Committee is now sanctioned by the governors and heads of independent regulatory bodies drawn from BIS members. As to the latter, the global governors' meeting has become the most important of the bimonthly meetings held in Basel. All of the G20 countries (as well as a number of others) are now represented, an outcome made possible by the extension of membership (share ownership) to most, large emerging market countries in recent years.

While the IMF and the World Bank attend G20 meetings as observers, the BIS does not. Indeed, there are no formal ties between the G20 and the BIS. That said, BIS staff have contributed to the work of several G20 working groups, and also participate enthusiastically in other G20 activities. The Financial Stability Forum (now the Financial Stability Board, or FSB) was formed by the G20, and does much of its important work in Basel. Thus, FSB representatives keep the BIS informed of G20 initiatives and provide guidance on work that would be particularly valuable to the G20. As important, the FSB relies in part on the analytical insights of BIS staff and the work carried out in the Basel-based committees. For example, the general manager of the BIS is currently the chair of the FSB's Standing Committee on Vulnerabilities Assessment, charged with identifying weaknesses in the financial system. Thus, at least with respect to financial stability issues, there remains a fruitful dialogue between the G20 and the BIS community. Should this dialogue be extended somehow? There are both practical and analytical grounds for an affirmative answer.

“The BIS has consistently emphasised how the economic and financial systems interact to produce these dangerous procyclical tendencies”

At the practical level, BIS counsel is both apolitical and focused on improving global economic performance. This can be important in forums where national interests remain important and where different policy recommendations can have significant implications for profits, especially for financial institutions. The BIS banking data and other related statistics should also receive more attention. They provide key indicators for identifying problems arising from international capital flows, not least the funding difficulties faced by big banks with maturity or currency mismatches in their portfolio.

As for analytical issues, the BIS maintained for many years that an economic and financial crisis was building up with roots in excessive credit expansion and too low interest rates. It felt that this lending would culminate in the need for a significant degree of deleveraging on the part of both lenders and borrowers. This deleveraging from excessive debt is now slowing down the global recovery, and is likely to continue for an extended time. This particular insight has very important implications for G20 policies. It implies that traditional demand management policies may be relatively ineffective, and that measures to improve the supply side of the G20 economies (while slow acting) might be more sustainable.

Given that the behaviour of both debtors and creditors is involved in these macroeconomic processes, financial stability is not sufficient either to ensure a sustainable economic recovery or to avoid such problems in the future. Nor indeed is price stability sufficient to achieve these objectives. The BIS has consistently emphasised how the economic and financial systems interact to produce these dangerous procyclical tendencies, and what might be done to moderate both the upswings and the downswings. If this is the principal economic problem now facing the G20, the BIS offers a unique perspective. ◆

Increasing tax revenue without increasing taxes

The technology that will help governments to collect billions of taxes lost to global illicit markets is available and effective. The G20 needs to take action, now

By SICPA, leading provider of security inks and integrated fiscal security solutions

The G20 has reached the consensus that reducing government deficits is critical. With each member nation pledging to cut its debt in half by the fast-approaching target year of 2013, finding ways to quickly and effectively increase tax revenue is paramount. Governments are no doubt grappling with the tough prospects of spending cuts and tax hikes in the midst of an economic downturn, but first they should not overlook the obvious measures: ensuring that taxes already in place are fully collected and establishing policies for implementation of advanced tax reconciliation technologies to collect those that are not.

Currently, taxes are not collected on an alarming 657 billion cigarettes consumed each year on the global illicit market, amounting to a global yearly loss in tobacco excise revenue of $40-50 billion. A recent report reveals that eight of the ten countries with the greatest illicit cigarette trade are G20 nations. According to the IMF, the World Bank and other international institutes the parallel economy arising from tax evasion, undeclared trade and other illegal activities represents up to 15 to 20 per cent of global GDP, about $13,000 billion. It's becoming increasingly urgent to collect these revenues in a secure and efficient way as the failure of such efforts is not only financially devastating, but also a threat to global security by funding of criminal and terrorist organisations.

Though tobacco and alcohol manufacturers have taken measures to implement supply chain control compliant with global standards, federal and state governments need a proprietary and secure monitoring system to track enforcement and compliance in domestic markets as per national regulations. Governments need a comprehensive business intelligence platform that will enable them to collect legitimate tax revenues on illicitly traded taxable products like tobacco, alcohol, beer, soft drinks, etc, and provide supporting evidence for enforcement and prosecution.

Stringent law enforcement policies are not enough

Many countries already have legislation in place to prevent the illicit trade of tobacco and alcohol products. These nations have seen some reduction in their illicit market as a result of investment in border control and increased policing; however, mechanisms to enforce these policies are often nonexistent or inefficient. Strong law enforcement is only a part of the solution to reduce illicit trade. Efficient tax recovery requires a modernised, secure tax reconciliation platform that can be used for real time production and distribution monitoring to enhance the effectiveness of government law enforcement measures already in place.

WHO as a Model

The World Health Organization (WHO) Framework Convention on Tobacco Control (FCTC), currently signed by 168 countries including most G20 nations, recommends such a system to thwart tax evasion. The track and trace technology described under the provisions of Article 7 of the FCTC already exists and is successfully helping some governments, such as G20 nations Brazil and Turkey, to collect legitimate tax revenue, secure a legal supply chain, and strengthen national security by preventing and detecting illicit products and smuggling. Combined with international cooperation and other efforts to tighten supply chain control, tracking and tracing technology has helped reduce the size of illicit markets by 35 to 87 per cent.

Case studies

Turkey was the first country in the world to implement a multi-product control platform to securely monitor all excisable tobacco, alcohol and beer products covering more than 7 billion items per year. In 2008, the revenue from the Turkish special consumption tax increased by 31.5 per cent on tobacco products (and by 16 per cent on alcohol) compared to 2007 figures.

Similarly, the Brazilian tax reconciliation system resulted in increased tax revenues and led to the closing of seven cigarette factories involved in illegal production. This early success is rendered more significant by the fact that the system was implemented at no additional cost to the Brazilian government or the tobacco industry. The successful implementation and operation of the tobacco tax collection platform resulted in the Brazilian government passing new legislation for a federal tax collection system supported by a secure beverage monitoring platform. The system covers all national production of beer, soft drinks, and mineral water products and has resulted in an increase of 20 per cent in federal tax revenues since inception.

Fuelled by a large budget deficit, the State of California's legislature also passed a law to modernise tobacco tax collection. In April 2010, State authorities reported a recurring increase in revenues of approximately $153 million per year due to the secure track and trace system, as well as a 37 per cent drop in tax evasion.

Conclusion

The illicit market not only undermines governments' efforts, but further exacerbates societal and fiscal costs, thus compromising crucial government programmes. A secure tax reconciliation system will help governments to close their budget gaps and in turn help governments boost ratings, cut borrowing costs and reduce public debt. One of the objectives of the G20 is to develop a common view among members on issues related to further development of the global economic and financial system.The poverty-alleviating potential of improved tax collection and the global fight against illicit trade demands that the G20 consider the actions of those nations striving to achieve the same standard. The technology that will close the gaps in tax administration and help nations under pressure to reduce budget deficits is available and effective, and improved tax collection will bring the G20 nations one step closer to economic sustainability. ◆

French Customs officers destroy 5.7 tons of smuggled cigarettes in an incinerator near Paris

Income inequality in China: a global concern

The gap between the rich and the poor in China is growing rapidly. Political reforms are needed if this structure is to be rebalanced

By Donald J. S. Brean, co-director, G20 Research Group

It is 30 years since Deng Xiaoping's trip to the south of China that marked the start of the regime change that turned China into a commercial powerhouse. With Confucian-style aphorisms, Deng announced a top-down ideological reversal from central planning to a market economy. "It does not matter whether the cat is black or white so long as it catches mice," he said. He later underscored the point with the growth-compatible dictum: "It is glorious to be rich."

Indeed China has become much, much richer. Double-digit growth year after year seems to defy economic gravity. Meanwhile that growth, evermore sophisticated and complex, has given rise to population relocation, a widening urban-rural divide and, most disturbingly, increasing income inequality and social divisions. The latter are fundamentally at odds with China's traditional values and threaten its social stability. Episodes of unrest are more frequent. China's current challenge is to divide the fruits of prosperity fairly, which reveals that the old-line means of income distribution range from inadequate to irrelevant.

This is perhaps not surprising insofar as market liberalisation involves relaxing the reins of economic and industrial control while redesigning the interventionist role of the state in income distribution. The enlightened authoritarianism that served so well to oversee China's transition from central economic planning to a market economy appears less adept at defining and funding public sector social priorities. The 'iron rice bowl', cradle-to-grave social security, is shattered. Across the country, public education and health care are woefully under-funded. Publicly funded social security is well below the standards that could be expected of China's newfound wealth. China's people, those who can, turn to the private sector and self-financing of these fundamental services. The inevitable and socially disruptive consequence of income inequality is increasing disparity in opportunity.

China's economic growth is uneven, a fact that exacerbates income inequality. The coastal provinces, the heart of the manufacturing expansion and export earnings, fare better than the so-called 'second tier' provinces further inland. The second tier fares better than the more remote western provinces and autonomous regions. Recent empirical work that projects provincial economic growth, per capita income and public sector revenue outward for five years, points to ever-widening cross-provincial income disparity. In short, China's market-based prosperity underlies increasing internal social strains owing to the lagging adjustment of the role of the state as provider of social services.

> "China's economic growth is uneven, a fact that exacerbates income inequality"

The eminent American jurist and social philosopher Judge Louis Brandeis remarked in reference to America but with current pertinence to China: "We can have democracy in this country, or we can have great wealth concentrated in the hands of a few, but we can't have both." Brandeis's words complement another eminent American jurist and social philosopher, Oliver Wendell Holmes Jr., who said: "Taxation is the price of a civil society."

To correct otherwise inevitable and disruptive inequality, China requires substantial structural reform of its fiscal system — especially in regard to intergovernmental finance and transfers.

The structural imbalance in China's fiscal system dates back to the sweeping tax reforms of 1994. The aim then was to replace the old command-style revenue sources with tax instruments that ensured adequate revenue within the new tax environment embedded in markets.

Furthermore, the central-provincial allocation of taxing authority had to be conducive to a decentralised allocation of public sector responsibilities. In the early days of reform, when the market-based revenue system was finding its feet, a fiscal feature of the transition was the steep decline of government revenue relative to gross domestic product with a corresponding rise in fiscal deficits.

Revenue mobilisation appeared feeble as the economic transition took root. Another pattern was the migration of fiscal power and revenue from the centre to the local governments. In the early 1980s, local governments turned as much as 26 per cent of their collections over to the central government for national purposes. However, this share dwindled throughout the rest of the decade. By 1992 local governments spent virtually all their collections plus a small top-up of 2 per cent from Beijing. This fiscal phenomenon ended decisively with the 1994 reforms, including features such as the national value-added tax, that shape central-local fiscal relations to this day. Taxing responsibility and revenue collections dramatically shifted to the central government. The central share of revenue rose immediately from 23 per cent to 57 per cent and has stayed in that range ever since.

The policy rationale for enhanced centralisation of taxing authority is sound, especially in view of Beijing's responsibility for fiscal policy for macroeconomic stabilisation. The policy conundrum today is on the public expenditure side, in particular China's lack of properly designed and consistent arrangements for equalisation directed from the revenue-rich centre.

Initiatives in intergovernmental finance are inherently political, reflecting tension between the over-arching perspective of the centre versus the economic efficiency of decentralised decision-making. In the process of designing a transfer system, the more numerous and powerful are those who stand to gain from the status quo, the greater is the risk of protracted entanglement. This is not China's predicament. The enlightened authoritarianism emanates from the centre, Beijing. China's central government has the authority and the proper perspective on national redistributive priorities and policies.

Since the central-local fiscal issues are within a state and seemingly an exclusively sovereign affair, one may wonder what relevance China's challenges of this sort have for the G20. First, internal or not, China's economic, social and political stability are increasingly of global importance. The world watches with justified concern. Second, in one way or another, every G20 country contends with such issues, with many further up the learning curve than China. Market economies have come to learn that although intergovernmental finance is complex and politically charged, underlying objective priorities and constraints are incontrovertible. And third, China's internal tax structure and fiscal balance, regardless — or perhaps in the face of — its importance for the world, is likely to be less politically sensitive for international discussion than, say, the exchange rate issue.

Like Deng 30 years earlier, Premier Wen Jiabao recently travelled to the south of China to make a dramatic political speech. Wen made a strong pitch for political reforms, warning that China "may lose what it has already achieved through economic restructuring" in the absence of policy consistent with greater social harmony. In Confucian code, 'harmonious society' is a warning call against socially disruptive forces. Income inequality is top of the list. As a new market economy, China has much to learn. The G20 offers a useful forum. ◆

The affluent Tiananmen Square area of Beijing: the benefits of China's economic growth have not been felt equally, leading to a growing gap between rich and poor

The G20 and the future of financial regulation

Despite ongoing global economic woes, little has changed in terms of regulation. G20 members need to implement widely supported reforms, beginning in the US

Traders in the euro dollar pit at the Chicago Mercantile Exchange

By Christopher Kobrak, ESCP-Europe, Paris

Contrary to the optimism of the US administration that its recent reforms represent "financial peace in our time", severe structural fissures remain part of the financial architecture in the United States and thus the world. Dependent on foreign borrowing to make up for widespread income stagnation coupled with increasing education and healthcare costs, the United States was at the epicentre of the '2008 Panic', but by no means the only country whose social system relied on relatively cheap foreign capital. Despite the recession's depth and geographic breadth, government takeovers of financial institutions, unprecedented peacetime public deficit spending in many members of the Organisation for Economic Co-operation and Development and even substantial agreement on the causes of the crisis, those responsible for financial governance have been unable to agree on what needs fixing or, more importantly, on who should do the fixing.

National regulators who helped create the current financial system now seem to ignore the extent to which it has grown too large and too global for countries acting alone to cope. With new technology and management skills, large transnational financial institutions service global clients by seamlessly moving massive amounts of funds across borders and by inventing and marketing complicated debt instruments to distant purchasers who often require an accompanying insurance hedge. Foreign exchange purchases, the lifeblood of the international financial system, account for approximately $5.1 trillion a day in transactions, with only a small fraction used for trade in goods and services. Highly complex instruments, such as credit default swaps (CDSs), many of which involve thin and opaque private trading, are often difficult to price and regulate, and are among the fastest growing areas of financial activity.

> "National regulators who helped create the current financial system now seem to ignore the extent to which it has grown too large and too global for countries acting alone to cope"

From 1998 to 2006 the notional value of all privately traded derivative instruments climbed from approximately $80 trillion to more than $400 trillion, 80 per cent of all derivatives and eight times the world product in 2006. Over the same period many of those derivatives helped draw in new customers for collateralised debt, shifting housing and other financing away from direct bank lending. US securitised issues went from $1.5 trillion to $3.2 trillion and European securitisation grew 15 fold, albeit from a much lower base. Even as banking became a larger and larger part of the economy, banks moved from the direct-lending business into the more profitable role of advisors and cross-border brokers of financing.

Many of the megabanks have expanded in ways that before 1970 would have been virtually impossible. When the crisis broke out in 2007-08, the assets of some banks in small countries such as Switzerland were four times the gross national product in their country of incorporation. Even banks incorporated in far larger countries such as Germany held assets equal to a startling percentage of their home-country gross domestic product. Megabanks conduct finance on a supranational plane, providing 'trading platforms' for standardised and exotic contracts to many unregulated clients, whose strategies require secrecy and financial mobility. These banks serve as shadow capital markets, a role that ties up substantial portions of their assets and liabilities in instruments whose only pricing data at times come from sophisticated models that might be built on inappropriate assumptions and information. Over a long period banks have become too big and even too complicated to fail, raising a wide range of intertwined financial, political and social questions.

Despite the uncertainty that still abounds, the world has not changed its basic approach to regulation. It is still a fragmented mixture of national, regional and quasi-public

> “US bank executives have even more capacity to shift many forbidden activities to foreign entities”

international institutions such as the Bank for International Settlements. Like the banks themselves, these institutions tend to rely on capital adequacy ratios and value at risk models that have difficulty keeping up with an onslaught of financial innovation devised by the ‘brightest and best’ financial minds, whose incentive schemes focus on maximising short-term profits for their institutions rather than the public good. They dwarf those responsible for monitoring system risk.

National debates are too politicised, corrupted by cozy relationships with the regulated and fears of capital flight from existing ‘capitals of capital’ to new ones or, conversely, full of hypocritical populist rhetoric that conveniently forgets its own role in creating excess borrowing. For decades various American administrations, for example, leaned on compliant quasi-private organisations such as Fannie Mae and Freddie Mac, supported with tax breaks and implied government guarantees, to make housing purchases easier by supplementing local-deposit funding for mortgages with more easily sold securitised debt. By 2000 federally guaranteed loans required as little as 3 per cent as a down payment and low-income loans were mandated to be 50 per cent of Fannie and Freddie’s assets. With unemployment up and state revenues down, legislators in the United Kingdom and the United States in particular are not eager to pass laws that might drive out a sector that in 2006 accounted for nearly $1 in $10 of salaries paid in those countries.

Several political leaders and regional bodies have launched campaigns to win support for their own reform initiatives, but few have won even national acceptance, let alone from the international community. Recent US legislation compounded earlier mistakes by failing to understand how cosmopolitan finance has become, and by leaving dealings with hedge funds and derivatives to future interpretation. US bank executives today have even more capacity to shift many forbidden activities (regulatory arbitrage) to foreign entities in London, the Cayman Islands or Hong Kong than their predecessors had to circumvent the Glass-Steagall Act, which prohibited commercial banks from undertaking investment banking activities and interest rate limits.

The G20 and some international organisations have increased their efforts to coordinate a global approach to these problems. But as yet no concrete steps have emerged. There are many relatively straightforward and politically acceptable measures that G20 members might easily agree to implement if they have the political will to act in concert and enforce their will on those who trade with them. These include widely supported reforms such as constraints on variable-based compensation, minimum reporting and other standards for hedge funds, limits on over-the-counter derivative trading and the creation of an international deposit insurance scheme. ◆

The Basel Committee on Banking Supervision and regulatory reform

Preventing a repeat of the recent financial crisis requires the implementation of rigorous reforms and strict policies – the Basel Committee on Banking Supervision's reform programme seeks to do just that

By Nout Wellink, president, Netherlands Bank, and chair, Basel Committee on Banking Supervision

The financial community is at a pivotal moment in reshaping how banks and supervisors conduct their business. The reform programme of the Basel Committee on Banking Supervision (BCBS) deals with strengthening capital standards and setting minimum global standards for liquidity risk. These reforms are designed to respond to key shortcomings that became painfully evident during the recent global financial crisis.

Minimum standards for capital and liquidity must be raised substantially so that the banking sector can withstand periods of stress, thus enhancing financial stability and promoting sustainable growth. The current minimum standard for the highest quality capital is just 2 per cent of common equity to risk-weighted assets, even less when necessary deductions from capital are factored in. No global minimum standard for liquidity currently exists. Liquidity buffers before the crisis were inadequate and excessive reliance was placed on short-dated wholesale money to fund long-term illiquid assets.

All countries need to build bank sector resilience because shocks have originated from all regions of the world, from all types of asset classes, and from all kinds of business models.

The BCBS programme aims to capture all significant risks in the capital framework. During the initial phase of the financial crisis, most losses and accumulated leverage occurred in the trading book, yet the rules did

> Greater buffers against severe shocks must be built into the banking sector

not adequately capture the key risks to which banks were exposed. The higher capital requirements developed by the BCBS capture the credit risk of complex trading and derivative activities. The new rules also introduce higher risk weights to improve risk management and the measurement of securitisation and off-balance sheet exposures. They strengthen the institutional resilience and reduce the risk of transmitting shocks through derivatives and financing by improving the management of counterparty credit risk.

Another key step is the redefinition of capital. During the crisis, losses came directly out of retained earnings, but because of other forms of financial instruments, some banks maintained deceptively high capital ratios. Moreover, some capital instruments ultimately had to be converted into common equity before confidence was restored. Under the reforms, the level and the share of common equity and retained earnings will rise substantially. In addition, rigorous deductions and exclusions from common equity make for a more transparent, meaningful definition of capital.

A further key step is the introduction of a leverage ratio to backstop the risk-based system. Many firms were too aggressive in gaming the system. Many engaged in hedging strategies where the risk magically disappeared from internal risk reports and capital, only to reappear as basis risk, counterparty credit risk or illiquid positions that could not be sold. Many supervisors did not prevent this compression of risk-weighted assets. A cycle of leverage built up in the banking system, which the market forced down in the most destabilising manner, amplifying procyclicality and the economic downturn. Moreover, market participants piled into the lowest risk-weighted assets, adding to system-wide risks, which ultimately came back to haunt many institutions.

Greater buffers against severe shocks must be built into the banking sector. Banks are at the centre of the credit intermediation process. Buffers mitigate the amplification of shocks between the financial and real sides of the economy. The BCBS is promoting stronger provisioning practices, collaborating with accounting standard setters to develop a robust and operational expected loss approach and sound valuation standards. It has also recommended that banks and banking supervisors strengthen valuation processes to avoid misstatements of profit and loss.

Another buffer is capital conservation. Many banks have returned to profitability but have not sufficiently rebuilt their capital buffers to support new lending. The new framework promotes the conservation of capital and the build-up of adequate buffers above the minimum that can be drawn down in periods of stress, subject to appropriate measures that are coordinated with the national supervisor. The approach is intended to provide more clarity regarding the supervisory response. The BCBS is putting the final touches on a countercyclical buffer framework to protect the banking sector from excessive credit growth.

The problem of systemic risk arising from excess interconnectedness and the perception that some banks are too big to fail is being addressed. Reforms include capital incentives to use central counterparties for over-the-counter derivatives, higher capital for trading and derivative activities and complex securitisations, more capital for inter-financial sector exposure and appropriate capital treatment of systemic banks (in coordination with the Financial Stability Board). Recommendations for cross-border bank resolution provide a practical way to address the issue of systemic risk at cross-border banks.

With regard to liquidity, many banks got into trouble by financing long-dated, illiquid assets with short-term wholesale funding. Others had inadequate buffers of highly liquid assets to ride out a period of severe stress.

The BCBS response is to introduce a global liquidity

> Raising capital and liquidity standards will reduce the probability and impact of crises

framework that establishes minimum standards for funding liquidity risk. Banks must hold sufficient high-quality liquid assets to cover a 30-day period of acute stress. A longer-term structural ratio promotes funding activities with more stable sources of funding. By changing their funding profile, banks become less vulnerable to liquidity shocks.

These measures must be accompanied by better supervision and risk management. The BCBS is establishing rigorous mechanisms to ensure standards are implemented across its membership.

System-wide supervision must also improve. Most banking crises emerge when there are common vulnerabilities and concentrations. Bank-level supervision

Traders at the New York Stock Exchange

must be accompanied by a broader understanding of financial sector and macroeconomic vulnerabilities.

The perimeter of regulation must also keep up with financial innovation. Activities that combine substantial maturity transformation and liquidity risk should be subject to more bank-like regulation. Vigilance is required to detect major regulatory differences for similar activities that could put pressure on the soundness of the regulated sector.

The BCBS is taking steps to ensure the new regulatory package succeeds. It has thoroughly analysed comments received from the public consultations that ended mid-April. It has conducted a comprehensive quantitative impact study to assess the effects of its reform package as well as a top-down impact assessment.

It is also assessing the benefits and costs of the Basel Committee standards. The costs of a banking crisis include the direct losses borne by security holders, the massive scale and diversity of public sector interventions that strain public finances and must be scaled back over time, and plummeting national and global economic output and employment.

Raising capital and liquidity standards will reduce the probability and impact of crises. It also avoids those reductions in output and employment during a crisis, and stabilises economic output and welfare increases caused by volatility during non-crisis periods. A more stable banking system can withstand outside shocks. Other benefits of adequate standards include lower risk premia, improved allocation of resources and the avoidance of excessive credit growth.

As with the benefits, the costs of raising capital and liquidity requirements can have both temporary and permanent elements. Temporary costs can be managed through appropriate transition periods. The impact in terms of long-term costs is not clear, however. Higher capital requirements and liquidity standards could increase funding costs, but more stable, less leveraged banks would raise average ratings, improve the terms for raising funds and lower the required return on equity. Moreover, in a competitive market, the costs may not necessarily be passed on to the consumer.

One thing remains clear. Raising current minimum capital requirements involves large and permanent net benefits by raising the stability of the system and promoting more sustainable growth. These benefits accrue immediately.

It is absolutely essential to reflect on the lessons of this crisis to safeguard against something like this happening again. ◆

Adapted from remarks made at the Institute of International Finance 2010 Spring Meeting, Vienna, 11 June 2010. See www.bis.org for information on the latest agreements, notably 26 July and 12 September.

Basel III and global trade: the devil's in the details

By Daniel Cotti, J.P. Morgan Global Trade Executive

In the wake of the financial crisis, trade banks and their customers find themselves in a changed landscape. Credit has tightened, accounting regulations are stricter and the impending revision of Basel II banking rules — referred to as 'Basel III'— includes new and stringent capital reserve requirements. Basel III may prove extremely challenging to the players best placed to stimulate expansion and growth in the global economy through commerce. Given what's at stake, how can regulators and providers best work together to prevent the next banking crisis while making sure that trade finance customers — and by extension, the real economy — don't pay too high a price?

Never let a perfectly good crisis go to waste, the saying goes. Now is surely the right time for banks and governing bodies to work together on lending rules that will more effectively measure and mitigate risk throughout the credit system. The pending Basel regulatory changes call for a new approach to calculating risk capital that mandates significantly higher bank capital reserves. Requiring banks to keep more core capital on hand will significantly impact global trade — particularly off-balance sheet trade finance instruments, such as letters of credit, which will be subject to increased regulation and additional capital charges. This development has proved frustrating for trade bankers, exporters and importers alike, and the industry is communicating its issues to regulatory bodies, hoping to ensure that Basel III strengthens, rather than weakens, global commerce in what continues to be a volatile economic period. Of particular concern to trade banks, including J.P. Morgan, are Basel III's proposed risk, liquidity and funding calculations and their attendant capital adequacy requirements. In addition to concern about the rules and new calculations themselves, trade bankers share continuing uncertainty regarding their scope and implementation.

Basel III: known and unknown impacts

Trade has a huge impact on the health of the global economy — for better or worse. The financial crisis was intensified by a fall in production globally as manufacturers drew down their durable goods inventories and stopped sourcing new materials. As demand flattened, importers and exporters also saw trade finance become less accessible, just when increasing the level of trade activity had become crucial to stabilisation and recovery. Contraction of inventories and lack of trade financing caused global trade to fall by nearly 23 per cent, or $3.5 trillion in value. By the time the crisis stabilised, it is estimated that as much as $500 billion in world trade was wiped out. Since then, timely intervention by central banks, governments and multilateral agencies, such as the World Trade Organization, has done much to stop the bleeding and restore confidence.

However, as we move through the first stages of recovery, Basel III seems likely to challenge all trade providers. The proposed leverage ratio changes may require banks to hold significantly larger amounts of capital. At some institutions, trade will now need to compete internally with other product lines for capital reserves, and the capital reserve requirement for a letter of credit could increase significantly as a consequence of increased pricing and lower availability. Given the cost of capital and the possibility that under Basel III non-trade products will promise higher yields, a recurring question at many institutions might soon be: Should we be doing trade finance at all?

If new capital is not raised and the new rules are adopted as currently written, one bank has estimated that banks could slash their trade lending by as much as 6 per cent a year, triggering a drop of as much as $270 billion in international trade and commerce based on today's trade value. As the availability of trade finance declines, pricing for loans and letters of credit will go higher for all importers and exporters — perhaps most acutely increasing costs for the small and medium-sized importers and exporters in emerging markets who have the greatest need for trade finance and a key role to play in the recovery. Curtailing the availability of trade loans and financing programmes to these businesses could have an impact that extends far beyond their home markets; the consequences could be global and negative for businesses large and small across many sectors.

The argument trade bankers are making is that Basel III's one-size approach to calculating leverage ratios is a result of a lack of understanding of the true level of risk inherent in trade finance and trade-related transactions. Trade finance instruments have always provided risk mitigation and structure to the trade of goods and services. Trade exposures are not as risky as other financial instruments covered by Basel III, since they are typically small in size, short term and self-liquidating, with historically very low default rates. Rather than grouping trade products with more leveraged, speculative types of business in a single risk category, the trade industry has argued for a trade-specific risk weighted asset (RWA) calculation that more accurately reflects the lower level of risk in trade transactions.

The new liquidity ratio proposed for Basel III also brings considerable uncertainty to trade lending. Under this rule, national regulators will determine the percentage of the potential drawings from letters of credit that will be included in the calculation of net cash outflows. The industry, including J.P. Morgan, feels that letters of credit should be excluded from this category, since they are event-driven and low-risk instruments. This exclusion should become standard and be globally and consistently applied. Alternatively, a more realistic empirically based analysis of a credit conversion factor associated with letters of credit should be employed.

In addition, export credit agency (ECA) loans such as those made by US Ex-Im Bank may not meet all the requirements to be considered a liquid asset, i.e., cash inflow, since they are not traded on a listed exchange. To apply such standards to the very instruments that governments have put in place to stimulate global economies seems not only counterintuitive, but also unfair. A government guaranteed trade asset deserves different treatment from clean lending to third parties, even if it is not liquid, as defined by the new rules.

Puzzlingly, Basel III also looks at any exposure, including trade loans to financial institutions, differently than trade loans made to corporations. While the financial crisis has certainly shifted that risk profile and new rules should reflect that shift, this approach seems to ignore the true purpose of these loans and their contribution to the financing of international trade.

A matter of interpretation

The trade industry's uncertainty is compounded by possible scenarios in which local regulators interpret Basel III regulations differently. Where regulations are subject to interpretation and competitors are not playing on a level field, higher or lower allocation of capital will engender a certain amount of risk that would be otherwise avoidable. In an additional twist, the other financial regulations looming in the United Kingdom and the United States may create even more interpretation and compliance challenges for global banks.

One of the major conundrums facing Trade under Basel III is the discretion that will be given to local regulators. At this point, it is not known how their decisions and the timing of their decisions will affect the industry. Under the new rules, the movement of contingency liabilities onto balance sheets, financial institution counterparty risk weighting and the weighting of ECA exposure could conceivably vary by country, thereby creating an uneven playing field among trade providers. These differences might significantly impact the domiciling of some banks and the cost of capital, which would in turn raise the prices trade finance providers need to charge their customers. The high-level timetable for Basel III implementation is eight years — plenty of time, surely, to work out any kinks. However, much uncertainty still surrounds the details of that timeline.

It is said that uncertainty is never good for markets. It is also said that inconsistency and lack of alignment can reduce efficiency and inflate costs. It is therefore very much in the interest of everyone participating in the global economy for banks and regulators to be interpreting and complying with trade banking regulations at the same time, and in the same way. Absent clarity and the rational calculation of risk, markets may well experience a kind of cognitive dissonance in which bankers are asked by governments and multilaterals to enable trade, but the risk mitigation rules in force prevent the appropriate level of lending. Again, the businesses that most need trade finance may not be able to obtain it, and our global recovery may be compromised. Given trade's global nature, creating the possibility of regulatory arbitrage would not be in the best interest of the parties to global trade transactions. Nor would it benefit the global regulatory environment or increase the safety and soundness of the banking system.

Doing our part

We can all agree that it is vital for the financial community to ensure that what happened in 2008 never happens again. Basel rules are critical to the effective mitigation of risk in the global banking system. That said, it is just as important to consider the position of global trade banks like J.P. Morgan, whose plans for expansion in emerging markets and developing countries could be negatively impacted by regulation that does not truly reflect the risk profile of the business and is inconsistently applied. Banks are currently providing the finance for approximately 30 per cent of all world trade — the import and export of commodities, consumer goods and capital equipment. It is critical that these institutions not be discouraged by regulation from providing the funds that will continue to keep trade flowing within and between countries and fuel the engine of the rebounding global economy.

It is also important to understand that the percentage of losses experienced by trade finance facilities is much lower than in other forms of lending. The low risk of trade finance has been understood by practitioners — including banks — based on anecdotal experience over the past 50 years, but historically there have been little empirical data available to support that statement. In order to address concerns about Basel III capital requirements, steps have now been taken in the trade banking community to demonstrate the low-risk nature of trade loans. The International Chamber of Commerce and the Asian Development Bank recently published the initial results of a Trade Finance Default Register — the first of its kind — containing data from 5.22 million trade transactions conducted around the world by nine leading international banks over the past five years. The database of transactions worth $2.5 trillion showed that most trade finance transactions were short term in nature, averaging 115 days. The banks participating in the project reported only 1,140 defaults over the reporting period. Even in the depths of the economic downturn in 2008 and 2009 — the worst since the Great Depression — the banks reported just 445 defaults out of approximately 2.8 million transactions. Such tiny percentages dramatically challenge the necessity for the stringent trade capital requirements proposed under Basel III.

We would again urge global leaders, all regulators and the financial community to recognise the long-term sustainability and stability of trade finance, which has not only survived this business cycle, but has also been advancing civilisations for centuries. We would particularly urge those local regulators interpreting Basel III to keep the best interests of their home industries top of mind — listening carefully to the industry's collective feedback on the proposed new rules and metrics for trade instruments, and gaining a complete understanding of impact of the new rules on the very industries they seek to support and protect.

Here at J.P. Morgan, we look forward to working together with regulators to ensure that trade finance remains safe, affordable and accessible to the people and enterprises so crucial to the vibrancy of our global economy. A continuing dialogue with the industry is critical to ensure that new measures for safeguarding the banking system are in concert with the actual risks related to the finance instruments that support global trade. ◆

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Offshore tax havens: from challenge to contribution

Although offshore tax havens are becoming more transparent in their dealings, the G20 should adopt the concept of tax justice as an integral part of its core agenda

By Dries Lesage, Ghent University

How the G20 has made a difference
According to several estimates, developing countries lose more than $100 billion a year in public revenues due to the abuse of offshore financial centres by wealthy citizens and firms. This phenomenon also aggravates the budgetary and social problems of the rich countries. In a globalising world, it is a problem when jurisdictions use their own sovereignty to undermine the sovereignty of other countries. The global financial crisis of 2008-09 and several big tax scandals involving Liechtenstein and Switzerland have brought offshore tax havens under greater scrutiny from the public and governments. Yet

Before the April 2009 London Summit, several tax havens hastily committed to the OECD standard on transparency and exchange of information

since November 2008 the G20 summits have provided advocates of global action with the opportunity to move the issue to the top of the international political agenda. France, Germany and others have revived the framework of the Organisation for Economic Co-operation and Development (OECD) against tax havens — now with the message that the time of muddling through on the basis of volunteerism is over.

In the months before the April 2009 London Summit, several tax havens, including Switzerland and Liechtenstein, hastily committed to the OECD standard on transparency and exchange of information. This standard basically implies that states or other relevant jurisdictions exchange information upon request for tax purposes, with no restrictions due to bank secrecy or domestic tax requirements. The London Summit approved three lists: a black list with countries that had not committed to the standard; a grey list with countries that had committed to it, but not yet substantially implemented it; and a white list with countries substantially implementing it. Importantly, this naming and shaming effort was complemented by a G20 intention to apply sanctions, as "the time of banking secrecy is over".

Such a delicate exercise was most appropriately dealt with by heads of state and government, while the prospect of a future summit helped to maintain pressure. At the same time, backing by the G20 leaders gave the OECD greater authority. This constituted a good example of the added value of summitry. Not without reason, the OECD acknowledges that over the past two years more progress has been made than over the past decade.

The headquarters of LGT Bank in Liechtenstein stand in the shadow of Vaduz Castle. Liechtenstein has committed to the OECD standard on transparency and exchange of information

Lacking effectiveness

Notwithstanding this progress, the G20 and the OECD should take care of certain path dependencies that might render the whole effort hollow. One problem is that it was too easy to be removed from the black and grey lists. The first move just required verbal commitment, the second the signing of 12 bilateral agreements containing the OECD standard on information exchange. Some tax havens even signed agreements with other tax havens in order to meet the threshold. Another problem is the limited effectiveness of existing agreements. In practice, certain tax authorities have difficulties responding to a foreign request, because the requested data are not automatically collected internally. In other cases, the requesting party has to come up with very strong indications of tax fraud — random 'fishing expeditions' are ruled out. Moreover, major powers such as the United States and China, having financial centres on their soil alleged to be tax havens (for example, in Delaware, Hong Kong and Macao), were put on the white list. Power politics seems to have played its role. Within this framework, complacency is lurking.

Nontheless, since 2009 almost 500 agreements consistent with the standard have been signed by countries that featured on the black and grey lists at London. Moreover, this time it was not the G20 but the G8 at their L'Aquila Summit in July 2009, which asked the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes to set up a three-year peer review process among its members (which now numbers 95, including all G20 members, OECD members and offshore jurisdictions). OECD officials assert that in the course of this process everything can be discussed, including poor implementation or the lack of effectiveness of the standard in white-listed countries. In other words, the threshold of 12 is not sacrosanct, and possible abuses in powerful rich countries could still come to the surface.

The way forward

The G20 has provided leadership in giving this matter extraordinary momentum. It has also contributed to raising awareness about the issue in the developing world. The OECD is now actively spreading its standard in the global South. It integrates the development dimension more firmly into its policy analysis and recommendations than it did before. Yet there is a danger that this initiative will stick to a standard — information exchange upon request — that is fundamentally flawed, as many abuses remain invisible this way. In that sense, a standard of automatic information exchange on a multilateral basis (including robust and internationally agreed standards on the domestic collection of information by national tax authorities as well as the protection of privacy), as already applied under the EU savings directive, may be superior.

The question now is whether the peer review will also touch upon this more fundamental debate. At any rate, it was a smart move to keep the process going by this method. Recent G20 actions could be just the beginning, not the end, of a renewed international effort against international tax evasion and inappropriate secrecy. Given the flaws within the existing initiative, India has already pressed for a more effective information exchange at the G20's Seoul Summit, while in Toronto in June 2010 French president Nicolas Sarkozy signalled that the white list was not sufficient.

The G20 should now adopt the concept of tax justice as an integral part of its core agenda, and take on other related and pressing issues — such as aggressive tax planning strategies by multinationals and the harmful competition between countries to attract foreign direct investment through excessive tax incentives. In due course, the legitimate development concerns of tax havens should also be addressed. ◆

Global accounting standards for all

The G20 leaders continue to support global cohesion in financial markets

The US Securities and Exchange Commission headquarters, Washington, DC

By Sir David Tweedie, chair, International Accounting Standards Board

The financial crisis has provided one of the greatest demonstrations of the globally interconnected nature of capital markets. Everyone is part of one big, interdependent financial market in which capital no longer respects geographical or jurisdictional boundaries. This presents both benefits and challenges.

The case for global accounting standards

On the plus side, businesses are able to raise capital on an international basis, to locate subsidiaries where they are best suited or to benefit from extended supply chains that span continents. Investors now routinely seek investment opportunities all around the world. Even the most cautious funds seek out growth or income opportunities in parts of the world where few fund managers had previously trod. Emerging and developed economies are able to attract inward investment to fund growth, in turn helping their citizens create a higher standard of living.

The challenges are equally significant. Does a New York-based analyst really understand the accounts of a company in a far-flung region that he or she is about to invest in? Can a securities regulator fulfill an investor protection remit when so many domestic investors are investing internationally? Can prudential regulators apply common capital requirements for banks when banks have different reporting requirements? Can regulatory arbitrage be avoided when global markets transcend jurisdictional borders?

Part of the answer, recognised by the G20 leaders in their communiqués at the London, Pittsburgh and Toronto summits, is the move toward a single set of high-quality financial reporting standards, applied consistently across all markets.

Emerging research shows that the cost of capital is reduced in markets where everyone speaks the same financial language. Companies no longer have to reconcile the accounts of multiple subsidiaries at each reporting period. Regulation can be applied on a consistent basis. The practice of shopping for favourable accounting treatment is eliminated.

In short, efficient global markets require a common language to describe financial performance. International financial reporting standards (IFRSs) are rapidly becoming that language.

> “Emerging research shows that the cost of capital is reduced in markets where everyone speaks the same financial language”

How are we doing?

The International Accounting Standards Board (IASB) was established in 2001, following intense discussions that included the European Commission and the US Securities and Exchange Commission (SEC). The IASB inherited a set of international accounting standards that few major economies used and that were criticised as being insufficiently robust.

Progress since then on both quality and use has been rapid. The standards were improved in time for the first wave of countries, led by the European Union, to adopt IFRSs in 2005. A second wave of countries establishing timelines to adopt those standards began shortly afterward. More than 120 countries now require, permit or are in the process of permitting the use of IFRSs for listed companies. Most of the remaining major economies of the world have established timelines to adopt or converge with IFRSs in the near future.

The IASB has collaborated with the US Financial Accounting Standards Board (FASB), the standard setter in the United States. Their joint work to improve IFRSs and US generally accepted accounting principles, and to bring about their convergence, achieved a major milestone in 2007 when the SEC permitted non-US companies to file under IFRSs without reconciliation back to the US accounting principles.

The IASB and the FASB are now working to finish their convergence programme. While some differences still exist, the bulk of the work will be completed in 2011. The SEC has indicated that this convergence work will be one element in its making a decision in 2011 on the possible domestic use of IFRSs.

A comprehensive response to the crisis

The IASB has also undertaken a comprehensive response to the financial crisis. While IFRSs seem to have withstood the onslaught of the crisis, there is always room for improvement.

At the request of the Financial Stability Board as well as the G20 and others, the IASB has accelerated planned projects to reform financial instruments accounting, to provide additional guidance on the application of fair value measurement when markets become illiquid and to guide the accounting for off-balance sheet activities. It is in the final stages of many of these projects. A detailed summary of this work and of the IASB's overall response to the G20 conclusions is available at the IASB website (www.iasb.org).

Enhanced stakeholder engagement

Encouraged by the G20 and others, the IASB has significantly broadened the involvement of stakeholders in the development of IFRSs, particularly among emerging economies. While IFRSs are primarily developed with financial investors in mind, the standards do not exist in a vacuum. The IASB continued to deepen its cooperation with prudential regulators, including the Basel Committee on Banking Supervision.

While the objectives of standard setters (transparency) and prudential regulators (stability) are different, they are not mutually exclusive. Enhanced transparency has the potential to enhance financial stability.

This cooperation has helped both organisations to understand better, for example, the interaction between the IASB's 'expected loss' approach to provisioning and the Basel Committee's work on cushioning for expected losses via bank capital requirements.

What is left to do?

The next 18 months will be critical for achieving the goal of global accounting standards. The dividing line between success and failure is thin.

First, in completing its convergence programme the IASB continues to ensure that quality is not sacrificed for expediency. The acceleration in its work programme has been at least matched by a corresponding increase in the intensity of outreach and consultation. The openness and transparency of the IASB's work has received international recognition. All meetings are held in public and broadcast live on the internet. The IASB seeks broad input, debates openly and reports back on how feedback was considered. The end result is standards of the highest quality that have benefitted from extensive consultation.

Second, the IASB will do everything possible to advance its convergence activities in a way that results in improved financial reporting and in common approaches under both IFRSs and the generally accepted accounting principles in the United States. This convergence work will facilitate the adoption of a single set of standards in order to provide the level playing field sought by the G20 leaders.

Finally, global standards need to be applied and enforced on a consistent basis. Selective application of the standards or adaptation to local requirements will only serve to undermine the reputation of IFRSs in those countries that have fully applied the entire set of standards.

The potential of global standards is real. The world is within touching distance of achieving them. I greatly appreciate the continued support of the G20 leaders in this endeavour. ◆

Trade for growth, jobs and development

The Doha Development Agenda must be concluded as soon as possible in order to ensure continued global growth, especially for developing countries

By Pascal Lamy, director general, World Trade Organization

The best contribution the G20 summit in Seoul can give to global growth and development is to send an urgent signal that its members are ready to push the Doha Development Agenda into the endgame.

The clear-cut connection between trade and growth is why the developing countries are the ones most adamant about concluding the Doha Development Agenda as soon as possible.

It is also not surprising that international trade — and by extension the work of the World Trade Organization (WTO) — features prominently in the Millennium Development Goals (MDGs). The international community recognises trade is an important engine of growth, jobs and development.

Indeed, it is a fact that the regions where most progress has been made in eradicating poverty are those that trade most. There is a direct correlation between integration into the multilateral trading system and economic growth, between growth and poverty reduction.

One does not have to look far for a very good example of how trade can help growth and development, and dramatically improve the daily life of the people. The Korean host — the first developing country to host the G20 Summit — is vibrant proof of that.

Trade in goods and services now makes up to 90 per cent of the Korea's gross domestic product (GDP). Korean per capita GDP is now approaching the $30,000 level, from just $100 in early 1960s.

This spectacular growth — or the 'Miracle on the Han River', as Koreans have come to called it — has become a model and a goal for many aspiring developing countries. Korea is not an isolated example of the benefits of integrating into the world trading system. China is another, as well as Vietnam, a newcomer to the WTO.

Doha round and development

Around 80 per cent of the Doha round is already on the table. The G20 must move for the resolution of the remaining issues.

Agriculture products make up only 6 per cent of world trade, but developing countries account for half of this

Container and tanker ships on the Suez Canal. The connection between trade and growth is clear cut

total. Their share of agriculture exports has been rising but they continue to be disadvantaged by high tariff barriers and competition from highly subsidised producers.

The potential of agriculture in developing countries would be realised in the establishment of a fair and market-oriented trading system resulting from the Doha round.

The negotiations on industrial products are also important to developing countries, since they represent around 94 per cent of their merchandise exports. For them, the completion of the Doha round will result not only in improved North-South trade, but also in expanded South-South trade because trade barriers on industrial goods will come down around the world.

Services is the leading economic sector in almost all countries, regardless of their level of development. This sector accounted for 69 per cent of world GDP in 2008.

Services such as telecommunications, banking, construction and transport perform infrastructural roles that can underpin national growth and development. In the negotiations, many developing countries have expressed interest in professional services, computer and related services, construction services, tourism services and transport services. Tearing down barriers to international services would be win-win game for all WTO members.

Gains will also come from streamlining customs procedures under the agreement on trade facilitation. According to estimations by the World Bank, every dollar spent on trade regulatory reform can generate up to $700 of increased trade. There will also be development gains from disciplines curbing fishery subsidies, which contribute to over-fishing and deplete the world's oceans. There is also a program at hand with the reduction of obstacles to trade in environmental goods and services.

In sum, this represents a large stimulus package, which could contribute to the recovery of the world economy.

Aid for Trade

It is true that if you give a man a fish you feed him for a day, but teach him how to fish and you feed him for a lifetime.

The 'fishing rod' that the WTO gives to developing countries is Aid for Trade, in partnership with other international organisations and regional banks.

> “The trade rules have managed to contain protectionism during the financial crisis, and have kept markets open, especially for the developing countries”

The Aid for Trade initiative, launched at the 2005 Hong Kong WTO ministerial conference, helps poor countries develop their productive capacities and participate effectively in international trade. It is about building ports and roads, upgrading marketing skills and learning food standards.

Progress since Hong Kong has been noteworthy. Since 2005, there has been a turnabout in development financing for trade. Flows have increased year on year and in 2008 reached $42 billion.

Another initiative by the WTO and international agencies — the Enhanced Integrated Framework — is Aid for Trade for least developed countries (LDCs). It helps the poorest countries identify their trade bottlenecks, gets participating agencies to use their areas of expertise to respond to the pressing needs of LDCs and helps drive donor support to fund the various projects identified.

In July 2011, the WTO will host the Third Global Review of Aid for Trade, which will focus on evaluating more closely the impact of the programme on the ground and get concrete ideas for improvement.

The crisis and the future

The system of the General Agreement on Tariffs and Trade and the WTO replaced the rule of the jungle in international trade. The trade rules have managed to contain protectionism during the financial crisis, and have kept markets open, especially for the developing countries — the ones most vulnerable to trade restrictions.

But the current trade rules were made 17 years ago, and are creaking. When the Doha round is concluded, the multilateral trading system will be more open — particularly for developing countries' exports — and will have a strengthened rule-making structure that will make it more balanced, especially toward developing country interests and concerns.

The round would help developing countries in their quest for the achievement of the MDGs, in particular the fight to reduce poverty. It would continue to provide a fiscally sound growth engine for all countries.

The package is there for the taking. ◆

Making foreign direct investment work for all

More private investment is needed to help sustainable development. Stimulous packages and state aid alone are not enough

By Supachai Panitchpakdi, secretary general, United Nations Conference on Trade and Development

In the immediate aftermath of the economic crisis there has been a new, more interventionist role for the state in several economies. Large-scale public investment by several governments has so far rescued the global economy from a prolonged depression, and is stimulating the recovery in many areas. However, as stimulus packages and state aid are exhausted or removed, private investment must step in to avoid a double dip recession and to ensure a return to sustainable growth and development. The public sector alone cannot indefinitely shoulder this burden.

The many problems left by the crisis, such as high unemployment, large public debts and jobless growth, could be alleviated by a renewed commitment to investment by private business. Additionally, raising the level of private investment can also set countries on a path toward sustainable development and orient the economy toward a low-carbon future. This holds especially true for developing countries.

Foreign direct investment (FDI) in particular can offer a valuable contribution to the long-term sustainable growth of developing countries. FDI as a share of total private capital flows to developing countries rose from 60 per cent in the 1990s to 83 per cent in 2008. Similarly, FDI as a share of total capital flows, including official development assistance (ODA), to developing countries has risen from 46 per cent to 72 per cent in the same period.

Between 2006 and 2008, in the poorest countries (known as the least developed countries, or LDCs) FDI was on average equivalent to 28 per cent of gross domestic capital formation. However, much of this investment was concentrated in a few countries only, mainly those with rich endowments of natural resources. To ensure that development is sustainable and that it benefits a greater number of people, it is imperative that foreign private investment be channelled to a broader range of LDCs and industrial sectors. As G20 countries are the source of two-thirds of global FDI outflows, they could play a more active role in facilitating private investment flows to developing and least developed countries.

"Narrowing the development gap and reducing poverty are integral to our broader objective of achieving strong, sustainable and balanced growth and ensuring a more robust and resilient global economy for all"

G20 Leaders' Declaration, Toronto

How can FDI foster strong, sustainable and balanced growth?

FDI can help build an economy's productive capacities in industry and agriculture, as well as contribute to infrastructure upgrading. Better infrastructure in energy, transport and telecommunication networks will facilitate production and trade. In turn it can attract further FDI. Moreover, FDI in the services sector, for example, can help improve access to water, education and health care — especially for the poor and marginalised. FDI can also generate spill-over effects by increasing domestic demand and encouraging domestic enterprises to supply FDI-receiving industries. This again can lead to a virtuous cycle of more domestic employment, which generates even more domestic demand. This is the start of a sustainable growth path that can contribute to poverty reduction.

There are many ways to address the interface between investment and poverty. Among others, there is a need to steer investment, via effective promotion and facilitation policies, towards the 'bottom of the pyramid'. This could be done by creating jobs and opportunities for the poor and marginalised or by encouraging foreign investors to develop sustainable and beneficial business models for LDC economies. The eighth meeting of the International Investment Advisory Council of the United Nations Conference on Trade and Development, in September 2010, advised that foreign investors need to be encouraged to invest in the poor (viable and sustainable investment in poverty alleviation), for the poor (accessible and affordable products and services) and with the poor (fostering business linkages with domestic small and medium-sized enterprises). More broadly, investment needs to be directed to those areas and industries where it can generate maximum development benefits, such as enhancing food security, improving energy efficiency or upgrading infrastructure.

In an era of rapid climate change, the issue of investment in a low carbon economy is particularly urgent. UNCTAD's 2010 *World Investment Report* estimated that in 2009 FDI flows into renewable energy, recycling and low-carbon technology manufacturing alone amounted to $90 billion. Transnational corporations that invest abroad can contribute to global efforts to combat climate change by improving production processes, by supplying cleaner goods and services and by providing much-needed capital and cutting-edge technology. To support

Despite the financial crisis, PepsiAmericas inaugurated its plant near Bucharest with an investment estimated at $150 million by 2011. Such foreign direct investment will create jobs and contribute toward economic recovery

Inspecting the development site: Taiwan's AU Optronics Corp is investing around $287.9 million to build an LCD assembly plant in Slovakia. The biggest foreign direct investment project since the country joined the eurozone is expected to create some 1,800 jobs

global efforts to combat climate change, UNCTAD has recommended the creation of a global partnership focusing on establishing clean-investment promotion strategies, enabling the dissemination of clean technology, maximising the contribution of international investment agreements to climate change mitigation, harmonising the corporate disclosure of greenhouse gas emissions and setting up an international low-carbon technical assistance centre (L-TAC) for developing countries.

What conditions and controls does FDI need to enhance its benefits for all?

Improving the legal and regulatory frameworks for investment in host countries plays an instrumental role in attracting private investment — including foreign investment — and simultaneously ensuring development benefits for the host country. In many countries, especially the LDCs, improvements are still required in their regulatory, institutional and absorptive capacities. Technical assistance can help investment promotion agencies in LDCs develop their capacity to target relevant technologies and attract those investors that contribute best toward the transition to a low-carbon economy. Assistance can also help LDCs become competitive in the emerging low-carbon world economy. Developing human resources, promoting entrepreneurship and enabling linkages between domestic enterprises and foreign companies are all important in this regard.

Improving coherence among global, regional and national investment policies, as well as between investment and other public policies (such as those related to financial system reform and climate change), would further help to create an overall enabling framework for harnessing investment for today's development challenges. Despite some progress in recent years, the world is still in need of a sound international investment regime that effectively promotes sustainable development for all.

How can the G20 galvanise a proper international FDI regime?

The G20's commitment not to engage in protectionism remains a critical element in ensuring that FDI continues to foster growth and development in developing countries. Yet more could be done to fully exploit the development potential of FDI. G20 members, as well as other economies with potential for outward investment, could contribute by strengthening existing mechanisms (such as incentives, risk insurance and guarantees) and by developing innovative mechanisms that could help generate investment for development. In this context, cutting-edge research needs to devise policies that successfully encourage and attract outward investment, as well as related technical assistance and capacity building. Policies must also be strengthened to effectively link transnational corporations and domestic companies in host countries, connecting LDC companies to global value chains and thereby strengthening LDCs' productive capacities and international competitiveness. Sharing relevant experiences, best practices and collective learning can also play an important role. UNCTAD has made several such proposals to the G20.

However, there remains the broader question of whether the current international investment regime is suitable for future growth and development. The global system of economic governance lacks strong and coherent international investment rules. Whereas international trade is governed by the World Trade Organization and financial flows are largely overseen by the International Monetary Fund, no comparable institution or international set of rules exists in the area of investment. Instead, international investment relations are governed by myriad overlapping rules in almost 6,000 different agreements. This brings the problem of a lack of consistency between the rules and the challenge of addressing and settling disputes arising from them.

In the post-crisis era, the world can no longer afford such a fragmented and inefficient approach to investment for development. At the UNCTAD World Investment Forum 2010, in Xiamen, China, heads of state, ministers and business leaders called for coordinated international action to ensure that the international investment regime works for sustainable development. This means, first and foremost, a commitment to ensure responsible investment, which is being explored by the joint initiative of UNCTAD, the World Bank, the Food and Agriculture Organization and the International Fund for Agriculture and Development for responsible agricultural investment. The issue of development responsibility must figure prominently in any efforts to tackle the fragmented international investment regime. G20 members play a crucial role in supporting such efforts. ◆

The contribution of the World Bank to global growth and stability

The World Bank Group is adapting to represent the diversity of global financial institutions

By Robert Zoellick, president, World Bank Group

The global economic crisis has underscored the need to modernise and strengthen multilateral institutions both to help address today's challenges and to reflect a different world. Today's is a new, rapidly evolving, multipolar world economy. Developing country growth is not only fundamental to overcoming poverty and hunger. It is also now an engine of global growth.

This new world — embodied in the emergence of the G20 as the premier forum for discussing international economic issues — places more emphasis on identifying mutual interests, negotiating common actions and managing differences across a much wider spectrum of countries than ever before. It requires the support of institutions that are fast, flexible and accountable and can give voice to the voiceless with resources at the ready. It requires institutions that reach out to partners, with humility and respect, ready to learn from others, institutions that can act as global connectors pioneering a new world of South-South and South-North learning and exchange. It requires institutions that can demonstrate real results and can be held accountable when they falter.

Public institutions tend to be slower to change than private organisations facing competition. The World Bank Group recognises this risk. To address it, it has launched the most comprehensive reforms in its history.

A modernised World Bank Group must represent the international economic realities of the 21st century, recognising the role and responsibility of stakeholders, but also their diversity and special needs, and provide a larger voice for Africa. Reflecting these needs, and with the support of the G20, bank shareholders decided in April to move to more than 47 per cent ownership by developing and transition countries.

But it is not stopping there. In a model unique among international financial institutions, shareholdings will be reviewed every five years to allow for changes based on the continuing economic growth and evolution of shareholders, with the goal of achieving equity over time. For the first time, shareholdings are based on a formula specifically developed to reflect the needs and mandates of the World Bank Group: they reflect not only economic power but also contributions to bank resources for the world's poorest countries.

Senior management now includes a record number of executives from developing countries as well as women. And even more needs to be done.

The World Bank Group needs to work with developing countries as clients, not as development models from textbooks. It needs to help them solve problems, not test theories.

Yet problems need resources to fix them.

In the two years since the full force of the crisis hit in mid-2008, the World Bank Group committed $132 billion to support developing countries.

This broke all records. The World Bank Group got money where it was needed — fast. When it stepped up to

A classroom in Yemen. Remarkable strides have been made in school enrollments and gender parity in Africa, which was acknowledged by the World Bank

confront dangers, it depended on the effective and efficient use of resources on hand.

World Bank shareholders — with the critical support of the G20 — successfully agreed in April 2010 to the first major capital increase in more than 20 years. Recognising its strength as a vehicle for achieving global development objectives, shareholders chose to strengthen the bank to enable it to meet future challenges and crises.

The capital increase demonstrated just how modernised multilateralism can work. The World Bank Group built cooperation among the 187 countries that are its members. More than half the resources raised came from developing countries. Agreement on this package of measures represented a multilateral success story that contrasted with recent stumbles in climate change and trade.

More resources are needed for the 79 poorest countries in the world, half of which are African. These countries rely heavily on the the International Development Association (IDA), World Bank's fund for the poorest, to pay for clinics, schools and vital infrastructure. At the Toronto Summit in June 2010 the G20 called for an "ambitious" replenishment of IDA. The World Bank Group is working with IDA's partners to raise the necessary money and to ensure that it is used in the most effective way to achieve results on the ground for poor people. In addition, this year's replenishment will address how to give even greater prominence to gender, climate change, fragile states and crisis response in IDA's work.

Representation and resources alone are not enough. The World Bank must also be more effective, responsive, innovative, flexible and accountable.

It is sharpening its strategic focus to areas where it can add most value — focusing on the poor and vulnerable, especially in sub-Saharan Africa; on creating opportunities for growth; on promoting global collective action — such as in climate change, agriculture, water and health; strengthening governance; and preparing for crises.

The World Bank Group is reforming to modernise its products and services, fostering opportunities for innovation and considering a new decentralisation model that will enable it to apply cutting-edge skills closer

> "The World Bank Group is reforming to modernise its products and services ... It needs a global reach, but also a local touch"

to clients while gathering, customising and sharing knowledge and experience globally. It needs a global reach, but also a local touch.

It is reforming to focus on results, strengthening its governance and anti-corruption efforts, including strong prevention, and leading other international institutions in becoming more transparent and accountable. Its New Access to Information policy, based on the Indian and US freedom of information laws, is the first — but hopefully not the last — of its kind among international institutions. The World Bank Group has launched a new open access policy for economic data. It has concluded an agreement with other multilateral development banks on the cross-debarment of corrupt individuals and companies.

And the World Bank Group is launching a corporate scorecard so it can itself be held more accountable. Everyone makes mistakes. But if overcoming poverty were easy, it would have been done long ago. By opening the shades for others to see what and how the World Bank Group is doing, and with what results, errors can be caught more quickly and improvement can happen faster.

Taken together, these reforms are transformational. This transformation will enable the World Bank to more effectively serve its members and support the international economy in a time of rapid change. ◆

The role of the IFC

The IFC works with partners such as the World Bank Group to finance private investment in emerging markets, creating opportunity where it is needed most

By Lars H. Thunell, executive vice president and CEO, IFC

The G20 has made an excellent choice in selecting Seoul as the site of its November summit.

Growing from one of the world's poorest countries into an industrialised economy within 50 years, Korea has much to share with the world about what works in development. The International Finance Corporation (IFC), a member of the World Bank Group and the world's largest global development finance institution focused on the private sector, welcomes Korea's selection as the first non-G8 country to host the G20 summit. This is an important

Workers at a farm in Eikeihof outside Johannesburg. IFC is helping carry out the G20's Global Agriculture and Food Security Program

symbol of the growing influence and participation of developing countries in the global economy.

Much of the discussion in Seoul will centre on the regulation and monitoring of financial institutions in an era of globalisation. But also of particular importance is Korea's decision to help the G20 focus on development — specifically, in finding viable new approaches that complement, rather than duplicate, existing efforts to achieve the Millennium Development Goals (MDGs). It is especially important that the world support broad-based economic growth policies that can bring widespread social gains. Korea itself is a good example: in 1961 its economy was comparable to many in sub-Saharan Africa, but over the next four decades it was one of the world's fastest-growing economies and today is a member of the Organisation for Economic Co-operation and Development with low rates of unemployment, inequality and extreme poverty.

Working with its partners in the World Bank Group, IFC brings more than 53 years' experience in financing private investment that delivers services, creates jobs and raises incomes in emerging markets. In its most recent fiscal year it committed a record $18 billion. Its financing is increasingly blended with advisory services that add value to its clients and to the poor in support of its overarching goal: to create opportunity where it is needed most.

Today, however, the world faces the especially challenging conditions of the 'new normal'. High budget deficits and unemployment in G8 countries limit public sector resources, making it ever more important to attract new private resources in support of global development objectives.

This has been IFC's focus since the onset of the global financial crisis in September 2008, when it launched a $3 billion bank capitalisation fund with its Japanese partners.

Working closely with G20 members, it then developed a new trade finance initiative. Announced at the April 2009 London G20 Summit, this initiative has since helped generate more than $6 billion in trade. IFC is now also helping carry out the G20's Global Agriculture and Food Security Program launched at the September 2009 Pittsburgh Summit. It supports the G20's financial inclusion agenda in developing new models of financing for small and medium enterprises (SMEs). Strengthening the private sector's role in addressing climate change also remains one of its highest priorities.

A common theme runs through all of these initiatives: the use of innovative approaches to attract the new private capital needed to complement public sector resources and achieve development objectives, especially in the world's poorest countries — those supported by the World Bank's International Development Association (IDA).

The $3 billion IFC Capitalization Fund invests in developing country banks that are systemic for their local economies, such as Bank South Pacific in Papua New Guinea, Banco Continental in Paraguay and others. It is managed by IFC Asset Management Company, a wholly owned subsidiary that serves as a fund management platform to raise money from sovereign funds, pension funds and other institutional investors. The fund's investments help emerging market banks meet their capital requirements under the Basel III framework.

Trade is also a cornerstone of development. But in 2009 global trade flows contracted by an estimated 12 per cent, threatening to erode much of the progress made in emerging markets over the past decade unless dynamic new solutions were found.

Endorsed in the London Summit, the Global Trade Liquidity Program (GTLP) is a unique public-private partnership linking governments, development finance institutions and commercial banks. It pools $1.7 billion in direct committed funds from Canada, the Netherlands, the Swedish International Development Cooperation Agency, the Department for International Development and the CDC Group of the United Kingdom, the Saudi Fund for Development, the African Development Bank, the OPEC Fund for International Development, and another $1.5 billion in parallel cofinancing from the Japan Bank for International Cooperation. Africa is the primary target region. More than 80 per cent of GTLP's financing benefits SMEs. One such trade finance facility is with the Standard Bank of South Africa for agribusiness exports. When many foreign banks were cutting back on their African trade lines, GTLP's support to the bank's local affiliate enabled Nigerian cocoa producers to purchase $15 million of beans for export to Europe.

More than 1 billion people face chronic hunger today. Meeting the MDGs to halve poverty and hunger by 2015 requires more investment to help developing countries boost agricultural productivity, improve access to food markets, decrease vulnerability to agricultural risks, and create better and more sustainable rural livelihoods.

"Working closely with G20 members, IFC developed a new trade finance initiative that has helped generate more than $6 billion in trade"

The G8 and G20 are leading new efforts to advance food security and promote agriculture development. As part of this initiative, donors have invested in the Global Agriculture and Food Security Program. IFC has received pledges of American and Canadian support for a private sector facility to provide equity and loans for poorly financed small and medium-size agribusinesses that can work with smallholder farmers and bring them into local and global value chains.

SMEs are an essential force for job creation and poverty reduction in poorer countries, but they are often unable to access the commercial bank financing they need to grow. At the Pittsburgh Summit, G20 leaders vowed to scale up successful models of SME financing, mandating IFC to work with others in the new Financial Inclusion Experts Group to assess the best existing SME finance mechanisms and propose new solutions.

There is a nearly $1 trillion financing gap for formal-sector SMEs in emerging markets. It is a high-impact market that local banks can enter profitably when given effective external support. IFC is thus pleased to be one of the judges of the G20 SME Finance Challenge, a global call for proposals on using public funds to attract private finance on a sustainable and scalable basis. Winners will be announced in Seoul. IFC is considering additional, larger-scale responses that can help this critical G20 agenda item in other ways as well.

IFC is approaching these challenges in partnership with the G20, providing integrated investment and advisory services, as well as a proactive effort to document and share what it learns. With a combined global and local presence, and strong links with business, government and civil society, it is doing its part to increase the private sector's role in today's great challenges of development. ◆

The role of the International Development Association in global development

The IDA provides concessional credits and grants to developing countries, helping them develop successfully, reducing poverty and improving incomes

By Johannes F. Linn, senior resident scholar, Emerging Markets Forum, and non-resident senior fellow, Brookings Institution

Fifty years ago the International Development Association (IDA) was established as an affiliate of the World Bank. Its principal purpose was to provide concessional credits (and, more recently, grants) to poor developing countries to help them reduce poverty and improve their long-term development prospects. Since its creation, IDA has given about $240 billion in financial support (or $350 billion at today's prices). Currently, it is financing development programmes in 79 countries, each with an annual per capita income below $1,135. About 50 per cent of its assistance goes to sub-Saharan Africa and one-third to South Asia.

Many of the countries that IDA has supported have developed successfully. Former recipients have graduated from IDA as their incomes have improved. Some, such as China, Korea and Turkey, are now among the IDA donors. China and India, long-time IDA recipients, are outstanding development success stories. Sub-Saharan Africa, after many years of poor economic performance, experienced rapid economic growth for much of the first decade of the 2000s, until it was hit by the global economic crisis in 2008. Overall the share of very poor people (living below $1.25 a day) is expected to drop from 42 per cent in 1990 to 15 per cent in 2015, well below the target set by the Millennium Development Goals (MDGs). According to the World Bank's Independent Evaluation Group, more than 75 per cent of IDA's projects have achieved satisfactory outcomes in recent years, a remarkable success rate considering that IDA's projects often have to be implemented in difficult conditions.

> "According to the World Bank's Independent Evaluation Group, more than 75 per cent of IDA's projects have achieved satisfactory outcomes in recent years"

Despite this progress, poor developing countries, and IDA along with them, face many challenges.

One such challenge is that even though the overall poverty reduction target will likely be met, a number of other MDGs will not be achieved (especially for child and maternal mortality). Many African countries in particular will fall well short.

Conflicts, natural disasters and economic crises will also continue to threaten the progress made. The global economic crisis of 2008-09 cut sub-Saharan African economic growth from 6.7 per cent in 2006-07 to 1.7 per cent in 2009. According to World Bank estimates, almost 90 million people will have been pushed into extreme poverty in low-income countries by the end of 2010 as a result of the crisis. The human impact of economic crises on key human development indicators is particularly severe and takes years of economic growth to reverse.

Climate change will affect the poorest countries especially hard, as they will be most severely affected by droughts, floods and bad weather. Their capacity to cope with such impacts is very limited. The cost of climate change to IDA countries is expected to reach $40 billion over the next 40 years.

Moreover, up to now the response of the international community to the global economic crisis and climate change has benefited mostly the middle-income countries. After the outbreak of the global crisis, the World Bank was able to triple its market-based lending to these countries, as were other multilateral lenders. These lenders had a strong capital base to start with or received substantial capital replenishments, and were thus able to access international capital markets. In contrast, IDA and other multilateral soft-loan mechanisms were constrained by their fixed resource base provided by donors in multi-year replenishments. As for climate change, of the total of $17 billion committed under World Bank-managed trust funds, only 17.5 per cent have so far been committed to IDA countries.

Over the 50 years of its existence, IDA has significantly adapted its operations to reflect the changing realities on the ground and the emerging lessons for effective aid. It has become more transparent, more oriented toward results, more responsive to recipients' needs, more cognisant of environmental and social concerns, and more effective in supporting programmes under difficult governance

conditions. However, in one key respect, IDA now faces a much greater challenge. At its inception, it was the only multilateral institution offering broad-based concessional support to poor countries. Today it is one of many such organisations. Over the years, donors set up regional development banks with their own concessional financing windows. More recently, donors created large special purpose funds, such as the Global Fund to Fight AIDS, Tuberculosis and Malaria. And donors have come to rely increasingly on their own bilateral funding. As a result, IDA has increasingly lost its market share. While in 1960 IDA was the only multilateral source of soft loans, in 2010 its share in multilateral concessional resource flows is below 25 per cent. Its share in total concessional official aid recorded by the Organisation for Economic Co-operation and Development is only about 5 per cent.

However, this loss in IDA's role as the dominant multilateral aid institution is welcome. It means that IDA must compete with other aid channels by demonstrating its effectiveness in results on the ground. Nonetheless, the growing fragmentation of the aid architecture creates serious problems for recipients and donors alike, as many recipient governments have limited capacity to coordinate the many donors that operate in their countries. The fact that each donor has different fiduciary and environmental, social and legal requirements multiplies the cost of fragmentation. IDA, which used to play the lead role of in-country donor coordination, no longer plays this role. Donors and recipient countries have tried to establish good principles of aid harmonisation through the Paris Declaration on Aid Effectiveness. But in practice the donors' collective action problems persist on the ground. There is a systematic lack of scaling up successful development interventions due to the fragmented approach that the donor community pursues.

IDA projects financed improvements to infrastructure and commerce in Kumasi, Ghana

When they meet at Seoul, G20 leaders can take steps to strengthen the response of the international community to the continuing development challenges in the world. In particular, they can strengthen IDA's role as the pre-eminent multilateral instrument to assist the poorest countries. Given that they represent the principal traditional and new aid donors, they should commit to provide substantial incremental concessional resources to the poor developing countries to be able to respond effectively to the global crisis and to the long-term impacts of climate change. The G20 should also reaffirm IDA's lead role of coordinating donors' efforts in recipient countries where the government cannot effectively assume such a role in the short to medium term.

To help achieve these objectives, the G20 leaders should support a significant increase in IDA resources (by at least 25 per cent) during the next three-year replenishment (for at least $52 billion).

Moreover, the G20 leaders should signal that they take the need to harmonise donor requirements seriously by urging the multilateral aid organisations to apply a common set of fiduciary and safeguards standards. As a first step, they should request that the multilateral development banks (including their soft-loan windows, such as IDA) give recipient countries a choice of bank standards they wish to follow when receiving funding from any of the banks. ◆

Reform of the International Monetary Fund at the Seoul Summit

The role of the IMF in the global community could be called into question, if reforms lead to a diminishing representation of emerging economies

By Domenico Lombardi, president, Oxford Institute for Economic Policy, and nonresident senior fellow, Brookings Institution

The reform of the International Monetary Fund (IMF) has been rather slow since the jump-start it got at the Pittsburgh G20 Summit in September 2009. At that time the leaders endorsed the important recommendation to reallocate 'at least 5 per cent' of the IMF's voting rights to under-represented member countries, which are broadly understood to be emerging market and developing economies. By early October 2010, the IMF membership had not yet agreed to the basic parameters of such an agreement, but, given the considerable political weight behind this recommendation, it is relatively safe to assume that some consensus will have emerged by the time of the Seoul Summit. Notably, this consensus will seal a shift of voting power that, if added to the one already approved by the IMF governors in 2008, will entail a sizable realignment of voting power in a relatively modest time frame, at least by multilateral standards.

The latest development on the reform front, however, is relatively unexpected: the United States has vetoed the approval of a special resolution. The resolution at stake would allow the IMF's executive board to operate at its current size (24 executive directors plus a chair). However, the IMF charter only allows for 20 directors. Straying from this provision requires the board of governors to approve a special resolution every two years, with a supermajority of 85 per cent of the overall voting power. This, in practice, puts the US in the unique position to exercise a veto, given that its voting rights are 16.74 per cent of the total.

The move to veto reflects three major concerns of the US administration:

1. Frustration at the slow progress in IMF governance reform.
2. The objective of the White House to make emerging economies responsible stakeholders in the international monetary system with both rights and due accountability.
3. The awareness that quota reallocations, although important, can exert limited impact on the IMF's own decision making if the issue of who sits in its boardroom is not addressed.

> "The US veto could have wide-ranging implications well beyond those of any recent quota review and could carry significant risks"

In fact, changing the distribution of voting rights will have a very limited impact if it is not tied to a reconfiguration of the representation of the executive board.

The US veto could have wide-ranging implications well beyond those of any recent quota review and could carry significant risks. Europeans will be most affected by the US veto. For historical reasons, Europe has enjoyed the privilege of a sizable representation in the IMF's most important hall. Depending on rotation, there are times when as many as eight European representatives sit on the executive board, ten if representatives from Switzerland

and Russia are included. Any plan to consolidate European representation in the short term is practically unworkable. Even if the Europeans were willing to pool their representation, it would inevitably mean drawing Germany, France and the United Kingdom into multi-country constituencies. Yet these three countries are, by the stipulations of the IMF's own charter, intended to occupy single chairs. Changing their status is feasible, but would require amending the charter, which is not something that can be done overnight.

Because the US move is driven mainly by its desire to shake things up, the impasse may be surmounted if the Europeans were willing to state — for the record — their pledge to pool their representation by the time of the next general elections in 2012, devise a binding roadmap and provide operational details for how to achieve their target. This would have the benefit of reallocating country representation on the basis of revised quotas, as currently being negotiated, which would provide a stronger sense of legitimacy to the whole exercise.

There are a few solutions at hand. In the most recent consultations with global civil society, called for by the IMF's managing director, a proposal was put forward in the final 'Fourth Pillar' Report, and backed by several academics and civil society actors, to pool European Union representation into two chairs: one representing euro area members, the other representing EU countries that do not belong to the European monetary union. This approach would leave enough room for a few more chairs including other (non-EU) European countries, such as Switzerland, or rising economies, such as Turkey and some Eastern European countries.

Alternatively and more realistically, euro area countries could cluster their representation around the three hubs of the largest euro area economies (Germany, France and Italy) and then one or two more chairs would include other European countries. In either case, the fundamental issue is for Europe to bring more consistency between the management of its international monetary relations and its domestic institutional framework developed in important areas such as European monetary policy, whereby 16 EU countries have irrevocably surrendered their monetary policy to the European Central Bank, or international trade policies, whereby all the 27 EU members have transferred their sovereignty to the European Commission.

But these options trigger other questions. If Germany and France end up in multi-country constituencies, the position of Saudi Arabia or Russia as single-country chairs becomes increasingly untenable. A 'forced' consolidation of European representation through a US veto is not without risk. The most immediate is the disruption of the ordinary governance of the institution. In a sense, this has already happened, as general elections for executive directors, which should have been finalised by now, have been put on hold. Should European governments fail to arrive at a constructive position on this issue, the IMF will be forced to extend the term of the current board. This would pose further legitimacy problems for an institution struggling to find a more representative and legitimate role in the changing world order.

Obviously, there is nothing to prevent the calling of a general election now. However, lacking any agreement among Europeans, then four board members will have to go. These will likely be those representing chairs with the lowest voting power, such as the constituencies of Rwanda (23 members), Argentina (six members), India (four members) and Brazil (nine members). As a result, important emerging economies and a dense group of low-income countries would lose their voice in the IMF's policy-making room, which is exactly the opposite of what the US has in mind by resorting to the veto. The stakes are high at every angle. European inaction could ratchet them up even further, putting in jeopardy the role of the IMF itself in the global community. ◆

Managing director of the International Monetary Fund Dominique Strauss-Kahn at the annual IMF and World Bank Meetings, October, 2010, Washington

East Asian financial integration in a post-crisis world: prospects and challenges

In order for East Asia to integrate financially into a recovering, but still fragile, global economy it must remain flexible, particularly in adapting to new financial stability frameworks and financial architecture reforms

By Surin Pitsuwan, secretary general, Association of Southeast Asian Nations

Despite East Asia's remarkable contribution to the ongoing recovery, sustaining the post-crisis recovery in the region will not be easy. The global economy is still fragile. Across the globe risks remain considerable. Unemployment, especially in advanced economies, is rising, while in emerging markets, risks from the resurgence of capital flows have started to resurface.

Perhaps one key lesson from this crisis is the need to manage external shocks and policy spill-over in an era of increased financial globalisation. Some critics have argued that the recent crisis has been caused by financial integration. While there is some truth in this, the transmission of shocks in today's interdependent world cannot be avoided. Financial integration is a natural progression of that global interdependence. In the case of the recent crisis, the failure of financial supervision and regulation triggered the crisis, not financial integration.

In fact, financial integration is vital to post-crisis recovery. Through it, countries can take advantage of additional savings generated by financial flows, thus adding to investment. Integration allows greater diversification, leading to deeper and more complete markets. Integration can also lead to deeper financial markets and increased resilience to external shocks.

Financial integration in East Asia: developments and trends

Over the years, financial integration in East Asia has been increasing. Since the Asian financial crisis in 1997-98, cross-country interbank rate differentials between selected East Asian economies and the US dropped considerably after 1999. Similarly, government bond yield spreads over benchmark US treasury bonds have increasingly converged since then. Bilateral correlations of equity price indices across markets have also risen over the past decade. To be sure, the convergence of bond yields and overnight rates, as well as increased bilateral correlations of equity prices, indicate financial integration with regional markets. Several factors explain this increased convergence, including the increased opening of capital markets in East Asian economies, improved financial market infrastructure and significant differences in exchange rate and credit risks.

Among the members of the Association of Southeast Asian Nations (ASEAN), financial integration is also moving ahead. Although progress is more muted, the region is aware that to establish an integrated ASEAN Economic Community (AEC), well-functioning financial and capital markets must exist. In fact, many successful initiatives are already underway, under the 'Roadmap for Monetary and Financial Integration of ASEAN'.

ASEAN is committed to liberalising financial services by 2015, covering all sub-sectors and modes, except for those with pre-agreed flexibilities. Four rounds of negotiations have so far been concluded, with binding commitments by each ASEAN country to liberalise its financial services regime. The fifth round of negotiations is expected to be concluded by the end of 2010.

ASEAN has also ensured that well-functioning capital markets exist to support the region's economic integration. The objective is to build capacity and lay the long-term infrastructure for the development of ASEAN capital markets in order to achieve cross-border collaboration among the various capital markets. ASEAN's 'Medium-Term Strategic Framework' has been adopted to guide the Working Committee on Capital Market Development and to align capital market development to the AEC Blue Print. The committee currently focuses on enhancing market access and liquidity through such initiatives as ASEAN Exchanges linkages and bond markets linkages and on promoting comparability

Heads of delegations attending the 43rd Association of Southeast Asian Nations (ASEAN) minsterial meeting, Hanoi, Vietnam

between domestic and international credit rating agencies.

To support an integrated capital market in the region, the 'Implementation Plan to Promote Integrated Capital Markets' was developed in 2009, with clear milestones and core strategies for deepening the region's capital markets. The integration of capital markets will be undertaken through the mutual recognition and harmonisation of standards for cross-issuance, the building of infrastructure for cross-border trading and market liquidity, the promotion of new products and market intermediaries, and the relaxation of regulations that restrain the role of institutional investors. Currently progress has been constrained by large differences in levels of development, including differences in regulatory standards and fragmented infrastructure. The plan is thus intended to provide a coherent approach to capital market integration in the region.

ASEAN also recognises that increasing financial integration at the regional and global levels brings with it the challenge of further liberalising cross-border capital flows. So far, efforts have been encouraging, but more is needed. Among the key priorities are the maintenance of exchange rate flexibility and removal of restrictions on purchases of foreign exchange for current account transactions. Over the longer term, further liberalisation of restrictions on outflows (of both foreign direct and portfolio investment) can also support deeper integration and potentially offset swings in capital inflows.

> "Under the ASEAN currency cooperation, members explore ways to further facilitate intra-regional trade and investment"

ASEAN is looking at intensifying exchange rate cooperation as part of its overall strategy of regional financial integration. Under the ASEAN currency cooperation, members explore ways to further facilitate intra-regional trade and investment and economic integration, including through some forms of currency arrangements. As preconditions for closer currency cooperation, efforts have been made to maintain appropriate macroeconomic policies and foster greater macroeconomic convergence.

Within the broader context of ASEAN+3 cooperation, two regional initiatives hold much promise for the region's financial integration: the Chiang Mai Initiative Multilateralization (CMIM) and the Asian Regional Bond Markets Initiative (ABMI).

The $120 billion CMIM plays an important role in providing financial insurance at the regional level. Launched in March 2010, it is the most concrete proof of regional cooperation among ASEAN+3 countries. Countries have pledged their reserves to provide an insurance-like facility that offers liquidity support on very short notice in the case of a crisis. By pooling reserves and risks, this regional financing arrangement can help mitigate external shocks that hit an individual economy and create confidence in the availability of dollar liquidity in the region.

To support the CMIM, the ASEAN+3 Macroeconomic and Research Office being opened in Singapore will conduct economic monitoring in ASEAN+3 countries to facilitate the prompt activation of the mechanism. During non-crisis periods, the office will undertake comprehensive macroeconomic assessments in the region and identify emerging vulnerabilities through rigorous country consultations and early warning systems. In times of crisis, the office will assume a more crucial role in supporting the collective decision-making process prior to any disbursement of funds as well as in monitoring the use and impact of any disbursed funds.

A real test of how far the region can go can be seen in how deep and liquid local capital markets become. Since 2003 the region has had an active and growing interest in developing bond markets denominated in local currencies and creating more accessible and well-functioning regional bond markets both for issuers and investors under the ABMI.

"Despite the encouraging trends, while East Asian financial integration has been rising, it remains limited"

The ABMI Roadmap has been in place since 2008 to examine all issues related to the initiative and consequently to achieve its objectives. Four key areas are to be addressed: promoting the issuance of local-currency-denominated bonds; facilitating the demand for such bonds; improving the regulatory framework; and, improving the related infrastructure for the bond markets. One important, concrete result of the ABMI is the Credit Guarantee and Investment Facility. This $700 million trust fund will guarantee bonds issued by Asian companies, thus facilitating corporate bond issuance and reducing funding costs. It is expected to be operational by the end of 2010.

Despite the encouraging trends, while East Asian financial integration has been rising, it remains limited. Many studies show that East Asia has integrated more fully with global financial markets than within the region. East Asian equity markets track the US markets more closely, although the extent of linkages appear weak. This seems to have been confirmed in East Asia following the global financial deleveraging in 2008. As the global crisis intensified in September 2008, equity prices in East Asia plunged, triggering substantial portfolio outflows from the region.

Prospects and challenges of East Asian financial integration in a post-crisis world

Thus more efforts are needed. Given increasing global demands, the region must make sure that the necessary policies and infrastructure remain in place so that East Asia is ready to manage the increasing complexity of financial globalisation. How can regional financial integration in East Asia be enhanced?

The immediate challenge is to keep regional economic integration on track. Coping with globalisation and harnessing the benefits it can deliver will be critical. The experiences of Europe and North America suggest that trade integration can anchor closer financial

integration. As trade barriers continue to be removed, firms will likely increase flows in foreign direct investment (FDI) and other financial flows into the region. Consequently, larger FDI flows can lead to a strengthening of domestic financial markets through greater domestic borrowing. So far, the establishment of the AEC by 2015 may well trigger the deepening of regional financial integration, not only in terms of capital and financial flows, but also in terms of the flow of services, especially financial services. Given the connection between trade and financial integration, policies that support both trade and financial liberalisation must be seriously pursued.

Another challenge is for the region to remain committed to financial sector reforms. It is already doing much in this area. But given the need to deepen domestic markets, domestic financial policies must be adequately enhanced. Efforts should focus on areas that can establish a liquid and well-functioning market for government and corporate debt. These include priorities such as developing regional benchmark instruments, creating broader and deeper bond and derivatives markets, and establishing regionally recognised credit rating agencies. In addition, there is a need to focus on other critical financial policies related to corporate governance, investor rights and credit information.

US dollar and Japanese yen exchange rate graphs are displayed in a dealing room, Tokyo. In the post-crisis world, East Asia needs commitment to achieve financial integration

Finally, the challenge is for East Asia to remain flexible, particularly in adapting to new financial stability frameworks and financial architecture reforms. While this is more of a long-term response, East Asia must include among its priorities greater financial regulatory reforms and enhanced surveillance and policy coordination.

To sum up, the best possible strategy to spur financial integration is to remain committed to reforms. There are huge opportunities and possibilities for East Asia to achieve financial integration. But these require unwavering commitment and political will, especially in a post-crisis world. ◆

The global green growth opportunity

The G20's commitment to a green recovery and sustainable growth remains firm

By Achim Steiner, United Nations under-secretary general and executive director, United Nations Environment Programme

The G20 Seoul Summit in the Republic of Korea represents an important opportunity to deal with the twin challenges of sustaining the global economic recovery while meeting the poverty-related Millennium Development Goals (MDGs).

Perhaps both challenges have a common opportunity and uniting thread that is coloured green.

Many developing and least developed economies are turning to environmental investments and green policy measures to clear a different development path for some of their poorest citizens. With greater support, they could scale up and embed such transitions within local and regional economies while addressing not one, but several of the MDGs in highly cost-effective and transformational ways.

This was among the points highlighted by the United Nations Environment Programme (UNEP), through its Green Economy initiative, in a report to the MDG review held in advance of the opening of the UN's 65th General Assembly in New York in September 2010.

Deliberate policies and investments in Costa Rica have triggered a big expansion of protected areas and national parks to more than 25 per cent of the country's land area. Since this strategy was adopted there has been a boom in eco-tourism, with well over 1 million visitors a year, generating $5 million annually in entrance fees alone. Studies indicate that communities living in or near national parks have higher wages, employment rates and lower rates of poverty.

The UNEP report also spotlights China's energy policy as set out in its 11th five-year plan covering 2006 to 2011. The plan has helped trigger a rapid rise in renewable energy manufacturing and installation.

China is now the second-biggest wind power in the world and the biggest exporter of photovoltaics: 10 per cent of households have solar water heaters. There are 1.5 million people employed in China's renewables sector with 300,000 of those jobs generated in 2009 alone.

Creative and forward-looking urban planning, allied to sustainable transport policies, have allowed the Brazilian city of Curitiba to grow more than sixfold while simultaneously improving mobility and the quality of life. The average area of green space per person has risen from 1 square metre to around 50 square metres; 45 per cent of journeys are made by public transport; excessive fuel use due to congestion is 13 times less per person than in Sao Paulo; and the lower levels of air pollution are having measurable health benefits.

> "Many developing and least developed economies are turning to environmental investments and green policy measures"

In Nepal, 14,000 community forest user groups have reversed the deforestation rates of the 1990s through smart, community-based policies that include setting harvesting rules and product prices and sharing profits. Between 2000 and 2005, the annual forested area of Nepal actually rose by over 1.3 per cent. Soil quality and water supplies are better managed and employment levels have risen.

Uganda, a country where 85 per cent of the working population is employed in agriculture, has turned to organic production to boost exports and incomes. Farm-gate prices for organic vanilla, ginger and pineapples are higher than conventional produce. Since 2004, the number of certified organic farmers has grown from 45,000 to more than 200,000 and the area of land under organic cultivation from 185,000 hectares to close to 300,000 hectares.

Meanwhile an unprecedented new alliance supported by the Clinton Initiative and partners, including the UN Foundation, launched a global initiative in September 2010 to phase out inefficient cook stoves. Three billion people still cook on stoves fuelled by charcoal, dung, wood and other biomass, while some countries debate the merits or otherwise of nuclear power or carbon capture and storage at coal-fired power stations. An

Above: swimming in the Celeste river waterfall at Tenorio Volcano National Park in Upala. Costa Rica has seen a boom in eco-tourism

Left: employees inspect solar panels at a workshop in a factory in Hangzhou, China

estimated 1.8 million premature deaths — many among women and children — are linked with indoor emissions from inefficient cook stoves. Such cooking systems also contribute to local deforestation.

UNEP is one of the organisations involved — for multiple reasons that relate not only to achieving the MDGs but also to wider concerns including biodiversity loss and climate change. Scientists are becoming increasingly concerned about the health as well as the agricultural and climate impacts of black carbon.

Project Atmospheric Brown Cloud is an international, scientific endeavour supported by UNEP that is monitoring and assessing a band of pollution 3 kilometres wide, stretching from the Arabian Peninsula to China and Japan. Inefficient cooking stoves are estimated to be responsible for approximately 25 per cent of emissions of the cloud's black carbon particles. Black carbon may contribute 10 per cent or more to current climate change.

The new initiative underlines that there are big actions but also multiple, small actions that can deliver a significant outcome to the MDGs if they are backed by strong partnerships, strategic funding and supportive policies from national governments and the international community. They too are part of a forward-looking and long-lasting sustainable economic recovery based on a low-carbon, resource-efficient path in developed, rapidly developing and developing countries alike.

Earlier this year in Toronto, Canada the G20 reiterated its commitment to a green recovery and sustainable growth. In doing so this group of 20 leading countries has staked its future on a fundamentally different paradigm suited to the challenges and opportunities of a very different century.

Ensuring that these aims, investment strategies and policies resonate with, and support, the targets of the MDGs — and the legitimate aspirations of the poor — is perhaps the best chance in a generation for securing a sustainable development path that is open to all. ◆

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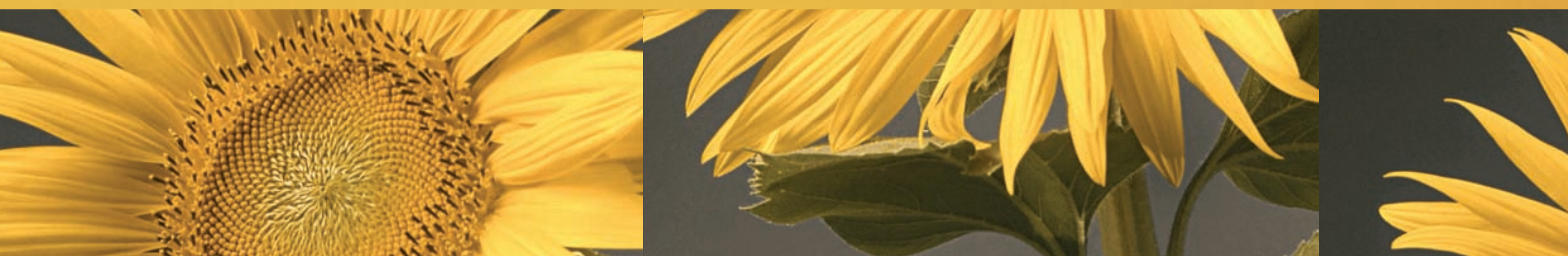

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In the rapidly globalizing world of the 21st century, the Group of Twenty systemically significant countries, created at the level of finance ministers and central bank governors in 1999 and elevated to the leaders' level in 2008, seeks to serve as the premier permanent centre of international economic cooperation. Its members, consisting of the Group of Eight, emerging countries and the European Union, work to provide financial stability, sustainable growth and openness that benefit all.

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

Our mission is to serve as the world's leading independent source of information and analysis on the G20. As **scholars**, we accurately describe, parsimoniously explain and reflectively interpret what the G20 and its members do, and, on this basis, responsibly predict what they will do. As **teachers and public educators**, we present to the global community and G20 governments the results of our research as well as others' research, ways to learn about the G20 and information about the G20. As **citizens**, we foster transparency and accountability in G20 governance, and the connection between civil society and G20 governors. And as **professionals**, we offer policy advice about G20 governance, but do not engage in advocacy for or about the G20 or the issues it might address.

The G20 Information Centre (www.g20.utoronto.ca)

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

Research and Publications

Among the material available on the G20 Information Centre is a document detailing the **Plans and Prospects** for the G20's agenda, updated frequently. Also available are compliance reports and performance assessments, as well as online publications such as *Growth, Innovation, Inclusion: The G20 at Ten*, *The G20 London Summit: Growth, Stability, Jobs* and *The G20 Pittsburgh Summit 2009*, edited by John Kirton and Madeline Koch.

Key Publications

- ***Making Global Economic Governance Effective***, John Kirton, Marina Larionova and Paolo Savona, eds. (Ashgate Publishing)
- ***Rising States, Rising Institutions***, Alan S. Alexandroff and Andrew F. Cooper, eds. (Brookings Institution)
- ***The G8 against Transnational Organized Crime***, Amandine Scherrer (Ashgate Publishing)
- ***Elements of the Euro Area***, Jesper Berg, Mauro Grande and Francesco Paolo Mongelli (Ashgate Publishing)
- ***Global Financial Crime***, Donato Masciandaro (Ashgate Publishing)
- ***The G8 System and the G20***, Peter I. Hajnal (Ashgate Publishing)
- ***Governing Global Banking***, Duncan Wood (Ashgate Publishing)
- ***Governing Global Derivatives***, Chiara Oldani (Ashgate Publishing)
- ***Reforming from the Top***, John English, Ramesh Thakur and Andrew F. Cooper, eds. (Wilfrid Laurier University Press)

G20 Research Group
Munk School of Global Affairs, 1 Devonshire Place, Room 209N, Toronto, Ontario M5S 3K7 Canada
Telephone 416-946-8953 • Fax 416-936-8957 • E-mail g20@utoronto.ca
www.g20.utoronto.ca

The community of Longyearbyen offers great advantages as a test site for carbon capture and storage. Longyearbyen has a closed energy system and is not linked to the energy system of mainland Norway

The clean energy contribution

Developing a low-carbon global energy system would pose challenges, but would enhance security, mitigate climate change and encourage green growth. With strong political and financial commitment, the G20 can lead the way

By Nobuo Tanaka, executive director, International Energy Agency

Without major changes to the way the world produces and uses energy, it will confront untenable risks to its collective energy security and to the environment. The International Energy Agency (IEA) considers that the development and deployment of low-carbon energy technology makes sense not only to enable governments to achieve reductions in carbon dioxide emissions, but also to ensure energy security by introducing new sources of energy and contributing to green growth. G20 countries account for more than 80 per cent of global energy consumption and a large portion of carbon dioxide emissions. They must lead the way to a clean energy future.

The IEA recently released the 2010 edition of *Energy Technology Perspectives* (ETP), a comprehensive study that identifies different mixes of technologies that enable governments to achieve their energy policy goals by 2050. ETP demonstrates clearly that decisive action is necessary if the world is to avoid an insecure, dirty and expensive energy future. Given the current trajectory, in the ETP business-as-usual (or baseline) scenario, where no new policies are implemented, total primary energy supply would increase above 80 per cent between 2007 and 2050. Energy-related carbon dioxide emissions would double by 2050. Rising oil and gas imports and high prices also feature. Most of the growth in energy use will occur in countries that are not members of the Organisation for Economic Co-operation and Development (OECD) and where fossil fuel demand increases very rapidly. This highlights the need for a collective global effort to address energy and climate change challenges.

The goal of ETP is to show which technology policies and options will halve global carbon dioxide emissions (from 2005 levels) by 2050. The 'BLUE Map Scenario' (consistent with limiting the rise in global temperatures to 2°C to 3°C in the long term) sets out the opportunity for a very different future. In this scenario, primary energy demand for fossil fuels is 26 per cent lower in 2050. Fossil fuel dependency should drop from 81 per cent today to 46 per cent in 2050. Demand for coal, oil and gas in 2050 is lower than today. Global oil consumption is reduced by 27 per cent compared to current levels. Demand should peak earlier than supply. Not only would this alternate future cut emissions, but it would also reduce demand and diversify energy sources, thus improving energy security.

Achieving the BLUE Map scenario is possible. But it is an extremely challenging goal that requires a portfolio of technologies and emissions reductions across all sectors, as well as strong political commitment. To achieve it by 2050, additional investments (relative to the baseline scenario) of $46 trillion are needed between 2010 and 2050. These additional costs will be more than offset by fuel cost savings: undiscounted savings are estimated at $112 trillion, but a carbon price of $175 per tonne of carbon dioxide in 2050 is needed. In addition, this is a huge business opportunity that offers significant potential for fostering green growth.

“Broader, more coordinated international cooperation is essential”

Clean energy projects, such as the solar field at Nellis Air Force Base in Nevada, have the potential to reduce dependence on non-renewable energy sources

So how can governments move forward? IEA work has shown that the first essential step is improving energy efficiency. Often called the 'quiet giant', end-use efficiency accounts for 38 per cent of total emissions reduction in 2050. Decarbonising the power sector will be critical to achieving deep emissions reductions. This requires aggressive investments in nuclear, carbon capture and storage (CCS) and renewables. Ways to transform global energy markets must be found so that clean energy becomes the rule, not the exception. Moreover, efforts must be made to decarbonise the transportation sector. Improved vehicle efficiency and the mass introduction of electric vehicles are required, among a host of other actions.

Another important policy action for major economies is to phase out fossil fuel subsidies, which impede the uptake of energy efficiency and cleaner energy technologies. Such subsidies reduce incentives, distort market signals and create dependence on fossil fuels. For the G20 Toronto Summit in June 2010, the IEA, along with the Organization of Petroleum Exporting Countries (OPEC), the OECD and the World Bank, prepared a report that highlighted the benefits for eliminating fossil fuel subsidies by 2020. Energy demand would decline by 5.8 per cent and annual oil savings would reach 6.5 million barrels per day, leading to an annual 2.4 Gt reduction in energy-related carbon dioxide emissions. Many countries, notably China, India, Russia and Indonesia, are already taking measures to reduce or eliminate fossil fuel subsidies. The IEA applauds these efforts and supports the G20's commitment to eliminate inefficient fossil fuel subsidies by further monitoring the progress.

Support for research, development and demonstration (RD&D) will also be crucial. The level of annual spending will need to be raised two to five times pre-stimulus (2008) levels, up to $50 billion a year. In 2009, governments around the world allocated more than $520 billion to clean energy technologies — from energy efficiency in buildings to high-speed railways to support for renewable energy technologies. Of this amount, about $22 billion was directed to RD&D. While this is a promising step, it is still not enough. Governments face many funding priorities — but the goal must reach beyond the short term in order to achieve long-term results. At a minimum, the levels achieved with stimulus spending in 2009 must be sustained. In the aftermath of the global economic crisis, it will be a challenge to find ways to continue such spending.

One important way to support RD&D is to enlist the private sector. Private sector spending on technology innovation is currently low. Compared to other sectors, the energy sector spends the smallest portion of its sales on research and development — less than one half of 1 per cent (compared to 19 per cent for health care, 12 per cent for defence, 8 per cent for information technology and 2 per cent for the automotive sector). Governments must increase incentives to raise industry RD&D spending, for example, by setting long-term, predictable policies that create stable technology markets.

There are some promising national policies aimed at addressing gaps in technology development. India recently approved a levy on coal production that will result in nearly $500 million per year for new clean energy RD&D. Korea's "green new deal" strategy is leading the way. The United States and the United Kingdom have also addressed key areas where technology development has often stopped — the valleys of death at pre-commercial development and in large-scale demonstration. They have done this through the creation of targeted new institutions such as the Advanced Research Projects Agency-Energy (ARPA-E) and the Green Investment Bank.

In addition, broader, more coordinated international cooperation is essential. Several G20 countries recently participated in the launch of the International Low-Carbon Energy Technology Platform. This initiative — originated in 2008 by the IEA at the request of the G8 — addresses the need for enhanced international collaboration on low-carbon energy technology development. This shared agenda among developed, emerging and developing countries provides a promising avenue for pursuing national and international climate change and energy security objectives. The platform could be a vehicle for maintaining momentum and coordination between G20 meetings and for reaching out to countries not represented there.

Moving to a low-carbon global energy system would enhance security, mitigate climate change and spawn green growth. The transformation will be challenging but is attainable. The G20 can lead the way to a cleaner energy future, but must start now. Strong and unwavering political and financial commitment are essential. ◆

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Metals for a Strong Foundation,

As one of the world's leading producers of copper, molybdenum, gold and cobalt, Freeport-McMoRan Copper & Gold Inc. recognizes the importance of providing these essential metals to today's economies. They are vital components in infrastructure, communications, transmission, transportation and numerous other industries and applications that promote higher standards of living, including technological advances that move societies toward a cleaner, healthier and more productive future. As societies advance and people seek new horizons, our challenge is to provide metals that support economic and social development while improving our overall contribution to sustainable development. Fulfilling the need for our products must be balanced with social and environmental responsibilities so that, in meeting the needs of the current generation, we do not compromise the ability of future generations to meet their own needs. This concept is the core tenet of sustainable development and the underlying premise of our commitments.

PLANTING SEEDS IN PARTNER COMMUNITIES

Across our geographically diverse locations, we work closely with our neighboring local communities, governments, non-governmental organizations (NGOs), and civil society and business partners to strive to meet today's needs with an eye to the future. We seek input from our stakeholders regarding priority community issues and needs, and use this feedback to guide our evidence-based social investment decisions. In our last reporting year, 2009, we invested $180 million in communities near our operations around the world. The programs that result from this investment include basic services and infrastructure, support for education, economic development, vocational training and capacity building.

We operate in some parts of the world with serious community health risks, including limited access to health services, lack of clean water and adequate sanitation, and the presence of serious acute and chronic life-threatening infectious diseases such as malaria, tuberculosis and HIV/AIDS. These problems are of particular concern in the remote and rural settings surrounding our operations in Indonesia and the Democratic Republic of Congo (DRC). Malaria is one of the leading preventable causes of illness and death among vulnerable populations in these two regions. Supported by our medical services provider, International SOS, and in close coordination with government agencies, we implement ongoing comprehensive programs to address these issues through provision of physical, financial and technical resources and integrated programmatic elements including prevention, education, counseling and treatment. As part of our Commitment to Action under the Clinton Global Initiative, Freeport-McMoRan Copper & Gold Inc. has committed $10 million to this integrated malaria control program in Papua, Indonesia and the DRC through 2015.

Indoor residual insecticide spraying of community infrastructure is an important part of the malaria prevention program in the communities near the TFM operations in the Democratic Republic of Congo.

BATTLING MALARIA
Early Success in the DRC

Freeport-McMoRan Copper & Gold's newest global mining operation is located in the Katanga Province of the DRC. Freeport's Tenke Fungurume Mining (TFM) affiliate commenced the production of copper and cobalt in 2009. Early in the project construction phase, TFM developed a comprehensive community development action plan including provision of basic health care inside the company's concession area. A baseline malaria survey of local school children in 2007 showed a malaria prevalence rate of nearly 77 percent among children (ages 6-12) surveyed. A comprehensive 2008 baseline health survey conducted by the Company confirmed extremely poor knowledge about malaria, with only 8 percent of respondents knowing that mosquitoes were exclusively responsible for the transmission of the disease. The study also found poorly equipped health facilities, inadequate training among healthcare workers, and a general lack of access to effective prevention and treatment drugs.

Based on these findings and in support of the DRC government's National Malaria Control Program strategy, TFM has partnered with the local government to implement an integrated malaria control program. The highly structured program elements include indoor residual spraying of more than 50,000 structures, distribution of tens of thousands of insecticide-treated bed nets to households, improved diagnosis and treatment, and prevention awareness and education campaigns.

With program implementation, new malaria infections for the mine workforce were reduced by more than 62 percent when compared with the pre-control period. A follow-up infection prevalence survey at local schools in 2009 also indicated an overall malaria prevalence of 33 percent among school children, indicating a substantial reduction of 57 percent in malaria-infection levels in the community compared to 2007.

While directly battling malaria through prevention and treatment, the Company is also working to improve environmental conditions that reduce the numbers of the disease-carrying mosquitoes, in addition to providing dozens of water wells and water distribution systems, and installing ventilated latrines and other sanitary infrastructure throughout the area.

Resources for Healthy Communities

New Mulumbu village, near the Tenke Fungurume Mining operations in the DRC

HEALTH PROGRAMS KEEP PACE WITH POPULATION GROWTH IN PAPUA, INDONESIA

The Province of Papua, Indonesia, where the PT Freeport Indonesia mining operations are located, has the highest overall malaria incidence rates in the nation, and in virtually all of the lowland communities near the mine's operations in the Mimika Regency malaria infection is the single greatest cause of morbidity and hospitalization. Due to the economic and development opportunities stimulated by the mine, Mimika is one of the fastest-growing regencies in all of Indonesia. The area that only three decades ago supported a few thousand individuals in scattered, isolated villages is now home to more than an estimated two-hundred thousand people. As new residents arrive from around the province and across the Indonesian archipelago in search of employment and opportunities, the battle against malaria and other diseases becomes more complex. The government health centers face many of the same struggles and capacity problems as those in the DRC, including lack of appropriate diagnostic tools, inconsistent malaria drug supply chains, and lack of adequate staff and training, especially in more remote village locations. PT Freeport Indonesia, working with local partners, is addressing these challenges by supporting greater coverage of quality health programs to address malaria and other diseases through prevention, education, counseling and treatment.

In addition to these programs, PT Freeport Indonesia contributes 1 percent of annual revenues to the Partnership Fund for Community Development, which is managed by a local Papuan community organization known as the Amungme and Kamoro Community Development Organization (LPMAK). In the last reporting year, 2009, LPMAK contributed approximately $12 million to health care programs, including the operation of its two community hospitals which provide subsidized care for the local community. These hospitals and other sponsored primary health care clinics provide outpatient care and consultations totaling over 200,000 outpatient visits and inpatient care to more than 11,000 patients every year.

As with the programs in the DRC, the community and workforce malaria control programs we support in Papua, Indonesia, involve a combination of integrated critical components that include: health education and community awareness, environmental management, mosquito monitoring and vector control, indoor residual spraying, bed net distribution and access to prompt diagnosis and effective treatment. These programs have resulted in the complete absence of malaria transmission in the company-supported town of Kuala Kencana since opening in 1995, which is an area surrounded by high risk for malaria transmission.

Community-supported hospitals and community health centers provide outpatient care and consultations for more than 200,000 patient visits per year in the Mimika Regency of Papua, Indonesia.

The green race is on: who will win and why?

The environmental impact of an increasing global population urges governments to act now and work with business communities to promote low carbon economies

"It's not enough that we do our best; sometimes we have to do what's required."
— Sir Winston Churchill

By Björn Stigson, president, World Business Council for Sustainable Development

In just 40 years, the world's population will increase by a third. The world will become a planet of 9 billion people. Every one of these individuals will want access to education, health care, energy, communication and consumer goods. And each will require food, clean water, shelter and transportation. In short, the population of the world in 2050 will be the largest this planet has ever seen and every single person will want to be living well. The question that the world must ask now is whether it is possible to take the steps necessary to meet this demand.

In order to answer this question, it is important to consider the profound societal and cultural shifts already underway, which will only accelerate in the next four decades. There will be urbanisation beyond anything that has ever existed — doubling by 2050 the number of people who currently live in cities. This population growth will not be distributed evenly. In fact, 85 per cent of the population will be living in today's developing countries, which will naturally seek to raise the living standards of their citizens.

For the governments of the G20 and other countries, this means there will be a tremendous pressure on limited resources. That is clearly an unsustainable course.

But already something interesting is happening. There is currently a green race emerging around the world. Governments, businesses and individual actors in today's economies are recognising the economic value in meeting the demand for services and products in a resource-constrained world. This recognition is happening in some unexpected places.

For example, the Ernst & Young index that charts country attractiveness for clean energy investments reveals an early indicator of where things are headed. The United States has lost the top position, which it held since 2006. Countries such as China, Australia, New Zealand and Japan have all increased their attractiveness to clean energy investors.

A recent Reuters article quoted the head of Deutsche Bank's Asset Management Division as saying he would focus his $7 billion green investment fund away from the US after American lawmakers were unable to pass legislation putting a price on carbon. So, the race to find the most attractive areas for investment may just end up running right past the usual suspects.

There are some other counterintuitive ways in which this green race will play out. World governments are currently sorting through their responsibilities regarding climate change to come up with the $100 billion required each year by 2020 to help finance the newly created Copenhagen Green Climate Fund.

Yet the investments needed to avert the most damaging impacts of climate change are far greater than $100 billion per year. They require a very different outlook altogether. By engaging the business community as

> Governments are recognising the impact that the loss of biodiversity has on business and individuals

partners, governments can leverage their investments by as much as 15 times over what they can achieve alone.

The main obstacle to greater business investment in low carbon, clean energy solutions is the level of returns compared to the level of risk. Businesses are seeking stable public policy frameworks on which they can build long-term investment strategies. Those countries that deliver these frameworks will be the winners in the emerging low carbon economy.

But the issue of how to value and interact with the environment is not limited to energy and carbon output. Today, governments are recognising the value of their ecosystems and the impact that the loss of biodiversity has on business and individuals. A landmark set of reports known collectively as *The Economics of Ecosystems and Biodiversity* shows that degradation of natural environments has an enormous impact on the viability of business in those societies suffering the worst effects.

The savings from preserving biodiversity outweigh the costs by factors ranging from 10 times to 100 times. Clearly, those businesses and governments that put into place systems that encourage conservation and reclamation will have an advantage over those that do not.

Another example of how the green race is being run is the degree to which countries and businesses properly value and utilise their water resources. More than ever before, societies are waking up to the fact that water is one of the single greatest drivers of business health, and therefore economic stability and growth. Water is the engine of business productivity.

Population growth, economic development and urbanisation will create water scarcity. Every business in the world will be affected. The demand for sustainable water management practices will only grow. Those societies that figure out how to do this effectively and with the cooperation of business will succeed, unlike those those that do not.

This all demonstrates that the transition to a resource- and carbon-constrained world will foster commercial opportunities and a greater demand for green products and services from companies and countries alike. But countries must understand the unique and valuable role played by business. Business is ultimately the solution provider, but it cannot act alone. Countries will ultimately determine the playing field, but they cannot achieve success without business as a partner.

This dynamic, more than any other single factor, will be the track on which the green race is run. ◆

Competitors at the UN European headquarters in Geneva promote the Zero Race, the first zero emission race around the world for electric vehicles. The race hopes to encourage energy-efficient vehicles

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Fossil fuel subsidies: the G20's path to reform

G20 leaders have an opportunity in Seoul to strengthen efforts to promote clean energy investment by addressing the issue of inefficient fossil fuel subsidies

By Franz Tattenbach, CEO and president, International Institute for Sustainable Development

The leadership demonstrated by the G20 in Pittsburgh and Toronto must be strengthened in Seoul to support the member governments facing the practical challenges of phasing out fossil fuel subsidies.

Fossil fuel subsidies are not only a fiscal drain, but also a grotesque contradiction of global efforts to address pressing and urgent issues for sustainable development.

G20 leaders issued a statement in Pittsburgh in September 2009 recognising that efforts to deal with climate change, wasteful consumption, market distortions and barriers to clean energy investment are undermined by inefficient fossil fuel subsidies.

The removal of fossil fuel subsidies alone is not sufficient. But it is a necessary condition to reduce greenhouse gas emissions to safer levels.

Fiscal constraints, increasingly volatile energy prices and security concerns make subsidy reform a relatively easy sell. The reductions resulting from reform are also a necessary complement to the efforts of the United Nations Framework Convention on Climate Change and the global green economy movement.

The G20 acknowledges the challenges ahead, notably the need to prevent adverse impacts on the poorest, by providing targeted cash transfers and other mechanisms to alleviate poverty. The leaders have managed to keep the issue on the agenda for future summits. They have increased the transparency of the process by making the relevant documents available online.

It will be critically important to share best practices and lessons learned because the process of reform will not be easy. Variations in national circumstances will make reform feel different from country to country.

While there is still a risk that the G20 process could lose momentum, it has wide-reaching influence and has sparked action by other countries and organisations. The Asia-Pacific Economic Cooperation forum undertook an almost identical commitment in November 2009, extending reform of fossil fuel subsidies to an additional 12 countries and proposing to advance research in its energy working group. In addition, a new set of countries, forming the Friends of Fossil Fuel Subsidy Reform group, including Denmark, New Zealand, Norway, Sweden and Switzerland, plans to put pressure on the G20 to achieve a transparent and ambitious outcome.

In June 2010, ministers provided a written submission to the G20 leaders at the Toronto Summit in which 13 members outlined implementation strategies for phasing out selected fossil fuel subsidies. The remaining seven countries (Australia, Brazil, France, Japan, Saudi Arabia, South Africa and the United Kingdom) concluded that they have no inefficient fossil fuel subsidies.

> “While there is still a risk that the G20 process could lose momentum, it has wide-reaching influence and has sparked action”

Several international organisations are also producing significant work on the issue. After providing a joint report for G20 leaders in Toronto, the International Energy Agency is now dedicating two chapters of the *World Energy Outlook 2010* to energy subsidies. The Organisation for Economic Co-operation and Development is advancing work on methodologies for calculating fossil fuel subsidies. The World Bank is undertaking research on the political economy and distributive effects of fossil fuel subsidies.

The Global Subsidies Initiative of the International Institute on Sustainable Development (IISD) has developed a roadmap for reforming fossil fuel subsidies. The IISD is committed to ongoing outreach to policymakers and communications of its knowledge of fossil fuel subsidies and best practices that will lead the way to a multilateral agreement for fossil fuel reform.

More information about the IISD’s work on fossil fuel subsidy reform is available at its website at (www.globalsubsidies.org/fossil-fuel-subsidies). ◆

Clean energy for climate change control

Many feel that the Seoul Summit offers the G20 members an opportunity to push for advances globally on environmentally friendly energy use and climate change

By Victoria V. Panova, Department of International Relations and Foreign Policy of Russia, MGIMO University, MFA Russia

> There was no breakthrough at either the G8 Muskoka Summit or the G20 Toronto Summit, which disappointed many environmental experts and activists

Over the course of human history, especially since the invention of the combustion engine, many constraints have been put on the environment. These constraints have been deeply felt in the changing climate over the past several decades. Human activity will always have an impact on the environment but it has now reached the point that to ensure human survival the types and degrees of those impacts must be restrained. Thus, to paraphrase Winston Churchill, human security lies in diversification and diversification alone, not only in geographical or political or military terms, but rather in the diversification of the types of energy that humanity uses for its sustainable economic development. Key to this concept is the maximum use of alternative energy and renewables.

Paradoxically, the global financial and economic crisis of 2008-09 led to opposite tendencies. On the one hand, along with the general decline in investment, the further promotion and development of alternative and renewable energy suffered. On the other hand, as general energy demand and consumption declined, thanks to lower economic activity, the crisis influenced mostly the oil, gas and nuclear sectors, while the use of hydro power and other renewables increased in 2009. In many countries, government support for alternative and renewable sources, mainly for wind and solar power, led to general growth in the use of those energy sources, as a result of fiscal stimulus — although the share of those sources in the total fuel and energy balance still remains miniscule. But, compared to the year before the crisis hit, there have been certain positive short-term trends in global carbon dioxide emissions, with an unexpected benefit for the fight against climate change. Further developments in the area depend greatly on the ability to mobilise necessary investments and resources once government stimulus measures to counter the crisis are over.

International efforts in this direction still seem futile, in contrast to recent developments on the national and bilateral levels. Notwithstanding the crisis, Russia began to pay more attention to innovative economic development with an emphasis on more intensive use of clean and efficient energy technologies. In addition to its 2009 energy efficiency law and the establishment of the Russian Energy Agency, there have been several steps taken, not only at the level of the state but also with regard to public-private partnerships. One such initiative is the first All-Russian Competition on Sustainable Development and Energy Efficiency, known as the Green Awards. On the bilateral level, renewed Russian-American relations have led to a further intensification of energy-related cooperation. Thus in July the bilateral working group on energy agreed on practical steps forward in the areas of solar energy, biofuels, smart grids, hydrogen energy and clean energy in the fuel and energy balance of the future.

But these efforts are not yet supported well at the international level. Given that last year's Copenhagen climate conference ended with no legal agreement, and that the issue of climate change received only brief attention at the G20 Pittsburgh Summit — with a commitment to phase out inefficient fossil fuel subsidies — the G8 and G20 were expected to take up the issue when they met in Canada in June 2010 to make sure this urgent problem did not remain unsolved and to prevent such high-level meetings from losing credibility.

Yet there was no breakthrough at either the G8 Muskoka Summit or the G20 Toronto Summit, which disappointed many environmental experts and activists. Little was done apart from reaffirming previous commitments on fossil fuel subsidies and supporting the continuous process of the United Nations Framework Convention on Climate Change (UNFCCC) and its principles of 'common but differentiated responsibilities and respective capabilities'. Moreover, not all G20 countries are even associated with the already weak Copenhagen accord on climate change. Clearly, up to now the G20, although favoured as a forum for global economic governance, has failed to lead efforts in the area of climate and energy.

But even with a poor record, if it is to keep its role as the major forum for global governance — a role that it has partially taken away from the G8, at least in economic affairs — the G20 has no other choice than to come out with strong language and action on environmentally friendly energy use and climate change. There are hopes that Korea, as the host of the Seoul Summit, will push for stronger policies in order to achieve a real and strong consensus among all G20 members, so that a legal agreement can finally be advanced or even signed at the UNFCCC's next meeting in Cancun, Mexico, soon after the summit. Unfortunately, the likelihood of such a unified stance is even more bleak today than it was in the run-up to Copenhagen last year, for several reasons. First, talks within the UNFCCC process seem even further away from a conclusion than before, as some countries try to renegotiate what has already been achieved. Second, contrary to expectations the United States, one of the world's two biggest emitters, will not arrive in Seoul with new energy and climate legislation, for it was abandoned by Congress this past July.

National and bilateral efforts to achieve clean energy use and to combat climate change are not enough. The issue of fossil fuels subsidies is an important one to tackle, but one of the benefits of the G20 summit is that the leaders are not restricted to dealing with narrow topics: they can introduce a comprehensive approach to a problem. Thus both the G20 and the UNFCCC must continue their efforts to achieve real action and stop being mere talk shops before it is too late. ◆

Krasnoyarsk hydroelectric power plant, Siberia. Russia is focusing on more intensive use of clean and efficient energy technologies

Carbon capture and sequestration and climate change control

The market potential for CCS is huge, but companies need to be confident that there is an international market for their products. The G20 should emphasise that there is a clear path toward commercial viability in the future

By Keith Forward, editor, *Carbon Capture Journal*

While significant progress has been made in bringing carbon capture and sequestration (CCS) to the forefront of efforts to mitigate climate change, more can still be done to make sure it stays at the top of the agenda

In the mix of solutions at the world's disposal to control carbon dioxide emissions and limit their potential damage to the environment, CCS fills an important role: it is the only current technology that can cost-effectively deal with emissions from large industrial sources such as power plants and manufacturing facilities.

It is important that CCS becomes available as soon as possible, as any delay makes it harder to fulfil the goal of the Intergovernmental Panel on Climate Change to limit atmospheric carbon dioxide concentrations to 450 parts per million.

Much progress has been made, as described in a recent analysis published by the Global Carbon Capture and Storage Institute. It identified a total of 80 large-scale integrated projects in 17 countries with the potential to help meet the G8 commitment of launching 20 large-scale demonstration plants by 2010. But this goal remains challenging. The application of CCS on the scale that would be necessary to achieve the 50 per cent reduction in carbon dioxide emissions by 2050, which was called for by the International Energy Agency (IEA), still seems a distant prospect.

The remoteness of this goal is predominately due to political and economic roadblocks rather than to industrial or technological obstacles. And thus this is an area where the G20 can make a significant contribution.

> "CCS is the only current technology that can cost-effectively deal with emissions from large industrial sources"

Sources of private finance remain scarce as investors look for more solid political will and a stable regulatory and economic environment. Organisations such as the IEA, the World Bank and the Global CCS Institute must continue to help bridge the gap.

One of the outcomes of the 2010 G8 Muskoka Summit was to encourage the IEA to develop work on an international platform for low-carbon technologies, in order to accelerate their development and deployment. Meanwhile the World Bank can help by placing a broader emphasis on CCS in its energy strategy, not least by considering the provision of CCS in any coal-fired power plant investments.

The World Bank's CCS Trust Fund, established in 2009 with funds from the government of Norway and the Global CCS Institute, is looking at ways it can help with the early stages of CCS deployment in developing countries in order to build a base for its future wide-scale adoption.

Getting the support of public opinion

In galvanising political will, public support is key. But governments need to make far greater effort to put across the message that CCS is a safe and environmentally friendly solution that is absolutely essential to ensure that climate change does not adversely affect future generations.

One of the major problems with public understanding is that disparate organisations have very different ideas both about what the public needs to know and about how to communicate the message effectively.

In a much discussed onshore storage project planned by Shell in Barendrecht in the Netherlands, local concerns turned into strong public opposition partly because of a failure to communicate effectively. At a meeting to explain the project, engineers used a diagram, not drawn to scale, showing the storage reservoir beneath the town. Residents were left with the idea that there was going to be a lake of carbon dioxide just beneath their homes. Knowledge that the engineers took for granted, namely that the carbon dioxide was to be stored in porous rock hundreds of metres below the ground, was not understood at the meeting.

This is where the G20 can play a coordinating role, bringing together governments, industry, universities and non-governmental organisations to disseminate a clear and consistent message, drawing on scientific consensus to inform the wider public.

Increasing international collaboration

Another barrier to action is political consensus among countries. While many individual governments have taken the first steps in building the legislative, technological and economic basis for stable long-term investment in CCS, others have lagged behind or ignored it altogether.

This obviously makes it harder to coordinate an international effort. But it also makes it more difficult for proactive countries to "sell" the idea to their own voters, who will ultimately have to pay through higher taxes or increased electricity prices, when they see other countries "getting away with it".

The G20 can clearly play a role here by supporting an internationally agreed framework for investment in CCS that will ensure that early adopters are compensated for the higher costs associated with first-of-a-kind technology. The G20 should emphasise that there is a clear path toward commercial viability in the future.

Ensuring that there is a viable, globally recognised carbon market with a price that realistically reflects the cost of capturing carbon dioxide must be one of the most important aims. Including CCS in the Clean Development Mechanism enshrined in the Kyoto protocol could also be an important way to promote more widespread deployment in developing countries.

The CSS Pilot Project reduces the output of carbon dioxide from power station processes

Companies need to be confident that there is a solid political consensus that will not waver and an international market for their products. The market potential for CCS is huge. Industry will take its opportunity as soon as investors feel sufficiently confident in market mechanisms, such as the carbon price, to pursue long-term projects.

Several international collaborative projects have helped point the way to better sharing of knowledge and experience. While most of these have been among developed countries, progress has been made in partnerships with countries such as China, which has recently indicated its interest in greater involvement by joining the Global CCS Institute. The Chinese government is waiting for CCS technology to be proved technically and commercially before making any larger commitments. However, if this happens, China would lead the world toward a low-carbon power revolution. ◆

SESAR: the future of flying – air traffic management and greener aviation

By Patrick Ky, executive director, SESAR Joint Undertaking

Aerospace is one of the fields which has seen tremendous technological transformation in the last 50 years. However, this radical change is not mirrored in air traffic control, where the same technologies used in the 1950s are still used today. Faced with a system that cannot cope with the growing demand and needs for safe, efficient and green aviation, Europe launched a public-private partnership with its aviation stakeholders called SESAR.

SESAR in brief

SESAR aims at transforming European air traffic control into one of the most modern, safe, efficient and green in the world. Created by the European Union, the SESAR Joint Undertaking (SJU) is a public-private partnership with 15 industry members representing around 80 companies worldwide.

The SJU manages one of the most complex and ambitious programmes Europe has ever launched. Some 2,000 persons active in more than 25 different countries are working on the technological and operational challenges to turn an antiquated system into a new, state-of-the-art solution.

SESAR and the environment

SESAR will dramatically change the way air traffic is managed, with the 'greening' of flights at the core of its programme. Of the 300 projects, 80 per cent actively contribute to environmental sustainability, either directly or indirectly. Specifically, SESAR aims to provide:

- 10 per cent savings in gaseous emissions though more direct and efficient flights;
- reductions in noise levels around airports through optimised climb and descent solutions;
- improvement in enforcing local environmental rules by ensuring that flight operations fully comply with aircraft type restrictions, night movement bans, noise routes and noise quotas etc.

The AIRE Programme

The AIRE Programme, which is part of SESAR, was launched in 2007 in cooperation with the USA. The programme has improved existing technologies and procedures to enable green flights. These environmentally friendly operations are gradually becoming part of the day-to-day operations of our airlines.

In 2009, having performed 1,152 trials, AIRE demonstrated that significant savings can already be achieved using existing technology. Air France and American Airlines flights were able to operate the first green flights between Paris and Miami by reducing their fuel consumption, emissions and noise levels with AIRE procedures. The projects also boosted airline crew and air traffic controller motivation to pioneer new ways of working together, focusing on environmental aspects and contributing to an environmentally friendly society.

By the end of 2011, 5,000 AIRE flights will take place in Europe, with more than 40 airlines participating in this initiative. Some examples of these flights include:

- The A380 flights between Paris, Charles de Gaulle and New York's JFK airport. This is the first time a commercial airline will fly so high across the Atlantic, capitalising on the aircraft's capability to reduce the environmental impact.
- A new green shuttle service will be launched between Paris and Toulouse, which is one of the busiest routes in Europe, with potentially massive environmental gains.
- Duesseldorf and Cologne/Bonn airports in Germany are introducing new green approaches. This will be of significant environmental benefit for the surrounding area, which is one of the most densely populated parts of Europe.

SESAR is not only a step change in air traffic control; it is the catalyst for a green revolution in air transport. For more information on the SESAR programme and its environmental activities, please visit our SESAR website: www.sesarju.eu

China's approach to climate change control

China is a significant carbon emitter, but also vulnerable to climate change. It is thus committed to bilateral and multilateral international cooperation with other key actors in the developing world

By Xu Ting, School of International Relations, University of International Business and Economy

China's rapid economic growth over the past 30 years has made it the fastest-growing energy consumer in the world and one of the largest emitters of carbon dioxide. As one of the leading and most influential actors in the international community, as well as a fast developing country and emerging power, China has taken a distinctive approach to climate control. On the global level, China is engaged in international actions of mitigation and adaptation as well as the international rule-making process on climate change. Participation in international climate negotiations and the low-carbon economy are of great international significance for China. It is China's first active and self-motivated participation in the formation of international climate control rules that will shape the development of the world's green economy.

China's approach to climate control is based on the premise that the biggest contribution it can make to the world is to do well for itself at home. The Chinese government has carried out several domestic policies and actions on climate control. In June 2007, China's National Climate Change Programme — the country's first global warming policy initiative — was issued by the National Development and Reform Commission. China thus became the first major developing economy to issue an action plan. It outlined measures ranging from laws, economy, administration and technology with the aim of reducing greenhouse gas emissions and preparing actions for mitigation and adaptation. Subsequently, on 29 October 2008 the Chinese State Council published a white paper on 'China's Policies and Actions for Addressing Climate Change'. It stated the principal policy and position of the Chinese government on climate change and set out its goals.

Due to its vast territory and huge population, China is one of the countries most vulnerable to climate change. Adaptation thus has great significance. In order to ensure that food production is not threatened and economic development can proceed in a sustainable manner, the Chinese government has implemented reforestation projects since 1999 and improved the agricultural infrastructure. Climate change mitigation and the development of a low-carbon economy offer China a huge opportunity. China could become the largest market for renewable energy and carbon exchange. It could become the largest exporter of low-carbon products and could be the world's leading innovator in low-carbon technology.

China's mitigation effort focuses on improving energy infrastructure and improving energy efficiency, especially in the sectors of chemicals, iron and steel, and power generation, as well as decreasing energy intensity. China's 11th Five-Year Plan (2006-2010) calls for a 20 per cent reduction in energy intensity by 2010. It also set targets to increase the energy efficiency of its economy. The energy intensity target was at the heart of the climate change plan. Part of that project has led to the closure of hundreds of inefficient power plants, steel mills and cement plants. In 2008 China shut down small plants with a thermal power unit capacity of 16.69 million kilowatts. Hydropower now accounts for 22 per cent of total electric power, which is an

increase of 16 per cent compared to the same period last year. Energy consumption per unit of gross domestic product had decreased by 5 per cent compared with 2007. In November 2009, the State Council announced a 'voluntary action' and pledged to reduce the carbon intensity of its economy by up to 45 per cent by 2020, compared with 2005.

At the global level, China is devoted to pursuing climate equity. Between 70 per cent and 80 per cent of the carbon in the atmosphere has been released by developed countries. According to the World Resources Institute, developed countries account for 7 tonnes of carbon dioxide for every 10 tonnes released since the start of industrialisation. As the biggest developing country in the world, China has coordinated the position of developing countries through the G77 and China mechanism.

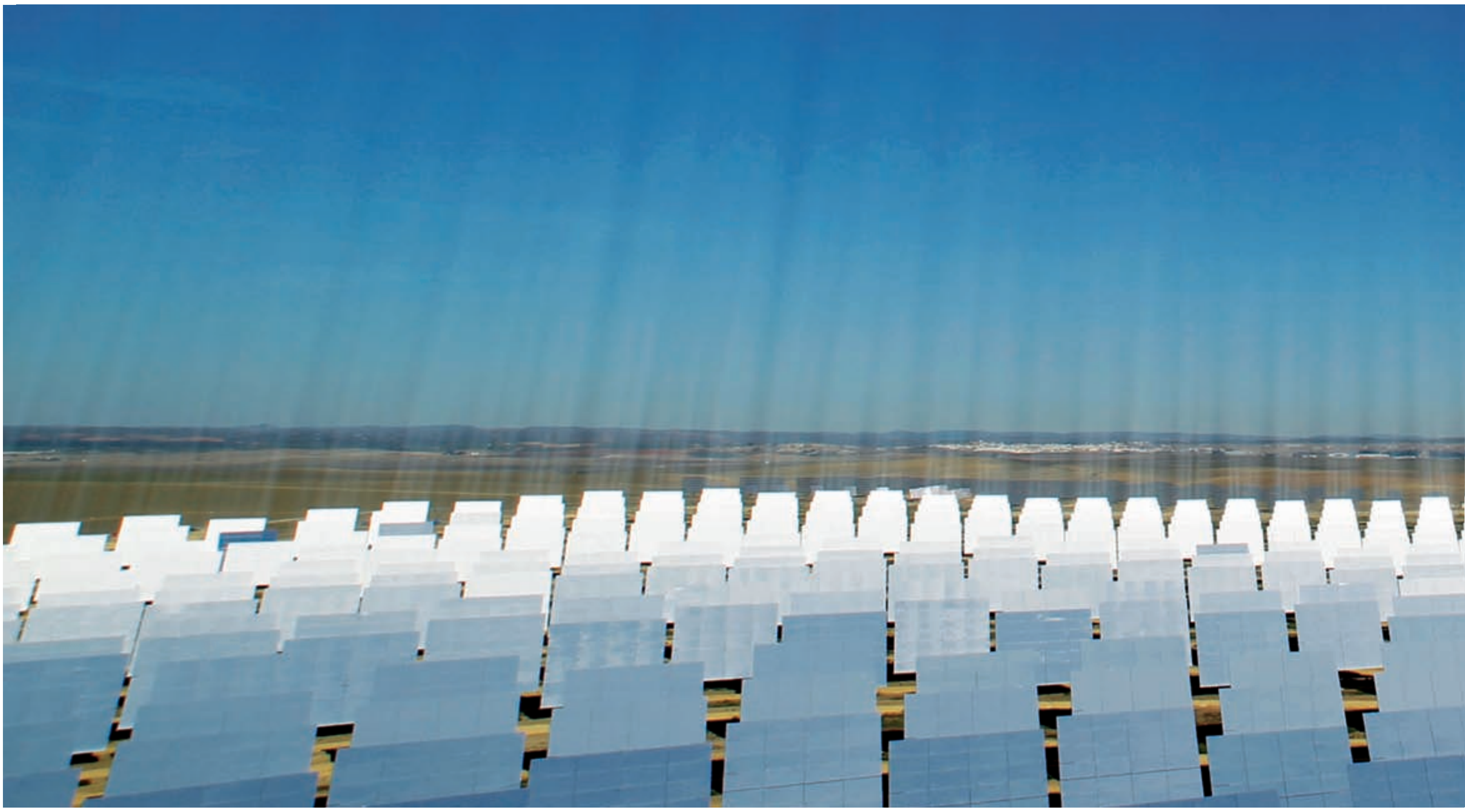
China actively participates in international climate change negotiations. It frequently engages in bilateral and multilateral international cooperation with other key actors. China was one of the first countries to ratify the United Nations Framework Convention on Climate Change and the Kyoto Protocol. The 'common but differentiated' principle is regarded as most important for China's participation in international cooperation on climate change. China has engaged in the climate dialogue between the G8 and emerging countries since 2005, as well as in the Asia-Pacific Partnership on Clean Development and Climate and the Major Economy Forum on Energy and Climate Change initiated by the United States. China and the European Union have established a strategic dialogue mechanism on climate change. At the G77, the 'Basic Four' countries of China, India, Brazil and South Africa coordinate their positions, which consolidates the voice of developing countries and contributes significantly to international climate negotiations.

The G20 plays an important role as a network of governments that can build consensus on pressing issues — especially with regard to carbon finance, the key issue in climate governance. It links climate change control with the international financial system and the green economy and enhances coordination and collaboration among the world powers and major emitters. China, as a member of the G20, is willing to coordinate with its fellow members through this informal, high-level summit.

Climate change will be an important agenda item for the G20 Seoul Summit in November 2010. The G20 should promote the development of the green economy by linking climate change control and finance. It would thereby promote the major economies' efforts in moving ahead at the United Nations climate conference in Cancun later in November. ◆

> "The G20 should promote the development of the green economy by linking climate change control and finance"

Demonstrating China's commitment to climate dialogue, China Solar Valley International Convention Centre, Dezhou city, is hosting the 2010 Low-Carbon Sci-Tech Expo until 16 March 2011



Controlling climate change

Funding renewable energy is high on the agenda for all governments, but more funds need to be sourced from elsewhere to ensure energy security for future generations

By Stanley Fink, chair, Earth Capital Partners LLP, and CEO, International Standard Asset Management

Everyone on the planet has a right to a certain basic standard of living, but no one has the right to deny the possibility of that standard of living to future generations.

Modern living is extremely energy intensive and so generating energy in ways that do not threaten the lifestyles of our children and their children is the critical issue at the core of many of the world's problems today.

For the developed world the issues of energy security, energy sustainability and reducing the impacts of climate change are key issues. But the developing world focuses more on the acquisition of energy at almost any cost. For both sets of constituents, renewable energy build-out is of the utmost importance. For future generations it is critical.

Unsurprisingly, funding renewable energy build-out becomes a key priority for all governments concerned with meeting these challenges. This group includes all G20 members and, arguably, every other government on the planet.

Traditionally, energy generation has been funded by governments (wholly or partially) and utilities. There are no longer sufficient funds in these traditional pools to fund legally mandated targets for renewable generation, let alone other plans. This means that other sources of funding are needed and this means tapping into the expertise and asset pools within financial institutions.

Most infrastructure is funded with a mixture of debt and equity and it is from new pools of equity that the greatest potential for expansion comes. Luckily there are large pools of capital seeking non-correlated, physical investment assets sitting within pension schemes, insurance companies, some family offices and, in some instances, sovereign wealth funds.

However, investors only enter markets when they see a perceived return exceeding the perceived risk. This means that a fundamental challenge is finding opportunities or projects that can deliver a commercially attractive return for the risks taken.

Coupled with this the financial crisis has constrained the raising of debt, making it more difficult and costly. Economic conditions have exacerbated concerns over whether policy supports will remain in place, highlighting the importance of clearly defined clean energy policies.

Enhancing returns or reducing perceived risks is the simplest way in which to draw new investors into

The PS10 solar plant at Solucar solar park in Sanlucar la Mayor, near Seville: in order to promote investment in renewable energy, a pragmatic policy approach is needed

> Engaging with the threat of climate change will require political bravery and visionary thinking

a market. Renewable energy generation is no different. National policy then becomes an absolutely central component of making a country attractive for financiers. A well-structured, attractive regime needs to offer more than incentives and embrace a wider energy policy, including the structure of the utility sector and the creditworthiness of utilities as off-takers. In addition, policies need to be simple and clear but, above all, consistent over a long period of time.

Public financing, whether through multilateral banks or export credit agencies, has an even more critical role since the financial crisis. The perception is, however, that governments are not serious about allocating money to this agenda, at scale. Addressing this would be perhaps one of the swiftest ways to reassure investors that they can achieve the returns that their fiduciary constraints demand.

From a policy perspective, pragmatic solutions that are underpinned by aggressive and binding commitments for carbon reductions are needed. Engaging with the threat of climate change will require political bravery and visionary thinking. There is no room for interim shortcuts. Any stimulus packages with regard to infrastructure must not lock the world into an unsustainable future.

Much can be achieved by capturing low-hanging fruit, particularly with regard to renewable energy, forestry, agricultural practices and energy efficiencies. Several concrete policy outcomes and commitments could support the growth of infrastructure investment into renewable energy. These include the following:

- A proposal moving toward a global cap and trade framework or fungibility among regional frameworks if the global objective is too hard to achieve in one step.
- The recognition of the importance of energy efficiencies and the built environment in fighting climate change. Buildings are responsible for approximately 40 per cent of the world's current energy use and constitute about a third of carbon dioxide emissions. At the same time, the world's population continues to grow, driving urbanisation and the need for additional housing stock. The opportunity for cost-effective reduction of emissions related to the built environment would reduce overall demand for energy, allowing better management of grids.
- A holistic, pragmatic policy approach to promote investments in renewable energy and increase the flow of capital to clean and energy-efficient technologies. There is a tremendous opportunity for businesses to respond positively to the challenges of climate change and, in so doing, create jobs for the future, economic growth and fiscal revenue. However, this will require a higher degree of certainty about policy and legislation. Ultimately, renewable energy technologies will need to be cost competitive with fossil fuel-intensive technologies. Until scale has been achieved, however, there is a need for feed-in tariffs and enforceable renewables targets for utilities. Similarly, there is a role for governments to participate in large-scale investments into grid parity and smart grids to enable renewable schemes to compete effectively.

The delays and uncertainty in the wake of the Copenhagen climate conference must not be allowed to deflect anyone from their responsibilities as individuals, businesses and citizens of the planet. Copenhagen could never have provided a panacea, but the fact remains that governments of the world chose not to provide clear leadership.

Business and geopolitical stability is critical for climate change resolution generally and thus especially for renewable energy financing. Bilateral action between countries may be a way to break the deadlock, but anything that resembles protectionist measures would be disastrous.

The challenges of climate change can be met without compromising on growth and job creation. Climate change poses an enormous threat, but it also presents many opportunities to build energy security for future generations, while also offering attractive investment opportunities to visionary investors. ◆

Development priorities for Africa

Poor leadership has left a scar on the face of Africa, but it is healing. Today, its new leaders are bringing a stronger Africa to the world stage, keen to make the most of its natural resources and shake off poverty

By H.E. John Agyekum Kufuor, former president, Republic of Ghana

Africa needs leadership. Good leadership. Not just any kind of leadership, but leadership that has been well nurtured — leadership that can direct socioeconomic development, has vision and is imbued with a missionary zeal to tackle the myriad problems that face the continent in prioritised order.

With such leadership will come the formulation and implementation of good policies that will create the right atmosphere for investment and tap the continent's vast natural resources, develop its human resources and make the most of its capacity. It will foster the growth of the private sector to unleash the wealth for sustained betterment of all the peoples.

Good policies will include the entrenchment of human rights and respect for the rule of law. It will expand access to education, health and shelter. It will sharpen the negotiation skills of individuals to hold their own against their foreign counterparts, especially in transacting international agreements. And it will create the regulatory framework to enhance predictable and reliable governance.

Laurent Gbagbo was declared winner of Ivory Coast's presidential election, winning nearly twice as many votes as former military junta leader Robert Gueï

Africa is a continent of 54 countries, most of which were subjugated in one way or the other to foreign domination. The leaders who appeared on the political scene after independence about 50 years ago were driven by the spirit of political liberation. Not many of them were well prepared for the complexities of managing a modern nation-state or dealing with intricate international transactions.

With independence came the accomplishment of their singular goal of liberation, more or less. Thereafter, faced with steering the delicate and complex challenges of nation-building in the unfriendly international Cold War era, most African states began to flounder and their economies worsened.

The result was the rash take-over of governments by military juntas, who were even less prepared to steer the affairs of state than those they overthrew.

From the early 1960s to the mid 1990s, the African political scene was a turbulent one with rampant military *coups d'état*. Each successive *coup d'état* further deepened the economic and social woes of the continent.

The net effect of this was that African countries still kept the economic structures bequeathed to them by colonial powers — producers of raw materials for sale on international markets for prices they had no control over, and importers of all finished goods. In the process, infrastructure, education, health, sanitation, housing and the private sector could not be developed and expanded.

All the while, the population of the continent was increasing at higher rates over and above those of other regions of the world, which had more stable and buoyant economies. To some extent the BRIC states of Brazil, Russia, India and China and the other emerging economies had suffered similar drawbacks of underdevelopment. But the critical point of departure between much of Africa and the emerging economies would seem to lie mainly in good, prepared leadership — a skilful leadership competent in applying a mix of policies, including stable macroeconomies, a business-friendly atmosphere, a fair legal framework, rationalised infrastructural development and export-oriented diversified value-added supply chains.

Investment appeal and job creation would result from such a policy mix. Unfortunately, until the mid 1990s, Africa lacked such leadership. It failed to exploit such policies as structural adjustment programmes imposed by the Bretton Woods institutions and other donors.

The stagnation and hopelessness of the times have been described as "a scar on the conscience of humanity".

Fortunately, the pervasive impact of globalisation, with all it entails — especially information and communications technology — is effecting a dramatic awakening across the continent. A new breed of leadership that is more politically responsive to both domestic and international pressures is emerging.

It was this leadership that formed the African Union. Its basic law demands good governance, including the rule of law, respect for human rights, regional groupings for economic customs unions and the peaceful resolution of conflicts.

It has also established blueprints for economic development and sustained good governance in the the New Partnership for Africa's Development (NEPAD) and the African Peer Review Mechanism (APRM) respectively.

Africa's advantage lies in its rich natural resources, including oil and industrial minerals and in its human resources, with a burgeoning population with a potential rich market. The rise of the BRICs offers immense opportunities to Africa. Estimates put the emerging economies as being responsible for about 90 per cent of the global increase of oil and metals consumption since 2002.

While China's oil imports are expected to double by 2020, the energy demands of India — which already account for about 70 per cent of its crude oil needs — are expected to double by 2030. By 2008, the US was already buying more of its oil from Africa than from Saudi Arabia.

The emerging power of the BRICs has once again put the spotlight on Africa, as competition for the continent's resources has become intense. But Africa does not want to continue to be a mere supplier and exporter of raw materials and a consumer of imported manufactured goods.

Africa needs to derive the maximum benefit from this second wave of 'exploitation' of its resources. Efficient negotiations will ensure that the resulting contracts enrich the continent. The resulting partnership will create capital, know-how and markets to add value to Africa's raw commodities. Africa is resolved to mainstream itself into the global market on a win-win basis with its partners.

By 2050, sub-Saharan Africa's population is expected to hit 1.5 billion, when the world's population will be about 7 billion. The percentage of the continent's population that will be of working age will rise to about 65 per cent. Job creation, therefore, becomes increasingly imperative.

But Africa can only realise these goals if it has the right mix of policies: good governance, a stable macroeconomic climate, and a competent and enterprising private sector.

By adopting NEPAD and the APRM, Africa has taken the first steps to shake off poverty. It must be supported to stay the course by such groupings as the G20 and the G8. They must also be encouraged to live up to their pledges of fair trade, aid for socioeconomic empowerment and not charity, and the spread of global safety nets to protect Africa from disasters even as it improves its ability to help itself. ◆

> "The emerging power of the BRICs has put the spotlight on Africa, as competition for the continent's resources has become intense"

Ibrahim Assane Mayaki, CEO, NEPAD Planning and Coordinating Agency. NEPAD is a radical initiative spearheaded by African leaders to pursue Africa's social and economic transformation

Leading the global recovery through development

Strong growth is forecast in Latin America and the Caribbean, which have seen gradual and sustained development over the past two decades. The contribution of developing countries is essential for continuing global economic growth

By Luis Alberto Moreno, president, Inter-American Development Bank

The G20 continues to evolve as the world's premier forum for international economic cooperation. Given the need to promote growth in the global economy, it is entirely appropriate for the G20 to turn its attention to the development agenda. Global growth is now driven by developing economies, including from Latin America and the Caribbean. Keeping developing countries growing and contributing to the global economy requires meeting challenges that the G20 can help address.

The forecast for growth in Latin America and the Caribbean is very strong — averaging 4.5 per cent this year, twice the estimated rate of the United States and four times faster than the eurozone. Fiscal deficits in Latin America are expected to average 2.3 per cent of gross domestic product in 2010, compared to 6.8 per cent in the euro area and 10.6 per cent in the United States. This role reversal is no accident. Over the past 20 years the region has undergone a quiet but profound transformation.

Brazil is the best-known case: powered by industrial and agricultural production, it suffered only a brief disruption of its quick growth and has lifted tens of millions of its citizens out of extreme poverty. Despite a powerful and destructive earthquake in February 2010, Chile remains a fixture of growth and social progress. Other countries in the region echo these impressive performances. The earthquake in Haiti on 12 January 2010 led to an unprecedented international response to a major humanitarian crisis, with Latin American and Caribbean countries playing a major role in the effort.

This combination of economic and social success stems from political stability and fiscal reform in much of the region. Having weathered the financial crisis, Latin America and the Caribbean now have the opportunity to join Asia in leading a global economic recovery. To do so, however, the region's governments will have to tackle several long-entrenched problems.

> "Latin America and the Caribbean need to use their existing resources and investments more effectively"

One of these is education. Latin America and the Caribbean can take pride in having achieved the Millennium Development Goal (MDG) of near-universal primary school enrolment. A growing percentage of children in the region complete high school and have a chance to attend university. However, most Latin American countries still score near the bottom of international standardised tests. To finish the job, Latin America must continue expanding the coverage and improving the quality of education. It must start teaching its students 21st-century skills.

The Inter American Development Bank (IADB) is working on early childhood development, the transition from school to work and the quality of teachers. Increasing the quality of and access to services levels the playing field for all children upon entering primary education. The IADB is focusing on readiness to learn, with the goal of narrowing the striking disparities in children's learning capabilities. Its research has found that Latin American and Caribbean countries need to strengthen their secondary school curricula by ensuring that they are relevant to and aligned with the needs of the labour market, thus providing disadvantaged youths with skills that will make them more employable and making their economies more competitive.

What happens in the classroom must also change. Teachers are the most important factor in improving student achievement and reducing the learning gap among children from different backgrounds. The IADB is helping countries shape policies designed to attract bright young people into the teaching profession, particularly to work in failing schools, and to improve their teaching methods.

These focused interventions to improve education — predictive not only of academic performance but also of future earnings and general well-being — can become powerful policy levers for governments to arrest the intergenerational transmission of poverty.

A second major task is improving economic productivity. Latin America and the Caribbean need to use their existing resources and investments more effectively.

Productivity is falling behind in manufacturing and services, and even in agriculture.

To make productivity gains, the region must lower its transportation costs. Freer trade helps boost productivity, but as tariff barriers have fallen, transportation costs are now often much more important considerations. The region's countries face higher freight rates in exporting to the United States and Canada than do East Asian or European countries. Local ports and airports are grossly inefficient. Part of the solution is further investment, but it is even more important to improve regulations, competition, information systems and operating procedures. The IADB estimates that a 10 per cent reduction in transportation costs would produce a 21 per cent return on investment in increased intraregional trade.

The G20 development agenda could be helpful in highlighting the importance of investing in regional and cross-border infrastructure projects. The IADB is committed to tripling its financial commitment for integration and trade-related programmes in the next five years.

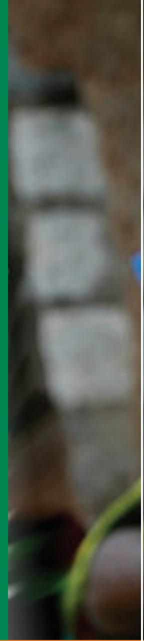
Deepening Latin American and Caribbean credit markets, improving tax and social policies, and promoting innovation will also help boost productivity in the region. The G20's ongoing work on regulatory reform and global economic safety nets will help on all counts. The IADB continues to provide financing and technical assistance, supporting the development of local credit and financial markets and the introduction of effective and socially balanced tax systems in the region.

Brazil is powered by industrial and agricultural production. The country's successful sugarcane ethanol industry owes much to massive investment

A third challenge is energy. Latin America and the Caribbean must continue to expand their energy resources. Latin America generates some of the world's cleanest energy. More than 65 per cent of its electricity comes from zero-emission hydroelectric sources, and it is a leading producer of sustainable biofuels. But in recent years, severe droughts have depleted key reservoirs, while fossil fuel production is flat or declining in Mexico and Venezuela. The region needs to develop new sources of energy and fully embrace reforms that would allow natural gas to flow freely across its borders. The G20 can help provide greater clarity on the future of climate finance and deepen the post-Copenhagen work plan on climate change in advance of the climate meetings in Cancun in November and December 2010. The IADB is committed to expanding its financing for sustainable development and climate change initiatives to 25 per cent of its total lending in the coming years.

Thanks to the support of its members and G20 leaders, the IADB secured a general capital increase early in 2010. Reducing poverty and inequality demand a strategic approach to address these priorities effectively across sectors, both in public and private operations. In that sense, the capital increase is more than an injection of resources; it lays out a strategic vision for the IADB for the next decade. It provides an accountability framework for measuring its performance vis-à-vis the needs of its borrowers and the expectations of all its members. ◆

Every mother's death is unacceptable. We must do what works!



An appeal by Her Highness Sheikha Shamsa bint Hamdan Al Nahyan
President of Women and Health Alliance (WAHA) International.

If there is good news, it is this: saving mothers' lives has been given new impetus this year. After years of advocacy efforts, it was a central theme at the G8, G20 and African Union summits.

However, there are enormous challenges ahead: A study published this year in the Lancet showed that only 23 out of 181 countries are on track to achieve the Millennium Development Goal of reducing maternal mortality by 75% by 2015. In simple language, this corresponds to hundreds of thousands of women who are dying every year. In simple language, this is unacceptable.

It is time for us to take an honest look at what needs to be done. We know that the vast majority of these deaths can be prevented. We have the techniques and know-how to save lives and reduce this suffering. We have done it before in Europe, America and the Middle East. We must now do it in the African and Asian countries where too many women are still dying to give life.

Maternal deaths are clustered around labour, delivery, and in the days and weeks following birth. The main direct cause of death is obstetric haemorrhage – in other words, bleeding to death. The most effective way to eliminate these deaths is to ensure that women are in the presence of a skilled attendant in a suitably equipped health facility for the delivery. Trained midwives and practitioners must have the skills to provide obstetric care to manage haemorrhage as well as sepsis and obstructed labour. They also need the skills to provide the medical and surgical interventions, like transfusions and caesareans that save lives.

So what do we need to do next? We need to train more midwives to assist women during the delivery of their babies and to provide emergency obstetric care. We need better-equipped health facilities to encourage women to deliver in places where skilled attendants can provide quality obstetric care. We need to remove the financial obstacles that impede women from coming to health facilities before the onset of complications. We need to address cultural and social barriers to delivering in health facilities by reinforcing links between communities and healthcare providers. And we need to remove physical barriers to attending health facilities by investing in innovative referral systems that use new telecommunication and transportation strategies. We need to give women a fighting chance of surviving childbirth.

And while we are rightly focusing on reducing maternal deaths, let us not forget that for every woman who dies, another twenty suffer debilitating complications following childbirth due to a lack of obstetric care. From a prolapsed uterus to chronic incontinence or obstetric fistula, childbirth complications can equate to a life of profound psychological, social and economic misery if left untreated. The World Health Organisation estimates that 2 million women currently need surgical repair for obstetric fistula, with an additional 50,000 to 100,000 new cases occurring each year. A fraction of these cases are treated each year and the backlog of cases remains virtually untouched. To deal with this, obstetricians, urologists and general surgeons must integrate fistula repair and management of other postpartum complications into general practice; and midwives and other frontline health workers must be involved in the active identification of cases for early referral and treatment.

Each one of us has a role to play in stopping maternal deaths. And this is why I appeal to you today with a simple request: Give women a fighting chance of surviving the delivery of their babies. Make sure that more midwives and doctors have the right skills to provide obstetric care. Ensure all women have access to suitably equipped health facilities. And ensure that treatment is available for the millions of women who suffer a life-time of misery from childbirth injuries. Let's do what works.

Women and Health Alliance (WAHA) International works to strengthen medical services in the countries where maternal health needs are greatest. Our goal is simple: to ensure that all women have a safe pregnancy and motherhood.

We believe in the power of partnerships to get things done. That's why at WAHA International, we work together with university teaching hospitals, national associations of midwives, obstetricians and gynaecologists, community groups and policymakers. We believe in promoting a south-to-south knowledge exchange to find the most innovative and effective strategies to ensure that women have access to skilled help during delivery and postpartum care.

OUR KEY AREAS OF WORK ARE

- Promoting skilled attendance at birth and rapid access to Caesarean sections in the event of obstructed labour. This includes implementing innovative strategies to facilitate referral and treatment of obstetric emergencies.
- Integrating fistula surgery and treatment of post-partum complications into the routine training and practice of gynaecologists, obstetricians and urologists through our partnerships with university teaching hospitals in Africa.
- Strengthening the role of midwives in the prevention and early treatment of obstetric fistula.

WAHA International was established by Her Highness Sheikha Shamsa bint Hamdan Al Nahyan as a response to the unacceptably high maternal and neonatal mortality and morbidity rates in many parts of Africa and Asia

WOMEN AND HEALTH ALLIANCE INTERNATIONAL
WAHA

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"Working together to improve women's and children's health"

The role of the Islamic Development Bank Group

The Islamic Development Bank Group is working toward reduced poverty, enhanced economic cooperation and improved infrastructure for its 56 member countries

By Ahmad Mohamed Ali, president, Islamic Development Bank Group

The Islamic Development Bank Group (IDB Group) plays a key role in fostering socioeconomic development throughout the Islamic world. A South-South multilateral development institution, it supports the economic development and social progress of its 56 member countries, as well as Muslim communities in non-member countries. Since its inception in 1975, the IDB Group has pioneered a unique alternative system of banking and finance based on the principles of Shari'ah (Islamic law). It provides development assistance, which reached $63.9 billion at the end of 2009, focused on achieving sustainable and shared economic growth in its members. Project financing and technical assistance operations represented 45.6 per cent of that assistance, while trade financing constituted 54.5 per cent. Public utilities remained the largest sector at 33 per cent, followed by transport and communication, social services, industry and mining, agriculture and financial services.

In response to the recent global financial and economic crisis, the IDB Group scaled up its development assistance by doubling the number of approvals while accelerating its reform process and maintaining high credit ratings. To support economic recovery in its member countries, during 2009 the IDB Group's overall development assistance increased by 29 per cent compared to its 2008 level. That increase was mainly due to a sharp increase in total project financing, which registered 58.4 per cent growth compared to the previous year. In particular, the IDB nearly doubled its infrastructure financing to help its member countries prepare for economic recovery in the post-crisis world.

Key priorities address emerging challenges

The IDB 1440H Vision aims to alleviate poverty, eradicate illiteracy, provide better health facilities, strengthen ties with the private sector and non-government organisations, and empower women. To realise the vision and address the emerging challenges facing its member countries, the IDB Group has identified five strategic focus areas: comprehensive human development, poverty reduction, infrastructure development, economic cooperation and regional integration, and Islamic financial sector development. With regard to human development and poverty reduction in its member countries, particularly in sub-Saharan Africa, the IDB Group launched the Special Programme for the Development of Africa (SPDA) and the Islamic Solidarity Fund for Development (ISFD). The main objectives of SPDA are to contribute effectively to reducing poverty, promoting sustainable economic growth and supporting regional integration in member countries in Africa. The ISFD helps reduce poverty by providing financing on concessional terms, primarily for the least developed members. It focuses mainly on building member countries' productive capacity through targeted interventions that encourage sustainable economic growth and job creation, reduce illiteracy, and eradicate contagious diseases and epidemics such as malaria, tuberculosis and HIV/AIDS. These objectives are linked directly to the achievement of the Millennium Development Goals (MDGs), which form the centre of member countries' national development plans and poverty reduction programmes and are also consistent with the IDB 1440H Vision. Moreover, in response to high food prices, the IDB Group adopted the Jeddah Declaration in 2008 to resuscitate agriculture sector productivity in member countries. It is also encouraging cross-border private investment in agriculture to accompany efforts made by its member countries, particularly Saudi Arabia and Kuwait. With regard to strengthening economic cooperation and regional integration, the IDB Group has established a special entity called the International Islamic Trade Finance Corporation, which provides trade financing and assists trade development activities in member countries.

> "The IDB Group has increased financing in the core areas of transport, water, energy, communications technology and public-private partnerships"

Developing quality and adequate infrastructure is another challenge. As part of the medium-term strategy for infrastructure initiatives, the IDB Group has increased financing in the four core areas of transport, water, energy, information and communications technology and public-private partnerships (PPP). In particular, the IDB Group plans to enhance its efforts to assist members in creating an enabling environment for private sector participation in infrastructure through flexible and innovative PPP schemes and capacity development programmes. The

IDB Group is already working closely with national, regional and international donors and financiers as well as specialised PPP and private sector initiatives such as the Public-Private Infrastructure Advisory Facility. Furthermore, the IDB Group is developing and deploying new products and risk mitigation instruments to attract and facilitate private sector participation in infrastructure.

In the area of Islamic financial sector development, the IDB Group is crucial to the development of this industry, by nurturing the development of standard-making bodies such as the Islamic Financial Services Board and the Accounting and Auditing Organization for Islamic Financial Institutions. It has also assisted in developing specialised institutions such as the General Council for Islamic Banks and Financial Institutions, the International Islamic Financial Market, the Islamic International Rating Agency and the International Islamic Centre for Reconciliation and Arbitration. In addition, its equity investments in various Islamic financial institutions around the world have catalysed other investors to join in providing equity capital to these institutions. In this regard, the IDB Group, along with some strategic partners, is also undertaking a proactive stance. It initiated the idea of establishing a mega Islamic investment bank for financing high-value transactions, developing and marketing high-quality liquid and tradable Islamic financial papers, and enhancing liquidity management for Islamic financial institutions. Furthermore, in line with its mandate to generate and disseminate knowledge in the area of Islamic banking and finance, the Islamic Research and Training Institute — a member of the IDB Group —- is focusing on important thematic areas of financial stability, inclusive Islamic financial services, and sustainable and comprehensive human development. The IDB Group has been approached by many countries and international institutions to provide assistance in the development of the Islamic financial industry. It also supports the Islamic financial services industry through its strategic and technical partners, particularly the World Bank and the International Monetary Fund, in the fields of financial sector assessment and governance of financial institutions.

Dubai Islamic Bank PJSC: the Islamic Development Bank Group is key to the growth of the Islamic financial sector

The voice of low-income countries

At the G20 summit in Seoul in November 2010, the G20 Development Working Group will articulate areas for action, with a focus on the prioritised needs of the low-income countries (LICs). The prioritised areas will be developed after full understanding of challenges and dialogue with LICs. The working group has identified a number of areas for consultation with LICs: infrastructure development, private investment and job creation, human resource development, trade promotion through 'aid for trade', financial inclusion through enhancing access of the poor, food security and improved governance. After consultation with LICs, prioritised areas will be identified and a multi-year action plan will be developed to address binding constraints that will likely unleash the potential for sustainable and inclusive economic growth in LICs. The IDB Group is confident that providing a voice to LICs will broaden the G20's representation and make the group a truly global, agenda-setting and action-oriented policy forum. ◆

Investing in comprehensive sexual and reproductive health

The United Nations Population Fund encourages initiatives to improve comprehensive sexual reproductive health globally to help achieve the Millennium Development Goals

By Thoraya Ahmed Obaid, executive director, United Nations Population Fund

Women deliver for their families and nations. Now it is time to deliver for women. No woman should die giving life

The reduction in maternal mortality globally is very encouraging, with data showing that maternal deaths have dropped by a third since 1990. However, we cannot be complacent as there are still 1,000 women who die needlessly every day from pregnancy- and childbirth-related complications. Maternal mortality still represents one of the largest health inequalities in the world. There are 215 million women with an unmet need for family planning and 2 million women who suffer from devastating complications due to obstetric fistula.

The good news is that we know what to do. Late last year, the United Nations Population Fund (UNFPA) and the Guttmacher Institute launched the publication *Adding It Up: The Costs and Benefits of Investing in Family Planning and Maternal and Newborn Health*. By doubling the $13 billion that is currently spent in low-income countries on family planning and maternal and newborn health services, we would reduce deaths of women and newborns by almost 2 million a year. Given that pregnancy-related death among women and newborns in developing countries results in an estimated $15 billion loss in productivity each year, these investments pay for themselves. Likewise, investing in family planning is not only an investment in human rights; it also makes good economic sense, as every dollar invested reduces the costs of pregnancy-related care by $1.50. If we truly want to ensure that every pregnancy is wanted, every birth is safe and every young person is free of HIV/AIDS, these additional annual investments must be made.

Investing in reproductive health translates into improved pregnancy outcomes, lower rates of sexually transmitted infections (including HIV), reduced incidence of unwanted pregnancies, unsafe abortions and also broader overall improved economic growth as individuals and couples can lead healthy and productive lives. Therefore, not only does reproductive health strengthen women's empowerment and assure better health for women and children, but it is also strategic for curbing the HIV/AIDS epidemic and stimulating economic growth. These benefits are extremely important for human welfare and economic development at the individual, household and societal levels.

Improving women's health requires strong national commitment to strengthening health systems that deliver affordable and accessible integrated packages of essential health services that include family planning, maternal health, and HIV prevention and treatment and that prioritises women and children, especially the poor and otherwise marginalised. We must also prioritise the largest-ever generation of adolescents and youth. UNFPA is committed to supporting national health plans, strengthening health systems and working across diseases and sectors with a focus on equity, human rights and gender equality in an effort to reduce maternal mortality and ensure universal access to reproductive health.

Today, a sense of urgency has translated into renewed momentum among the global community to demonstrate leadership, commitment and decisive action to end unjust deaths and ill health among the world's women and youth. In this respect, complementary global initiatives have been launched, including the UN secretary general Ban Ki-moon's Global Strategy for Women's and Children's Health, which outlines efforts for the international community to save 16 million lives by 2015. The strategy brings a wide range of committed stakeholders together from all spheres, building on what has been achieved and escalating efforts in support of improving the health of women, adolescents and children with an estimated $40 billion in commitments over the next five years. Another effort is the G8's Muskoka Initiative on Maternal, Newborn and Child Health, launched on 26 June 2010. This is a comprehensive and integrated approach to accelerate progress toward reaching the Millennium Development Goals (MDGs) 4 and 5 by addressing the linkages and synergies between all the health-related MDGs and all the MDGs more broadly.

Both the Global Strategy for Women's and Children's Health and the Muskoka Initiative commit to mobilising more funding for MDGs 4 and 5. Both global initiatives highlight the need to ensure reliable and predictable funding, while strengthening health systems. The initiatives also emphasise the need for effective coordination and greater accountability for results, not only on the part of governments, but also on the part of international development and donor agencies. The UNFPA welcomes both initiatives and encourages all stakeholders to do their part to ensure success.

The G20's leadership and vision will play a pivotal role in continuing the momentum to push the global community to fulfill their development commitments to address the obstacles that are impeding progress and with stronger accountability for delivering on the MDGs by 2015. As countries and international organisations respond to the economic downturn, they must strengthen social safety nets and be vigilant that austerity measures do not reduce health and education budgets. The achievement of the MDGs requires political leadership and broad-based community mobilisation. Sustained investments are crucial to guarantee that hard-won development gains are not eroded.

The UNFPA is the world's largest multilateral source of funding for population and reproductive health programmes. UNFPA supports countries in using population data for policies and programmes to reduce poverty and to ensure that every pregnancy is wanted, every birth is safe, every young person is free of HIV/AIDS, and every girl and women is treated with dignity and respect. In its efforts to assist countries to reach MDG 5, the UNFPA works directly with country governments to prioritise health system strengthening. The Maternal Health Thematic

Fund, established in 2008, supports priority countries in scaling up proven interventions and emergency obstetric care. Needs assessments have been undertaken in nearly a dozen countries. The joint UNFPA and African Union Campaign for Accelerated Reduction of Maternal Mortality in Africa (CARMMA) was launched in 2009 and builds on the African Union Maputo Plan of Action for Sexual and Reproductive Health. The UNFPA-led Campaign to End Fistula has grown dramatically and now works in 47 countries to expand access to fistula care and treatment services. The Midwifery Programme supports countries to strengthen national capacity to increase skilled attendance at all births, while several countries have recently strengthened midwifery training efforts (e.g. Bangladesh, Benin, Burkina Faso, Burundi, Cambodia, Ethiopia, Haiti and Zambia). And the Global Programme for Reproductive Health Commodities currently supports 73 countries to mainstream reproductive health supplies within national health plans. Each of these UNFPA initiatives focuses on working with national governments to strengthen their health systems for sustainable development.

The UNFPA continues to be engaged in a number of strategic partnerships dedicated to improving global health and achieving the MDGs: working with the H4+ agencies (UNAIDS, UNICEF, the World Bank, the World Health Organization and UNFPA) to reduce high rates of maternal and newborn deaths in priority countries; the International Health Partnership+ to mobilise donor countries and development partners around a single-led national health strategy to harmonise development efforts; the Reproductive Health Supplies Coalition to expand family planning to 100 million women by 2015; and the International Confederation of Midwives to train and deploy midwives to address human resource shortages. We are working to advance and improve reproductive health, women's empowerment and equal opportunity.

The health of millions of women will be greatly improved if the MDGs targets are reached

With a strong concerted push during the next five years, we can reach the two targets of MDG 5, to reduce maternal deaths by 75 per cent from 1990 levels and achieve universal access to reproductive health by 2015. To achieve success, the global community must sustain the focus and the collective pressure to deliver results, knowing that we can and should do more, building on the tremendous gains and further scaling-up efforts so that what is promised today becomes a reality for the health and rights of millions of women tomorrow.

Women deliver for their families and nations. Now it is time to deliver for women. No woman should die giving life. ◆

www.unfpa.org

Filipino mothers and newborn babies, Fabella maternity hospital, Manila. Asia's economic success has been good news for the MDGs, and is leading to extreme poverty being halved by 2015

Where next for the Millennium Development Goals?

While critics believe that the MDGs are doomed to failure in some countries, advocates note the many successes achieved. Meanwhile, the experts are discussing uneven performance and are considering the importance of growth rather than aid

By Mark Malloch Brown, chair, FTI Global Affairs, former administrator, United Nations Development Programme

The Millennium Development Goals (MDGs) have emerged in relatively good health from the MDG summit at the September start of this year's United Nations General Assembly. The next step on the road to their planned target date of 2015 is the G20 summit in Seoul, Korea, later in the year.

It was not a given that the UN summit would do any favours for these goals of halving poverty and improving health, education and the environment. There is a weariness with meetings of this kind that piously over-promise, particularly at a time when Western spending cuts mean development assistance is tight. Most notably, argue the critics, the goals are not going to be met in many countries, particularly African ones, so why draw attention to failure?

In fact, there is enough good news — including the big, although not new, headline that extreme poverty will be halved by 2015 because of Asia's economic success — that delegates had no need to indulge in unbroken doom and gloom in September. Indeed, up to nine African countries may also reach the poverty goal of halving poverty. Many others have made dramatic strides in primary education provision and in healthcare delivery, including breaking the momentum of the AIDS epidemic and bringing down malaria through simple, cost-effective interventions such as bed nets.

Among the experts, the discussion is not about failure but about uneven performance and unexpected consequences that demand course corrections. For example, Save the Children put out a report arguing that improvements in child survival numbers hide the fact that many countries, by design or omission, appear to have targeted higher income children for their interventions. So apparent success in, say, Rwanda conceals a much more depressing story of continued high rates of mortality in poorer families. In Pakistan higher income means a 50 per cent better chance of survival for a child under five years old.

Similarly, the World Food Programme and others in the food security community warn that higher incomes should not distract attention from higher food prices and shortages creating new risks for the poor. Many people may be both richer and hungrier. So the real conversation at the UN summit was how to make shifts in priorities and approaches that will stop new threats to the poor from opening up as others begin to close.

At a time of real financial difficulty, UN secretary general Ban Ki-moon sensibly focused his own appeal on an integrated initiative to tackle mother and child health. US president Barack Obama spoke enthusiastically of the MDGs (his predecessor spent most of his presidency trying to bury them).

A communal tap in the Imizamo Yethu community near Cape Town. Many African countries have made progress in primary education provision and in healthcare delivery, including breaking the momentum of the AIDS epidemic and bringing down malaria

> “Before the MDGs were even invented, in one generation Korea had met these goals in its own development”

Yet many countries are falling far behind their aid pledges. France and Italy were largely missing in action at the UN summit. Only the United Kingdom among the G7 economies remains plausibly committed to providing 0.7 per cent of its gross domestic product as development assistance. And new donors such as India (which still has more poor people than Africa), China, Korea and the Gulf States are as yet no substitute for the hole left by the others, although these countries' investment, rather than their aid, is contributing strongly to Africa's improved prospects.

So, on to Seoul and the G20 meeting in November. If anywhere is the right place to talk about the MDGs it is Korea. Before the MDGs were even invented, in one generation Korea had met these goals in its own development, moving more rapidly than any other country from post-war poverty to developed country status.

For that reason, the world can expect a very different kind of conversation in Seoul to that in New York. In New York the discussion focused heavily on aid and who was giving how much. As the G8 still insists that aid is its remit and not the G20's, aid is not directly on the agenda in Seoul. But apart from this rather peculiar protocol, the real reason why the talk at Seoul will be different is because the key to Korea's development success was growth, and not aid.

The Korean hosts are trying to organise the Seoul Summit's outcomes by tackling what they see as the constraints to growth in poor countries: poor infrastructure, particularly power and roads; underdeveloped water resources for drinking; sanitation and irrigation; the absence of local finance and credit markets; inadequate food security; the lack of shared development practice that does not conform to rather rigid Western views of what works and what does not; and, finally, the absence of private sector growth strategies that can generate real jobs.

This is an enormously important corrective to the way some have well-intentionally, but dangerously, hijacked the MDGs from being a measure of development outcomes (is development reducing poverty and providing more school places and health care?) and making it instead into a case for aid inputs, an internationally funded welfare model where development becomes equated with how many clinics and school places aid money can support in poor countries. It dangerously shifts the focus from creating a sustainable path of economic growth that will allow countries to pay for their own health and education services in the future.

If Seoul can — through Korea's own recent history of dynamic development — put growth back at the centre of the development discussion not as an alternative to the MDGs, or as a substitute for well-used old arguments, but as the central strategy for meeting the goals, then it will take the argument beyond the well-trodden ground of the New York MDG summit. ◆

The role of the Asian Development Bank

The ADB is committed to a vision of an Asian and Pacific region free of poverty, focusing on its Strategy 2020 development agenda

By Haruhiko Kuroda, president, Asian Development Bank

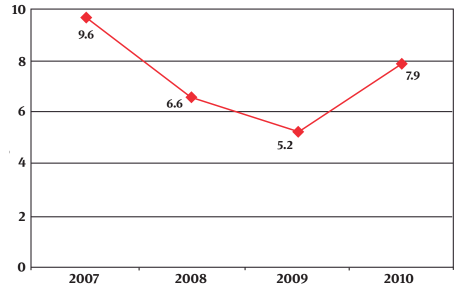
Asia is leading the global recovery. Helped by decisive and unprecedented fiscal and monetary stimulus policies, and supported by improving global prospects, Asia's growth is projected to reach 7.9 per cent in 2010, well above 2009's 5.2 per cent growth rate (see Figure 1).

But the recovery remains fragile. The region faces the challenge of maintaining momentum amidst the planned withdrawal of stimulus and slow rise of external demand. An inappropriate pace in unwinding stimulus or a bad policy mix could derail Asia's recovery. In addition, any disruption in advanced economies may have ripple effects in the region. Increasing inflation and interest rates may have economic and social destabilising effects. They could also attract large, potentially volatile capital flows that could further fuel inflation or asset price bubbles.

The recent global financial crisis has complicated the already difficult development landscape in Asia. Despite significant progress in poverty reduction, the region remains home to the largest number of poor people in the world. And in a region where 900 million people live in extreme poverty, any economic slowdown is a serious concern. While Asia handled the crisis much better than feared, the fallout has prevented tens of millions of people from escaping poverty. The risk of deepening poverty remains, especially for smaller and poorer economies in Asia still struggling with the negative impacts of the crisis.

The ADB is providing financial assistance for the construction of the Colombo-Matara express highway, Sri Lanka. Investment in infrastructure will help to alleviate poverty by improving access to basic services and by increasing productivity

Figure 1: Asia's GDP growth (%) 2007-2010



Sources: Asian Development Bank (2010), Asian Development Outlook 2010. *Manila; Asian Development Bank (2010),* Developing Asia's Recovery Gains Momentum, *ADO Special Note (www.adb.org/Documents/Books/ADO/2010/ado-special-note-2010.pdf).*

Even before the crisis, there were large development gaps across and within the countries of Asia and the Pacific. The multidimensional poverty index (MPI) shows the depth of deprivation, beyond income poverty, in three dimensions: health, education and standards of living (see Figure 2). According to the MPI, more than two-thirds of the world's poor live in Asia. South Asia accounts for more than half of the world's poor — nearly double the total poor population in sub-Saharan Africa. The East Asia and Pacific sub-region is the world's third poorest sub-region. Further disparities exist within countries. Without steps to reverse these disparities, the risks they pose — including social instability — will continue to grow.

Profound demographic changes are also occurring, with the number and proportion of the elderly rapidly rising. Unprecedented urban growth severely tests the planning and development capabilities of the region's public service delivery systems. Destruction of natural resources, including water resources, and environmental degradation compromise the region's prospects for strong economic growth.

The Asian Development Bank (ADB) is committed to a vision of an Asia and Pacific region free of poverty. In 2008, the ADB adopted Strategy 2020, which focuses on three development agendas: inclusive economic growth, environmentally sustainable growth and regional integration. The strategy remains as relevant for ADB and the region today as it was before the crisis in 2008.

Asia now needs to turn the post-crisis recovery into sustained economic growth. Economic growth is the most effective way to end widespread poverty. In the past decade alone it has lifted hundreds of millions of Asians out of poverty. Asia's experience has shown that sustained economic growth requires significant investments of human capital and infrastructure and public policies that support the private sector, trade and foreign direct investment.

In the wake of the crisis, countries must also rebalance the sources of their growth to reduce vulnerability to external shocks. This involves stimulating regional demand through investment, consumption and intra-regional trade; ensuring that the region's savings are optimally invested; and promoting policies to encourage domestic consumption and investment. Promoting service industries and small and medium-sized enterprises that cater to domestic consumers will boost the relative importance of production for domestic demand.

The ADB will support the region by financing investments in priority infrastructure facilities, human resources and the financial sector.

Financing infrastructure has long been neglected. The region needs about $8 trillion to support basic infrastructure needs in the coming decade (see Figure 3). Investment in infrastructure will not only boost productivity, but also help fight poverty by improving access to basic services. It will also stimulate domestic demand.

Given the huge financing gap, the ADB especially emphasises mobilising private sector resources. It is helping governments create an enabling environment for private investment, including those related to public-private partnerships. It is assisting them in further strengthening the financial sector, improving regulations and oversight, and making these institutions more inclusive.

Protecting and expanding public expenditures in the social sectors — particularly in education, health, water supply and sanitation — will help limit the adverse impact of the crisis on the poor and vulnerable. It creates human capital for sustained and inclusive economic growth. Building appropriate, effective and sustainable social safety nets is equally important. These measures will also help in the rebalancing of economies toward domestic demand.

The economic crisis offers an opportunity to start the necessary transition toward building low-carbon and climate-resilient economies, leading to growth that is more resource efficient, less carbon intensive and more environmentally sustainable, and provides more energy and food security. The region has the greatest number of people who are vulnerable to climate change and is the fastest growing source of greenhouse gas emissions. Climate change adversely affects livelihoods, water, food and fuel, particularly for the poor. If current consumption and production patterns remain highly carbon intensive, the region's emissions will be responsible for 45 per cent of global energy-related emissions by 2030.

The ADB is thus helping its developing country members act more quickly and ambitiously in response to the climate challenge. It is expanding its support for clean energy — including improving energy efficiency and developing renewable energy supplies. The Asia Solar Energy Initiative seeks opportunities to harness sustainable solar energy sources and develop projects that will generate 3,000 megawatts of solar energy by 2013. The ADB's clean energy commitments are expanding from the current $1 billion annual spending target to at least $2 billion per year by 2013. The ADB is also channelling concessionary climate financing to its members. Climate Investment Funds were recently established as a collaborative effort among multilateral development banks and developing countries to support low-carbon and climate-resilient development through scaled-up financing.

The ADB will continue to work closely with international and bilateral partners, governments, the private sector and civil society. The world has a high stake in what Asia does in addressing the causes and consequences of climate change. With the most populous and dynamic economies in the world, this region is crucial to stabilising greenhouse gas concentrations at safe levels, while also driving global growth. And with the world's largest population at risk from the impacts of climate change, Asian leadership is critical.

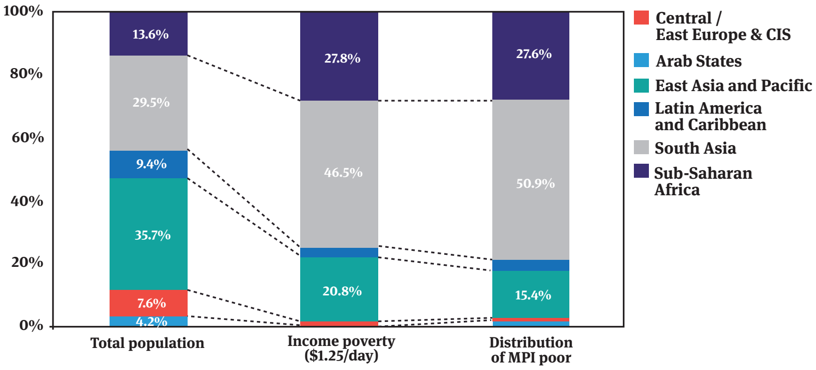
Regional cooperation and integration offer vast potential for accelerating growth and reducing poverty. However, Asia has yet to fully realise this potential. The ADB is increasing its support for greater physical connectivity, for expanding trade and investment, for developing financial systems and macroeconomic and financial stability, and for improving environmental, health and social conditions.

With low external demand for Asian exports since the global crisis began, deepening integration in Asia is critical to sustain its recovery in the short run and to make economic growth more resilient to external shocks in the long run. Strengthening intra-regional trade in finished goods can help reduce overdependence on exports to industrial countries. By lifting barriers to trade and competition, removing obstacles to intra-regional trade in services and developing deeper and wider regional financial markets, Asian countries can increase their resilience to crises.

Several Asian countries, including Korea, host of the G20 Seoul Summit, have transformed themselves from developing to developed economies within one generation. Their experiences hold important lessons. Large investments in critical infrastructure and human capital together with private sector-friendly public policies are central to this story. The G20 can help developing countries by disseminating these development experiences and promoting structures and processes that facilitate their replication.

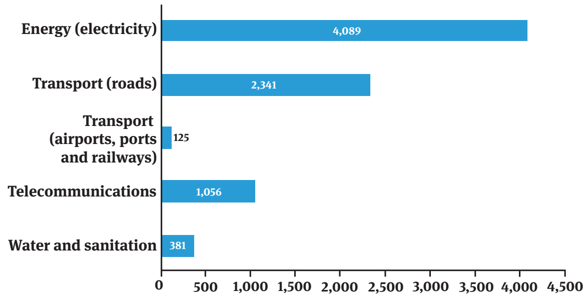
As Asia continues along this path, the region will make increasingly valuable contributions to global stability and global prosperity. In partnership with each other and with the rest of the world, the developing Asian countries will rise to the challenges to help create a better foundation — and a better world — for all. ◆

Figure 2: Income poverty and estimates of deprivation (by region, % share of total)



Source: Sabine Akire and Maria Emma Santos (2010), Acute Multidimensional Poverty: A New Index for Developing Countries, *Oxford Poverty and Human Development Initiative (OPHI). Working Paper No. 38.*

Figure 3: Asia's infrastructure needs, 2010-2020 (in 2008, $ billion)



Source: Asian Development Bank and Asian Development Bank Institute (2009), Infrastructure for a Seamless Asia, Tokyo *(www.adbi.org/book/2009/09/15/3322.infrastructure.seamless.asia).*

Interview with President of *Asian Institute of Technology, Prof. Said Irandoust*

On 25 August 2010 the Asian Institute of Technology was accorded the status of an Intergovernmental International organization. It is the first institute of higher learning to attain this status in Southeast Asia.

How will the grant of International Intergovernmental status affect the Asian Institute of Technology (AIT)?

AIT has been an international institute ever since its inception. However on August 25 this year, 12 countries and an International organization signed our new AIT Charter thereby granting it the status of an International Intergovernmental organization.

This development reaffirms our commitment to produce creative leaders for the future while contributing to the development of Asia and beyond.

The new International Intergovernmental status will help AIT to fulfil its global mandate of developing human resources for sustainable development. AIT has students from over 40 countries and staff from 30, while our alumni are active in 85 countries. Our alumni have contributed towards nation building and development across Asia, and AIT has contributed towards the Asian miracle ever since it was founded in 1959. The new AIT Charter will facilitate the launch of full-fledged AIT campuses in six to seven countries so that by the year 2020, AIT's student body will grow to 30,000 students. This will help us create a much bigger impact.

What will be the role of AIT in the region?

AIT is looking towards not just Asia, but also beyond. We believe that the experience from Asia can be applied to Africa and other regions. Seychelles has become the first African country to sign the new AIT Charter. AIT is also involved in capacity building in Afghanistan, Iraq and DPR Korea.

Within Asia, the landscape of higher learning is changing dramatically. The global center is now shifting towards Asia and we are lucky to be situated right in the heart of the world's most dynamic region. AIT thus has a tremendous locational advantage which we seek to utilize to venture beyond the confines of our campus. AIT already has campuses in Vietnam and Indonesia. And we do not intend to stop here.

The G20 summit in Korea is concerned with issues of poverty and development. Is AIT working in this area?

AIT has been very active in the field of poverty alleviation. The Poverty Alleviation and Agriculture Management (PRAM) initiative in Lao PDR has been very well received. AIT also hosts the ASEAN Regional Center of Excellence on Millennium Development Goals (ARCMDG), which has been endorsed by H.E. Mr. Ban Ki-moon, Secretary General of the UN. AIT also hosts the Yunus Center, a venture in joint collaboration with Nobel laureate Muhammad Yunus. The 3R Knowledge Hub of the Asian Development Bank, which is jointly hosted by AIT- UNEP. RR.CAP and UNESCAP has been endorsed as the knowledge arm of the Regional 3R Forum in Asia. CSR Asia Center at AIT aims to introduce corporate social responsibility among business in Southeast Asia.These ventures are a testimony to AIT's commitment to its core values, vision and mission.

12 countries and one Intergovernmental organization signed the new AIT Charter on 25 August 2010. They include People's Republic of Bangladesh, Kingdom of Cambodia, Republic of India, Japan, Federal Democratic Republic of Nepal, Islamic Republic of Pakistan, Republic of Philippines, Republic of Seychelles, Democratic Socialist Republic of Sri Lanka, Kingdom of Sweden, Kingdom of Thailand, Democratic Republic of Timor Leste and United Nations Development Fund for Women (UNIFEM).

SPONSORED FEATURE

Bahrain: a small island country with big perspectives

"Towards a better life through connected governance"

By Mohammed Al Qaed, CEO of the eGovernment Authority, Kingdom of Bahrain

The Kingdom of Bahrain appreciates the importance of eGovernment and has, therefore, undertaken a comprehensive programme to implement it in a strategic manner that aims to build a productive and globally competitive economy as part of Bahrain's Vision 2030.

Vision 2030 is a comprehensive economic vision for the Kingdom of Bahrain. It provides a clear direction for the continued development of Bahrain's economy and at its heart is a shared goal of building a better life for every Bahraini. Vision 2030 identifies three key challenges and opportunities and describes how Bahrain will respond to each. These are:

- transforming the Bahraini economy by focusing on developing the quality and number of jobs for Bahrainis and improving skills for job seekers;
- competing in an increasingly global market place by encouraging innovation and developing new and growth sectors in the economy;
- exploiting unprecedented growth opportunities as the Gulf Cooperation Council continues to develop.

In line with the national strategy and with an aim to be recognised internationally, the Kingdom embarked on leveraging information and communication technology (ICT), which resulted in a high degree of intra-ministerial computerisation and a superior ICT infrastructure. As part of this programme, the Kingdom has already implemented more than 150 eServices to citizens, through various channels such as the National Web Portal, the Mobile Gateway, eService Centers, eKiosks and the National Contact Centre. All these achievements are milestones towards helping to achieve the main objective of 'Delivering Customer Value through Collaborative Government'.

Bahrain's eGovernment programme has always been innovative. Citizens' involvement has been ensured right from the strategy formulation. Therefore, a number of projects have been put into place to ensure continuous customer satisfaction as a core objective through following a co-design approach that utilises eSociety, eBusiness and eMinistry services that offer a one-stop shop for all stakeholders.

The eGovernment Authority (eGA), as the governing body for the programme, is committed to deliver the maximum quality standards for services developed internally or externally. To do so, it has adopted international standards to software development and project management. Thus the eGA offers innovative projects that ensure sustainability and uptake, to list a few; the eInvestor, the King Hamad School for the Future, eGate and overall eParticipation.

Bahrain's vision is clear and its journey has just started, marked with a number of achievements that introduced Bahrain to the world at large. Partners covering the various continents and collaborations with worldwide ICT bench setters such as Cisco, iDA Singapore and Microsoft, as well as international organisations such as the United Nations family, which include the UNDP, UNPAN, UNDESA and the OECD.

Among the latest international recognition is Bahrain's position in the *United Nations eGovernment Readiness Report 2010*, a report issued every two years by the UNDESA, covering a total of 192 countries in the world at the level of readiness of their governments. It identified the use of the eGovernment as a tool which increases the accessibility of information and provision of government services to the public. Bahrain ranked first in the Middle East, third in Asia after occupying 8th place two years ago and 13th place worldwide, where it ranked 42nd in 2008.

Earlier this year, the eGovernment Authority received three awards as part of the United Nations Public Service Awards. One of the leading international awards, aims to support the innovative achievements and contributions of the governmental entities towards developing the public services across the world; it also aims to strengthen the role of transparency and professionalism in this field. The awards are for:

1. eGovernment Portal for (Improving transparency, accountability and responsiveness in the public service) category.
2. The National Enterprise Architecture project, which falls under the Advancing knowledge management in Government category.
3. Outstanding Progress among the Top 20, awarded to countries which have strived to leap-frog in their eGovernment development to be ranked among the top 20 for outstanding progress, (a United Nations eGovernment Survey 2010 SPECIAL AWARDS).

Efforts would be undermined if it weren't for rigorous marketing and awareness campaigns to ensure sustainability and uptake of the various services that the eGovernment Authority offers. That is done through encouraging citizen and business participation in eGovernment programmes, delivering promises through customer charters and enabling Bahrain to experience eGovernment through capacity building projects among various organisations and citizens alike.

The eGovernment Authority's strategy for the next six years has taken into consideration all the changing aspects and aims at making the Kingdom of Bahrain a leader in the ICT development and innovation sector. Bahrain's efforts towards engaging with the citizens through social networking lend themselves to being emulated.

The eGovernment Authority is also playing a major role in helping to achieve the Millennium Development Goals (MDGs) in the Kingdom. It is a partner in the MDG eNabler, which is intended to be a one-stop shop with a pool of informational plus decision-support tools which could be useful for all actors (ICT and non-ICT) involved in development, in particular in developing countries. When fully operational (early 2011), the eNabler could also enhance transparency and provide a platform for exchange of knowledge/experience among different players. It will also help Governments in the strategic integration of all policy matters related to the use of ICT in national development strategies. As an active member in the UNDESA-GAID, Bahrain extended its help to African developing countries through a commitment to create a Capacity Building Centre aimed at enhancing these countries' skills in ICT towards achieving the MDGs.

Shaikh Ahmed bin Ateyatalla Al Khalifa

In the National Review of the Progress of the Millennium Development Goals in the Kingdom of Bahrain, His Excellency Shaikh Ahmed bin Ateyatalla Al Khalifa, Minister of Cabinet Affairs, said:

"Since the United Nations announced the Millennium Development Goals in 2000, and out of our keenness to meet our international obligations, the Kingdom of Bahrain has adopted the MDGs' challenge as a means of unifying global and national efforts towards achieving the more pressing development priorities in the world, and to express the Kingdom's national commitment, which transcends its borders towards the scope of its active participation in international development efforts, in order to preserve its honourable image as a country that adopts economic and social development issues at various international and national levels.

"Although the Kingdom has come a long way in the field of economic and social development in a short time, however, like other countries around the world, it faces global challenges amid globalisation, climate changes, accelerating progress and the global economic crisis that threatens the global and national efforts towards achieving these goals.

"The Kingdom of Bahrain's positive attitude towards the MDGs emanates, without doubt, from its belief that these goals constitute the most important and comprehensive framework for development efforts on the international level in the last decade, and whose targets and visions complement the basic principles of the Kingdom of Bahrain's economic and social strategy and Vision 2030."

The national review of the progress of Bahrain in achieving the MDGs has highlighted great accomplishments in meeting the eight general goals, 21 specific targets and 60 indicators. Out of these, Bahrain has achieved fully Goals One, Two, Four, Five and Six many years ago, excluding the goal regarding the AIDS epidemic, which is limited but still remains a high priority for national policies.

Goal Three is related to the promotion of gender equality and empowerment of women, which is partially achieved, particularly with regard to equality in education. At the same time, issues related to economic and political participants are partially achieved and are gradually improving. Regarding Goal Seven, environmental issues will constitute a major challenge to Bahrain, and Goal Eight is partially achieved in light of the indicators that apply to integration in the world economy and the use of technology. However, issues like global partnership for development and its national and regional implications exceed the concerned country.

The Kingdom of Bahrain is committed to achieving all the set MDGs prior to 2015, and is in the process of devising National MDGs in line with the Vision 2030. Vision 2030 is a national initiative that will only succeed if the people, businesses and the Government join together to realise the country's full potential. The country's future prosperity relies on Bahrain building this partnership together so the Kingdom can make the aspirations of Vision 2030 a reality.

Kingdom of Bahrain
eGovernment Authority

www.bahrain.bh / www.ega.gov.bh

Financial inclusion through social business

Before 1976 the poor people of Bangladesh had no access to funds. Today the Grameem Bank gives them the right to borrow and lift themselves out of poverty

By Muhammad Yunus, founder, Grameen Bank, Nobel Peace Laureate, 2006

Financial inclusion can only be achieved by the poor if they are given the opportunity to earn a living. I have always believed and said that credit is a human right. Innumerable borrowers from the Grameen Bank have taken small loans over the past 30 years to start, maintain and expand their micro-businesses — and eventually pull themselves out of poverty. If the poor are not included in the financial structure of the country and, by extension, the world, their contribution toward economic growth is going unrecognised and the poor are left with no opportunities to make a life better for themselves and their families.

Back in the early 1970s, the newly independent country of Bangladesh was in a terrible state. The aftermath of its War of Liberation combined with a horrendous famine, floods, droughts and monsoons to create a desperate situation for millions of people. I was at that time an economics professor at the University of Chittagong. I found it increasingly difficult to teach elegant theories of economics in my classroom while there was such desperate poverty outside. Suddenly I felt the emptiness of traditional economic concepts in the face of crushing hunger and poverty. I realised that I had to be with the distressed people of Jobra, the neighbouring village just outside the university, and somehow find something to do for them.

In trying to discover what I could do to help, I learned many things about Jobra, about the poor people who lived there and about their helplessness. I came face to face with the struggle of the poor to find the tiniest amounts of money needed to support their efforts to eke out a living. In particular, I was shocked to meet a woman who had borrowed just 5 taka (the equivalent of around 7 cents in US currency) from a moneylender and trader. To understand the scope of this moneylending practice in the village, I made a list of the people who had borrowed from the moneylenders. When my list was complete, it had 42 names. These people had borrowed a total of 856 taka from the moneylenders — roughly $27 at then current exchange rates. It seemed absurd that such a small amount of money should have created so much misery.

> A new architecture of economics is needed to free everyone once and for all from the crises that surround us

To free these 42 people from the clutches of the moneylenders, I reached into my own pocket and gave them the money to repay the loans. The excitement that was created in the village by this small action touched me deeply. I thought, "If this little action makes so many people so happy, why shouldn't I do more of this?" That is what I have been trying to do ever since.

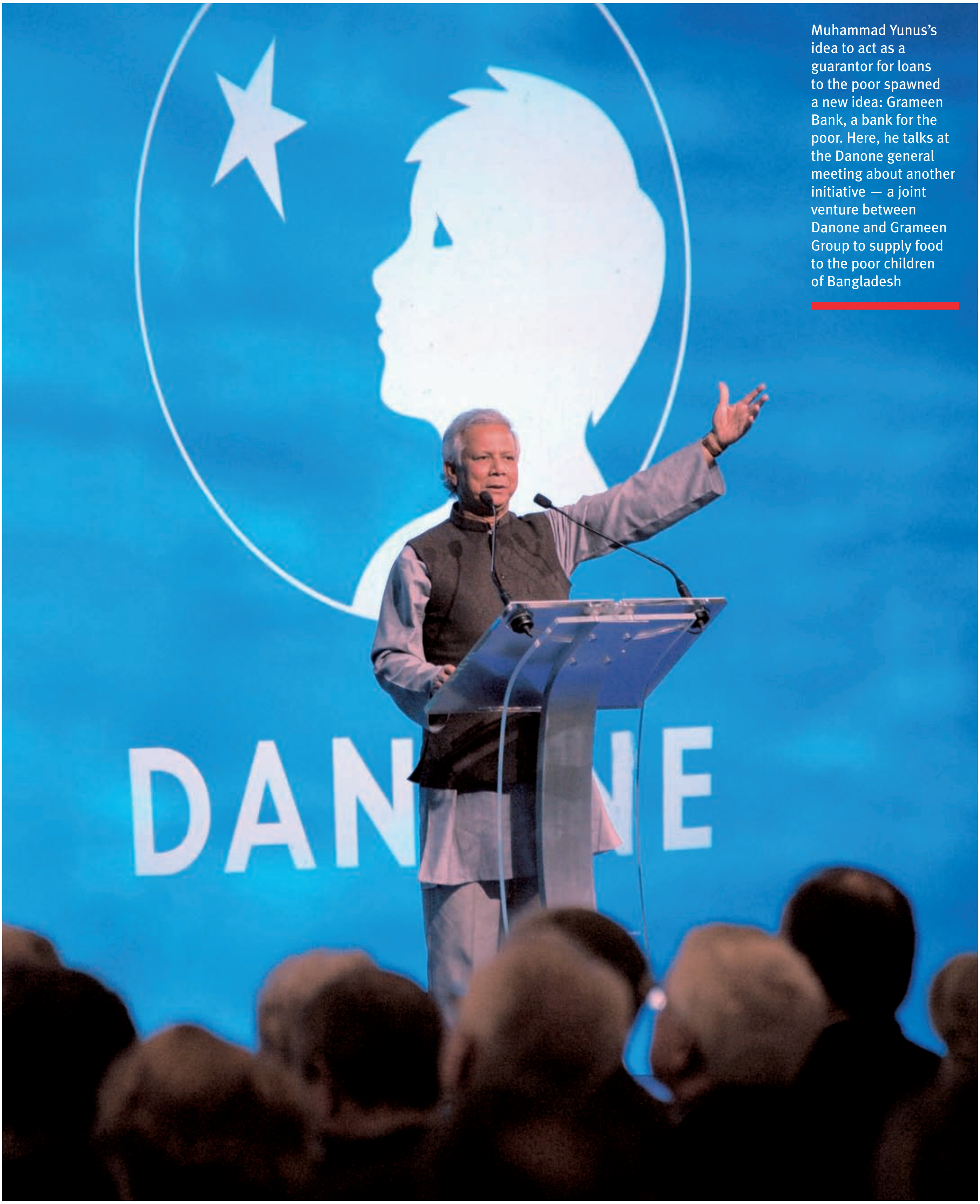
The first thing I did was to try to persuade the bank located on the university campus to lend money to the poor. But the bank manager refused. He said, 'The poor do not qualify to receive loans from the bank — they are not creditworthy'. I argued with him with no result. I met with senior banking officials at various levels to see if I could find someone who would be willing to open the doors of the bank to the poor. This went on for several months, but I could not change their minds.

Finally, I came up with an idea. I offered to become a guarantor for loans to the poor. After much hesitation, the bank agreed to accept this proposal. By the middle of 1976, I started giving out loans to the village poor, signing all the papers the bank gave me to guarantee the loans personally and acting as a kind of informal banker on my own. I wanted to make sure that the poor borrowers would find it easy to pay back the loans, so I came up with simple rules, such as having people repay their loans in small weekly amounts, and having the bank officer visit the villagers rather than making the villagers visit the bank. These ideas worked. People paid back the loans on time, every time.

It seemed to me that lending money to the poor was not as difficult as was generally imagined. It even appeared to me that serving their financial needs might be a viable business. You would think a smart banker would be able to recognise this opportunity quicker than a mere economics professor with no banking experience. But no — I kept confronting difficulties in trying to expand the programme through existing banks.

Finally, with no other option, I decided to create a separate bank for the poor. It was a long, arduous process. But with the support of the then finance minister of Bangladesh, I succeeded in creating a new bank, a bank dedicated to serve the poor. We called it Grameen Bank, or 'village bank' in the Bengali language. Today, with 2,564 branches providing financial services to 81,371 villages, Grameen Bank is a nationwide bank serving the poor in all of Bangladesh. Of its 8.30 million borrowers, 97 per cent are women. Grameen Bank has proved for more than 33 years that the poor are some of the most creditworthy borrowers in the world. Today Grameen Bank perfectly highlights the importance of financially including the poor.

To address today's social problems a new type of business can be created — business to solve problems, rather than to make money. These are non-loss, non-dividend companies and are dedicated to solving social problems. We have created many such social businesses. Social business gives everybody the opportunity to participate in creating the kind of world we all want to see. Thanks to social business, entrepreneurs, investors, organisations and others can have a completely new space in which to mobilise their creativity and talent for solving the problems of the day. Seeing the



Muhammad Yunus's idea to act as a guarantor for loans to the poor spawned a new idea: Grameen Bank, a bank for the poor. Here, he talks at the Danone general meeting about another initiative — a joint venture between Danone and Grameen Group to supply food to the poor children of Bangladesh

effectiveness of social business, governments may decide to create their own social businesses, partner with citizen-run social businesses and incorporate the lessons from the social businesses to improve the effectiveness of their own departmental programmes.

No one wants to see the traditional economic framework continue to add to the world's problems. A new architecture of economics is needed to free everyone once and for all from the crises that surround us. Now is the time for bold and creative action — and we need to move fast, because the world is changing fast. The first piece of this new framework must be to accommodate social business as an integral part of the economic structure. I hope it will soon be done. ◆

Immunisation: an economic development game-changer

The value and impact of vaccines on children, families and economies

By Helen Evans, interim CEO, GAVI Alliance

The impact of the current financial crisis on the world's poorest economies is estimated by the World Bank to have resulted in an additional 50 million people living in extreme poverty. In evaluating how to assist developing countries achieve resilient economic growth, consider the power of vaccines to support stable, equitable and sustainable growth by enabling a healthy population.

A healthy population has been identified as a robust driver of economic growth — as important as geographic location or the institutional and economic policy environment.

Vaccines save lives, prevent illness and disability, and save healthcare costs in the long run. Children who have been vaccinated have a better chance to grow up to be fit, productive adults. Studies show that immunised children are more likely to attend school and have measurably higher cognitive abilities. It's also true that when a family stays healthy, parents have more time for productive work.

Aggregated over an entire population, immunisation has major effects on productivity, economic growth, even savings and foreign investment. A Harvard University study demonstrated that the GAVI Alliance programme to expand access to new and underused vaccines could provide returns on investment as high as 18 per cent — higher than most other health interventions, and similar to primary education.

And all this for the cost of a few doses of vaccine. In the United States, for example, every dollar spent on vaccines against *Haemophilus influenzae* type b (Hib), which can cause meningitis and pneumonia, saves more than two dollars.

Innovative finance for development

In creative efforts to fund those vaccines, the GAVI Alliance and its partners have been at the forefront of changing how the world thinks about financing development. Pioneering approaches to raising funds by employing market forces to reach development goals have made major contributions to immunisation and to the health and welfare of millions. GAVI is pleased to share with the G20 key lessons learned from its innovative financing vehicles.

To maximise the effectiveness of donor funds, the International Finance Facility for Immunisation (IFFIm) uses bond markets to convert long-term pledges into immediate cash. IFFIm has already raised US$2.7 billion in additional funding and doubled GAVI's spending on immunisation since 2006.

The Advance Market Commitment (AMC) against pneumococcal disease is designed to accelerate the availability of effective and affordable pneumococcal vaccines tailored to the needs of developing countries. As a result, vaccines will be available rapidly in the quantities developing countries need and at affordable prices. The AMC's long-term price of US$3.50 per dose of pneumococcal vaccine is a greater than 90 per cent reduction compared to the price in the EU and the US.

It is estimated that the AMC programme will prevent up to seven million deaths by 2030, allowing immunised children to grow up free from disease, attend school and lead healthy, fulfilling lives.

Long-term sustainability of vaccines in the countries it supports is also a core principle of how GAVI operates. It is reflected in the requirement that countries themselves co-finance their vaccine purchase: some 44 countries contribute to GAVI programmes.

Market shaping impact

GAVI is shaping markets by pooling funds and aggregating demand for vaccines from developing countries. As a result we're seeing increased competition, new producers — many from developing country manufacturers — and greater supply.

Prices are also falling. For example, GAVI-backed demand for tetravalent vaccines drew several new suppliers to the market, which contributed to a 43 per cent drop in price between 2006 and 2009. Similarly, the price of pentavalent vaccine — which combines diphtheria-tetanus-pertussis with hepatitis B and Hib vaccines — has dropped 18 per cent in the decade that the Alliance has been operating.

Increasing access to vaccines

Together, these factors are making a major contribution to closing the gap in health equity. A child born in a low-income country is still 17 times more likely to die before the age of five than his or her counterpart in the developed world. But immunisation is helping to address these inequities.

Indeed, the levels of routine immunisation in low-income countries — at 79 per cent — are now higher than at any other time in history. In a great stride forward for health equity, the percentage of low-income countries routinely using hepatitis B vaccine has surpassed high-income countries and the accessibility gap has closed (see Figure 2).

GAVI has also shortened the time between a new vaccine being developed and being available to the children of the poorest countries — a milestone for GAVI's mission to increase access to new and underused vaccines in the poorest countries.

Reaching more children, saving more lives

Since its establishment, the GAVI Alliance has funded the immunisation of nearly 290 million additional children against life-threatening diseases and prevented close to six million future deaths.

In the next five years, the Alliance's aim is to support the immunisation of more than 240 million additional children and avert in excess of four million deaths.

Importantly, new vaccines to help prevent major causes of pneumonia and diarrhoea, which are the two largest killers of children under the age of five in developing countries, are available (see Figure 1). The GAVI Alliance has started to provide them in the poorest countries. If donor support is forthcoming, more than 40 developing countries could introduce these life-saving vaccines against pneumococcal bacteria, the leading cause of pneumonia, and rotavirus which is the leading cause of severe infant diarrhoea. Together, these vaccines could save an estimated one million children's lives each year.

This is one of the best chances of achieving Millennium Development Goal 4 (MDG4) aimed at reducing child mortality, as well as contributing to goals to improve maternal health and boost educational opportunities.

GAVI also plans to support vaccines for human papillomavirus, or HPV, which is the leading cause of cervical cancer, as well as for Japanese encephalitis, meningitis, rubella, and typhoid. There is even the future prospect of vaccines against malaria and dengue fever.

Increasing the impact of vaccines

The GAVI Alliance has achieved a lot in its first ten years, although there is much work still to be done. At last count, according to the World Health Organization, 23 million infants around the world go unvaccinated, more than 85 per cent of them in GAVI-eligible countries.

As world leaders gather at the G20 summit, development is rightly on the agenda. Expanding immunisation in the poorest countries of the world needs to be at the heart of that agenda. Vaccination is a cost-effective game-changer.

We have the opportunity to prevent more than four million future deaths by 2015, contribute to closing the equity gap on health, shape vaccine markets to be more effective and affordable for all, and contribute to setting many poor countries on the road to greater prosperity and security.

An approximate US$4.3 billion funding gap between now and the 2015 deadline for the achievement of MDG4 is GAVI's biggest obstacle to success.

The price of action can be measured in dollars. The price of inaction will be measured by the number of children who die from preventable disease. ◆

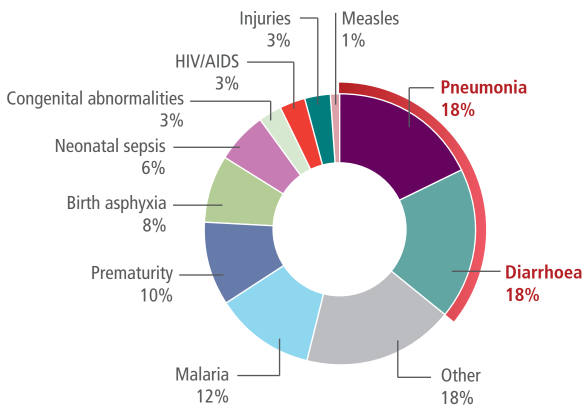


Figure 1. Causes of under-five deaths in low-income countries.
Source: World Health Organization, World health statistics 2010

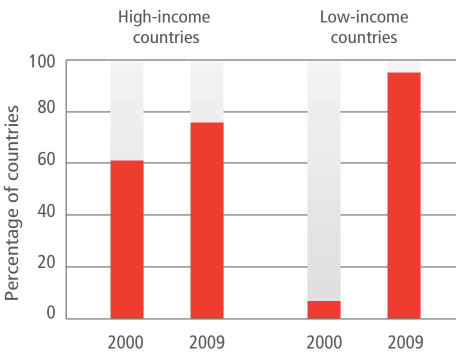


Figure 2. Driving equity in vaccine access: routine use of hepatitis B vaccine.
Source: World Health Organization, Vaccine introduction database, January 2010

The GAVI Alliance is a public-private global health partnership committed to saving children's lives and protecting people's health by increasing access to immunisation in poor countries. The Alliance brings together developing country and donor governments, the World Health Organization, UNICEF, the World Bank, the vaccine industry in both industrialised and developing countries, research and technical agencies, civil society organisations, the Bill & Melinda Gates Foundation and other private philanthropists.

GAVI ALLIANCE | 10 YEARS OF SAVING LIVES

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The G20's possible role in global food security

In order to achieve global food security, the international community should agree on a well-coordinated strategy and adopt the right instruments to stabilise food markets

By Jacques Diouf, director general, Food and Agriculture Organization

The turbulence that hit cereals markets this past August should serve as a wake-up call to the international community that it urgently needs to take concerted action to prevent or mitigate shocks that pose a serious threat to global food security.

Volatility in grains markets accompanied by food and feed price spikes are likely to become increasingly frequent in coming years unless internationally agreed measures are adopted to stabilise markets.

At least three factors combine to make such increased volatility more likely: first, the growing importance as a cereal producer of the Black Sea region, where yields fluctuate greatly from one season to the next; second, the expected increase of extreme weather events linked to climate change; and, third, the growing importance of non-commercial actors in commodities markets.

This past August, despite excellent harvests in several exporting countries and abundant world stocks, markets started fibrillating on fears of a repeat of the 2007–08 world food crisis. Objectively speaking, such fears were groundless because the underlying fundamentals of the situation were far different from three years ago. But markets do not react to facts; they react to perceptions and anticipations.

At the same time, however, there was a very real danger if governments rushed into panic buying or imposed export restrictions. Needless to say, a replay of the last food crisis would have had disastrous effects on the lives of tens of millions of the world's poorest people.

But as noted above, such tight markets and temporary price spikes are likely to become more frequent in the years to come.

The question that therefore must be considered is whether countries can continue react to such emergencies disparately and with improvised actions, and thus run the risk, every time, of seeing market turbulences escalate into a global crisis.

Or whether, as I would urge, the international community should agree on a well-coordinated strategy and adopt the appropriate instruments to stabilise food markets that are vital to global food security when shocks hit.

I strongly believe that the world must urgently equip itself with such instruments. I hope that the G20 will address this important issue at its Seoul Summit in November 2010. Indeed I lost no time last summer in warning G20 leaders of the threat building as a result of the sudden surge in wheat prices.

I hope the G20 would thus, at the earliest occasion, discuss issues such as improved regulation of markets, greater market transparency and the possible establishment of an appropriate level of emergency stocks. I also urge them to look for ways of assuring a more fluid and efficient international trade in food products.

In addition, the G20 could consider how to respond to a relatively new phenomenon in food commodity markets — the increasingly important role of financial speculators alongside traditional commercial operators.

It should be made clear that such non-commercial actors bring much-needed liquidity into the markets for food commodities. And while speculation can magnify the impact of real shocks, there is no proof that it can by itself create such shocks.

But while any idea of limiting the role of speculators would be counter-productive, more ways of tightening the regulatory framework in futures markets should be found in order to limit any adverse impacts from speculation, while at the same time enhancing the transparency of such markets.

In discussing these issues, the G20 may like to draw on the recent discussions held by the Intergovernmental Group on Grains and the Intergovernmental Group on Rice on 24 September 2010 and the renewed Committee on World Food Security during the second week of October at the headquarters of the Food and Agriculture Organization (FAO) in Rome.

Even so, beyond any immediate fixes to problems arising from shocks to commodity markets, the key to long-term food security lies in reversing the long-term decline in agricultural investment. The FAO estimates that $44 billion of official development assistance each year must be invested in developing countries' agriculture in order to eliminate hunger in the world and feed a global population that will exceed 9 billion in 2050.

In order to realise food security, the debate should go beyond simple balances of global food supplies and needs. Efforts to boost agricultural production and productivity must focus on smallholders in low-income food-deficit countries, where the majority of the hungry lives and where the bulk of future population growth will take place. About two-thirds of the world's 3 billion people live on income generated by some 500 million small farms of less than 2 hectares each. However, the agricultural productivity of small farmers is lagging due to many structural constraints. This is why there is such a need to ensure improved infrastructure and appropriate factors of production and technology for small farmers through relevant and sufficient investment.

Only by ensuring that the world's poor can grow enough food to feed themselves can food security be achieved for all, today and tomorrow. ◆

Rice sacks are loaded at a state rationing store (*bodega*) in Havana. Cuba has launched an ambitious project to ring urban areas with thousands of small farms in a bid to reverse the country's long agricultural decline and ease its chronic economic woes


CRESUD
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Securing food and agriculture worldwide

To increase food security and economic growth, governments need to make long-term investments in key sectors such as agriculture and development

By Kanayo F. Nwanze, president, International Fund for Agricultural Development

Global food security depends on a healthy global economy — and a healthy global economy depends on a healthy agriculture sector.

The roots of the recent food crisis, which was exacerbated by a global financial downturn, go back 30 years to when there was a growing perception that agriculture was unprofitable or simply not an issue.

Investment in the sector declined. In 1979, aid to agriculture was 18 per cent of total assistance. By 2008, it was just 4.36 per cent. During that same period, developing countries' domestic investment in agriculture also fell, by one-third in Africa and by as much as two-thirds in Asia and Latin America, as countries moved away from agriculture into the industrial sector.

In 2008, the situation came to a head when global food prices soared to historic levels and catapulted the number of people going hungry every day to more than 1 billion. This historic high is not a record to be proud of.

Although there are signs that the economic downturn is now slowing or even reversing, any recovery remains vulnerable to further shocks. Food prices and unemployment remain high. The outlook remains uncertain due to factors such as climate change and evolving energy and financial markets. The World Bank has urged countries not to impose policies — such as Russia's export ban on grain due to drought and wildfires — that could trigger a new spike in food prices.

If there are any lessons from the experience of the past few years, it is that trends are caused by long-term action — or, indeed, inaction.

Current forecasts estimate a 50 per cent population increase by 2050, with most growth expected in developing countries. Feeding the projected 9.1 billion people will require overall global food production to increase by 70 per cent, while production in developing countries will have to almost double.

Added to this, with the growing threat of climate change, severe water shortages are predicted to affect

Sustainable Rural Development Programme in El Quiché, Guatemala. With the right support, farming communities have the potential to feed themselves and also to contribute to wider food security

©IFAD/Santiago Albert

Working the land in Havana. Cuba is moving to reform and revitalise agriculture

between 75 million and 250 million people by 2020. Africa, where approximately 95 per cent of agriculture depends on rainfall, is particularly vulnerable.

The challenge of securing a more prosperous future for the world's poor and hungry is thus significant. But it is not insurmountable.

Without sustained investment, the agriculture sector cannot achieve its production potential. And without sufficient food production, food security quickly becomes a global problem.

So what must be done today to guarantee food security and economic prosperity tomorrow? There are four important areas for action.

First, the world must focus on agriculture through increased and sustained international and domestic investment. The Food and Agriculture Organization estimates that average annual net investment in agriculture will need to reach $83 billion a year — a 50 per cent increase — if the world is to meet its food needs by 2050. Growth in gross domestic product generated by agriculture is at least twice as effective in reducing poverty as growth in other sectors. Agriculture — spanning crop and livestock production, fishing, herding and forestry — has driven economic growth through the centuries, from 18th-century England to 19th-century Japan, to 20th-century India, to Brazil, China and Vietnam today. In rural areas, where it is the main source of jobs, agriculture can generate a significant rise in productivity and income.

Second, agricultural investment should focus on the smallholder sector — in particular young people and women. The experience of the International Fund for Agriculture and Development has shown that with the right support smallholder farmers can double or triple their production. They have the potential not only to feed themselves and their own communities, but also to contribute to wider food security beyond their national borders. And given that the majority of smallholder farmers in the developing world are women and that today's youth are in essence tomorrow's farmers, this untapped potential must be unleashed by making farming profitable.

Third, investments, both public and private, must address each link of the value chain 'from farm to fork'. In order for smallholder farmers to contribute to food security and economic growth, they need secure access to land and water. They need access to rural financial services to pay for seed, tools and fertiliser. They need roads and transportation to get their products to market, and technology to receive and share the latest market information on prices. This will require effective partnerships between the public and private sectors.

“In order for smallholder farmers to contribute to food security and economic growth, they need secure access to land and water”

However, agriculture will not be a way out of poverty for all rural people, particularly those with extremely limited access to land and markets, or none at all. Agriculture generally plays a predominant role in influencing the size and structure of the rural non-farm economy: it supplies raw materials for agroprocessing, provides a market for agricultural inputs and consumer goods and services, releases labour into other sectors and supplies and lowers the price of food to the non-farm economy.

Fourth, investments in smallholder agriculture should be strongly oriented toward environmental sustainability and increased resilience to the risks and shocks associated with resource scarcities and climate change. Higher standards of living and the degradation of land and water resources are putting pressure on food production. Poor rural people — and particularly smallholders — need support in mitigating the impact of climate shocks and in adapting to climatic variation and change. A range of possible measures for adaptation is available, including improving soil fertility and water and rangeland management and adopting new crop and livestock varieties, breeds and species.

At a time when budgets are tight, some governments may seek to cut back on investments in key sectors such as agriculture and development. This would be short-sighted. It would lead to greater world food insecurity and slower economic growth. Indeed, the world's poorest people need support now more than ever, because the financial crisis has severely affected the economies of developing countries, which have seen export revenues fall, private capital flows diminish and remittances decline.

The G8's 2009 L'Aquila Food Security Initiative proposed a concerted and coordinated international effort to improve agricultural production and productivity in developing countries. It promises to invest $22 billion over three years, focusing heavily on smallholder farmers and poor rural people whose lives and livelihoods depend on agriculture.

Given that 1 billion people, or one out of every six globally, do not have access to adequate food and nutrition today, much more needs to be done. The 'big picture' must be kept in mind, in addition to the vital immediate relief response that has been required over the last few years.

This year, world leaders at the G20 summit in Seoul should review their progress and accelerate their efforts to meet the commitments made at L'Aquila. The leaders of countries in Africa, Asia and Latin America should take the steps needed to create vibrant rural economies at home. The international community should assist those countries that are making real efforts to help themselves. ◆


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Sink or swim?

Why Seoul needs to raise water security to the forefront of the sustainable development debate

By Ella Kokotsis, G20 Research Group

The 2010 November Seoul Summit presents a key opportunity for the leaders of the G20 countries to recognise and acknowledge that water scarcity is the most fundamental, cross-cutting element of the Millennium Development Goals (MDGs). Water lies at the very core of every other international development target. With the conclusion of the 2010 World Water Week in Stockholm in September, followed by the United Nations MDG summit in New York, access to clean drinking water and sanitation is recognised as a basic precondition for improving global health, alleviating poverty and hunger, attaining gender equality and achieving environmental sustainability. With development issues now strongly secured on the Seoul agenda, the time is ripe for G20 leadership on an issue that fundamentally underpins all aspects of human welfare and economic development.

Water: by the numbers

According to statistics published during World Water Week, 47 per cent of the world's population will be living in areas of high water stress by 2030, largely in the developing world. Compounding the problem is the number of urban dwellers, which is expected to reach 60 per cent of the world's population by that time. As local ground sources are depleted or become polluted and can no longer meet the rising demand, major urban centres must increasingly rely on distant watersheds. With less than 1 per cent of the world's freshwater accessible for direct human consumption, close to a billion people currently rely on drinking water from irrigation canals, streams, ponds and dugout wells.

The demand for sustainable drinking water will continue to increase as the world's population is expected to exceed 9 billion by 2050, with urbanisation and economic growth compounding water scarcity. Yet, according to the 2009 *World Water Development Report*, every dollar invested in improving water supplies and sanitation is estimated to yield financial gains of between $4 and $12, suggesting that the right investments in water management, services and infrastructure can generate significant economic returns. Indeed, the correlation between those developing countries with access to clean water and basic sanitation and overall economic growth is becoming more apparent. Statistics released at the 2010 Stockholm conference suggest that economic growth for developing countries with access to improved water and sanitation was 3.7 per cent, compared to an annual growth rate of 0.1 per cent for those without. Clearly, the expansion of financial resources for water infrastructure, sanitation and supply is crucial in limiting the impact on the poor and most vulnerable. In Africa alone, the economic losses due to the mortality impact of inadequate clean water and basic sanitation was estimated at $28.4 billion in 2009.

Beyond Muskoka: water security and the MDGs

With maternal, newborn and child health representing the centrepiece of the Canadian-hosted Muskoka Summit in June 2010, G8 leaders successfully mobilised $7.3 billion toward their global initiative aimed at reducing maternal and child mortality, strengthening national health systems and improving access to nutrition, safe drinking water and basic sanitation. They recognised that the lack of adequate water provision and poor sanitation and hygiene accounts for 1.5 million preventable deaths annually. Yet they referred to water only once in their final declaration, noting that the Muskoka Initiative on Maternal, Newborn and Child Health includes elements such as "basic nutrition and relevant actions in the field of safe drinking water and sanitation".

What does this mean for MDG 7, which includes a target of reducing by half the proportion of people without access to safe drinking water and basic sanitation by 2015? According to the *Muskoka Accountability Report*, the latest statistics on progress in meeting these goals "provide a mixed message", with the water goal globally on track, but the world "dangerously behind in achieving the sanitation goal". One fundamental point remains. Although global initiatives, including the 2003 Evian Water Action Plan and the 2009 L'Aquila G8-African partnership on water sanitation, have increased global political awareness and facilitated significant investments in water and sanitation management, these challenges remain fundamentally local in nature, requiring political leadership at the municipal, regional and national levels. Although denounced by many in the non-governmental community for not going far enough in its assessment, the *Muskoka Accountability Report* appropriately recognises that "national governments must take the primary responsibility for ensuring their own development success by creating an enabling environment … that supports people, mobilizes local resources and maximizes the benefits of donor support". Integrated water and sanitation strategies must, therefore, be appropriately prioritised in national, regional and municipal development plans in order for donors at every level to invest in these essential objectives.

Bangladesh: the Millennium Development Goals aim to reduce the amount of people without access to safe drinking water by 50 per cent

The climate challenge: why water is key

Environmental degradation and the destruction of key natural resources, including water quality and availability,

WaterAid/ Layton Thompson

> "The lack of adequate water provision and poor sanitation and hygiene accounts for 1.5 million preventable deaths annually"

not only compromise much of the developing world's prospects for sound economic activity, but also underpin substantial population displacements, illness and death triggered by a lack of access to adequate water supplies and sanitation. The growing threat of climate change, coupled with severe global water shortages, will affect as many as 250 million people, particularly in Africa, which depends so heavily on rainfall for its agriculture.

Given that most of the world's greenhouse gas emissions are in the form of carbon dioxide resulting from fossil fuel combustion, now more than ever the focus must shift to national energy policies that reduce fossil fuel consumption and high energy costs. The progression to low-carbon economies, through renewable energy sources, can lead to growth that is less carbon intensive, more resource efficient and, ultimately, more environmentally sustainable. Robust discussion needs to continue in various international forums, including the G20, on how climate-friendly, renewable energy sources, including the maintenance or expansion of hydroelectric capacity, can be achieved in ways that protect natural ecosystems while providing emissions-free, low-cost energy solutions.

Canada and Brazil, two of the world's freshwater superpowers, have a seat at the G20 table. They are well positioned to take the development and climate debate to the next level and move international discourse on water scarcity in the right direction both at Seoul and beyond. ◆

UNLOCKING THE FULL POTENTIAL OF AFRICA'S SMALLHOLDER FARMERS

A MESSAGE TO G20 LEADERS

The fight against hunger, which today afflicts more than 1 billion people, lies at the core of our achieving a more secure and equitable world. World leaders meeting recently to review the progress of achieving the Millennium Development Goals by 2015 learned that while the proportion of people suffering from hunger is declining, it is at an unsatisfactory pace.

The situation remains most critical in Africa, the only continent that does not produce enough food to feed its population. Yet more than three-quarters of Africa's population is engaged in agriculture—the vast majority of them women— but they do so with minimal support from governments, with poor seeds and depleted soils, limited access to finance, and in the face of changing climate conditions.

African governments are awakening to the economic and social benefits of investing in agriculture. Several countries are on track to meet, or surpass, their commitment through the Comprehensive Africa Agriculture Development Program (CAADP) to invest at least 10% of their national budgets in agriculture, with the goal of achieving a 6% annual growth rate.

We now have almost unprecedented global alignment that agriculture is key to development. Governments, parliaments, foundations, research institutes, NGOs and private companies are working together as never before. But achieving food security will also require new investments by the international community. While African governments, the private sector, and donors are stepping up their commitments, an increase in overseas development assistance and foreign direct investment from G20 members is also needed to fully realize the potential of Africa's smallholder farmers. Beyond financial support, G20 nations must also address global governance issues such as structural reforms needed to better insulate the world's poorest of the poor from economic and financial shocks over which they have no control, but which impact them enormously.

AGRA is working with countries, international donors, the private sector and NGOs to spearhead the transformational changes need to fuel a sustainable green revolution across the continent. Through support to smallholder farmers across the value chain—in seeds, soils, markets and policy—the goal is to increase staple food crop production to both meet food security needs and create surpluses to export to regional, and eventually, global markets.

We're building on the work of others—proven, local solutions—to scale them up so benefits reach thousands, and eventually millions, of smallholder farmers across the continent. As a result, AGRA is a partner of choice for many international stakeholders working to enhance the economic empowerment of Africa's smallholder farmers.

AGRICULTURE IS AFRICA'S LIFELINE. IT IS THE ROADMAP FOR MOVING TENS OF MILLIONS OF AFRICANS OUT OF HUNGER AND POVERTY. JOIN US IN GROWING AFRICA'S AGRICULTURE. IT CAN BE DONE.

AGRA
Growing Africa's Agriculture

Bench to field

A new paradigm for discovering, developing and deploying new vaccines for the poor with speed and impact

By John D. Clemens, MD, director general, International Vaccine Institute Seoul, Republic of Korea

Immunisation has long been recognised as one of the most impactful and cost-effective tools for preventing death and disability in developing countries. Since its launch in 2000, the Global Alliance on Vaccines and Immunisation (GAVI) estimates that approximately 5.4 million future deaths have been averted through GAVI's provision of vaccines to infants and children in the world's poorest countries. This success has been supported by major commitment from donors and innovative financing for vaccine purchase and delivery.

Nevertheless, there is still an unacceptable toll of deaths due to diseases that could be prevented by vaccines. Every year, 24 million children, mostly in developing countries, are still not vaccinated against common but deadly diseases. With more wide-scale deployment of vaccines, many lives could be saved.

Achieving a greater impact will require more funding to purchase currently available vaccines and more robust health systems to deliver the vaccines. But acquiring more funding is only part of the answer. Also critical is scientific innovation in research that will generate new and improved vaccines of value to developing countries. And, less commonly appreciated, we need innovative approaches to research to provide the diverse clinical, epidemiological, economic and sociobehavioral evidence required for expeditious but rational introduction of new vaccines into developing countries. To be most effective, these two forms of innovative research need to be coordinated and synchronised.

In the past, the term 'vaccine innovation' was synonymous with product discovery and development, ending with product licensure. This was undertaken mostly by scientific institutes and large pharmaceutical companies in industrialised countries for their own populations. New products developed specifically for diseases that mostly affect the poor were unheard of.

The vaccine needs of developing countries were met through a process best described as 'trickle down'. Commercially attractive vaccines were developed for markets in industrialised countries. These vaccines were then sequentially adapted to and adopted into developing countries if policymakers believed that they were useful and if funding became available. This usually occurred with great delays — often decades — as prices fell slowly. And vaccine introduction was not guided by systematic, multi-disciplinary research to provide policy-relevant evidence.

The landscape of vaccine introduction has changed dramatically during the last decade. Driven by leaders in a number of G20 countries and in the philanthropic sector, most notably the Bill & Melinda Gates Foundation, political will is now coupled with real resources to tackle diseases that disproportionally affect the poor. And public-private partnership is now the norm when solving global health problems.

To capitalise on this new landscape, a new 'vaccine innovation' paradigm has emerged, championed by a handful of disease-specific, not-for-profit product development partnerships (PDPs) and more comprehensively by the International Vaccine Institute (IVI), an international vaccine research and development organisation hosted by the Republic of Korea. With 40 countries and the World Health Organization (WHO) as signatories to its charter, IVI is the only international research and development organisation exclusively devoted to developing and introducing new vaccines for people, especially children, in the world's poorest countries.

IVI's goal is accelerated development and deployment of new vaccines for the poor in developing countries. To accomplish this goal, the Institute has used an innovative strategy in which it conducts and coordinates activities all along the full continuum of vaccine discovery, vaccine development and in-country vaccine deployment — 'bench to field'. This is greatly facilitated by the Institute's in-house scientific and technical capacity in disciplines all along the continuum, as well as the Institute's multi-disease focus.

The strategy recognises the full range of activities necessary to achieve rational adoption of new vaccines by those who need them the most in a timely and appropriate manner. For the past decade, IVI has deployed this new paradigm in its work, incorporating not just product development but also a wide range of studies to better define the magnitude and distribution of specific diseases in communities and early testing of new products in 'real world', resource-poor situations. Early consultation and collaboration with policymakers, health professionals, and communities to identify and generate the information, including cost-effectiveness, are critical. Lack of such information, historically gathered after vaccine licensure, has too often led to delays of years or decades in uptake of new vaccines in poorer countries.

A tight programmatic linkage between the more upstream activities of vaccine discovery and development and the more downstream activities of research to generate evidence for policy is also an integral part of the success of these programmes. This is critical as it helps to ensure that the needs and realities of product introduction and uptake are built into the development process in order to achieve success and impact quickly. A final element of great importance is an emphasis on training and capacity building for developing country partners, a feature frequently overlooked in vaccine efforts, but crucial for enhancing the sustainability of these programmes.

IVI's 'bench-to-field' approach is well illustrated by the recent success of its programme to develop and introduce a low-cost oral cholera vaccine for developing countries. The new cholera vaccine developed by IVI, now licensed, can be used effectively in cholera-affected countries through its more simplified administration, lower cost, and higher and longer lasting protection than other currently available vaccines. Critical to the success of this programme was a public-private partnership, in which philanthropic and public sector resources from the Bill & Melinda Gates Foundation and from the governments of Korea and Sweden financed a partnership among the IVI and multiple other public and private sector institutions.

Important steps in the oral cholera vaccine's development included the reformulation and improvement in IVI's laboratories of a low-cost oral cholera vaccine

Phase III clinical trial of IVI's oral killed whole cell cholera vaccine in more than 67,000 adults and children in Kolkata, India

A child is vaccinated with the killed oral cholera vaccine

that was being used effectively in Vietnam but could not be used elsewhere since the vaccine did not conform to WHO guidelines and was not being produced with methods compatible with modern good manufacturing practices. Approximately 70,000 children and adults then participated in Phase II and Phase III clinical trials conducted collaboratively by IVI with Vietnam's National Institute of Hygiene and Epidemiology and India's National Institute of Cholera and Enteric Diseases.

To ensure that the vaccine could be made available internationally at affordable prices, IVI transferred the vaccine technology to a high-quality vaccine producer in a cholera-endemic country, India, whose regulatory authority is approved by WHO. At the outset of the programme, IVI conducted interviews with policymakers from cholera-endemic countries to assess their views on the needed characteristics of an oral cholera vaccine for use in their countries, as well as the evidence still needed in order to make rational policy decisions about cholera vaccine introduction. In order to minimise delays in vaccine introduction, concomitant with vaccine development, IVI conducted research to generate and synthesise this needed evidence. This evidence helped to inform a strengthened WHO recommendation in early 2010 on the use of oral cholera vaccines in settings with either endemic or epidemic cholera. This recommendation occurred only months after the licensure of the new oral cholera vaccine in India.

This innovative bench-to-field paradigm can serve as a model for many vaccine development efforts for the developing world. It aims to set the sight on disease control and eradication from the outset, not simply product licensing as the end point. The focus is on developing and introducing vaccines that are impactful, safe, affordable and programmatically feasible. Critical is the paradigm's comprehensive 'systems approach' that depends on and benefits from cross-discipline and 'field-lab-field' synergies. Leveraging collaborative partnerships that are essential to global vaccine efforts, this paradigm can effectively help to contribute to the innovation necessary to help realise the aspirations of the Millennium Development Goals as well as the vision of the current Decade of Vaccines. ◆

Study researchers at a cholera surveillance clinic

Reversing the chronic diseases tide

Chronic noncommunicable diseases are the leading cause of death worldwide, affecting nations' productivity and development. G20 members must address the challenge to make inexpensive interventions and treatments more readily available

By Mirta Roses Periago, director, Pan American Health Organization

As little as $0.40 per person per year could save 40 per cent of the victims of chronic noncommunicable diseases (CNCDs). Yet CNCDs are still the leading cause of death worldwide. They represent 60.3 per cent of all deaths (35 million of 58 million deaths), according to a 2005 estimate by the World Health Organization (WHO). That ratio is even higher in the Americas, where 62 per cent (3.2 million) of the 5.2 million deaths reported in 2004 were due to chronic diseases.

Low- and middle-income countries account for 80 per cent of all deaths from CNCDs, mainly cardiovascular diseases, cancer, chronic respiratory diseases and diabetes. Most of these deaths occur prematurely (under the age of 70) and therefore negatively affect productivity, the economy and overall national development.

By causing disabilities and diminishing the quality of life, CNCDs are also a heavy load for the people suffering from them and their families — a burden frequently overlooked. In addition, due to demographic, social and economic changes, as well as the transformation in epidemiological and nutrition patterns, the proportion of deaths attributable to chronic diseases will likely rise.

CNCDs are closely associated with poverty, given their catastrophic economic impact on the patients and their families, and the high burden faced by governments in addressing their care.

Fortunately, proven interventions could avert 14 million deaths over 10 years, according to the WHO. Most would be averted from cardiovascular diseases, followed by deaths from respiratory diseases and cancer.

It is time to address this priority health problem systematically on a global level. The G20 is uniquely positioned to lead this pivotal endeavour, with clear support for policy development and enforcement, institutional capacity building and the allocation of adequate resources for cost-effective health strategies.

> “By causing disabilities and diminishing the quality of life, CNCDs are a heavy load for the people suffering from them and their families”

Risk factors

The main risk factors for chronic diseases are hypertension, tobacco use, high cholesterol, overweight/obesity, physical inactivity and alcohol abuse. Of all deaths due to these risk factors, hypertension is the most important (12.8 per cent), followed by tobacco use (8.7 per cent). Evidence has shown that excessive salt consumption is the main cause of hypertension.

Most countries in the Americas fall under the middle-income category. In terms of the distribution of risk factors worldwide, in all cases the Americas have a higher percentage of attributed deaths (see Figure 1).

High blood pressure and tobacco use lead the list in the Americas, but their impact varies in terms of developed and developing countries. According to calculations by the Pan American Health Organization (PAHO), the leading risk factor in high-income countries in the Americas is tobacco use, which causes 470,000 deaths, or 17.9 per cent of all deaths, followed by hypertension (441,000 deaths, or 16.8 per cent). In middle- and low-income countries, high blood pressure claims approximately 431,000 lives, outpacing tobacco use (271,000 deaths). Obesity is an intensifying problem in the Americas: in 2010 the number of obese persons over the age of 15 will reach 289 million (39 per cent of the population), up from only 139 million (25 per cent of population) five years ago.

Proven interventions

Proven interventions to address chronic diseases are at the core of both the PAHO's Regional Strategy and Plan of Action on an Integrated Approach to the Prevention and Control of Chronic Diseases and the WHO's Action Plan for the Global Strategy for the Prevention and Control of Noncommunicable Diseases.

Population-based approaches aim to reduce risks in the general population. They focus on developing and enforcing policies, norms, standards and legislation to control tobacco, improve diet (including reducing salt and trans-fats) and address physical inactivity.

Salt reduction strategies and implementation of the four elements of the Framework Convention on Tobacco Control (FCTC) are the most cost-effective strategies. In low- and middle-income countries, 14 million lives could be saved between 2006 and 2015 by implementing a salt reduction strategy and the FCTC. The implementation costs would be less than $0.40 per person per year in low- and lower middle-income countries and $0.50-$1.00 in upper middle-income countries (in 2005 dollars).

Other population-based interventions include advocating for breastfeeding, restricting the marketing of and access to food products high in sugar and unhealthy fats, promoting alcohol control, improving maternal nutrition, increasing the availability and affordability of healthy food, encouraging regular physical activity, and providing access to effective prevention and care of CNCD risk factors.

Individual-based approaches seek to reduce the risk of disease onset and complications among those who already have the disease. Here, an approach based on risk stratification, which focuses on assessing the individual's risk in order to choose appropriate preventive interventions, is particularly suitable for settings with limited resources, where saving the greatest number of lives at the lowest cost is imperative.

Also important is disease management, which combines lifestyle changes with interventions related to pharmacology, including access to essential medicines — sometimes lacking in poor countries — and treatment compliance, since chronic diseases demand costly life-long control and care.

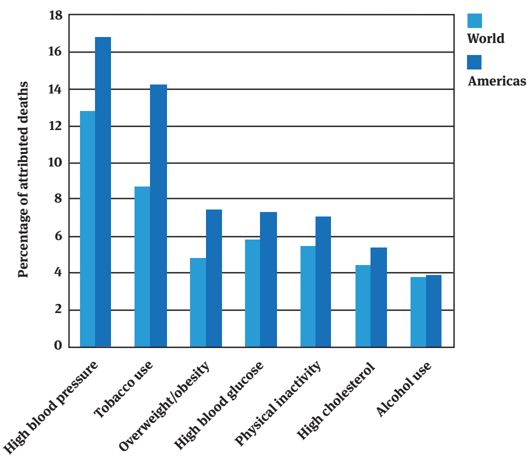
Properly functioning health systems are vital for preventing and controlling CNCDs and improving health outcomes in general. This is why PAHO and WHO intensely promote the primary healthcare strategy. To ensure specific responses within the healthcare system to chronic diseases in low- and middle-income countries, the WHO created a package for low-resource settings with proven, cost-effective interventions for the early detection of risk factors and CNCDs, their diagnoses using inexpensive technologies, pharmacological and non-pharmacological approaches for the modification of risk factors, and affordable medications for preventing and treating chronic diseases.

Rising to the challenge

Addressing the challenge of chronic diseases requires a multisectoral and multidisciplinary response from all of society, including the public and private sectors, academia, civil society, patients, professional associations and the population at large. Chronic diseases are no longer solely the problem of health ministries. They call for a 'whole of government' approach, with collaboration within government (agriculture, trade, urban development, education) and among all levels of society, as well as investments in health promotion and prevention (addressing contextual factors such as housing, employment and schooling) and in the management of leading risk factors (tobacco smoking, unhealthy diet, physical inactivity and alcohol abuse).

The Pan American Health Organization (PAHO) promotes the primary healthcare strategy. According to PAHO, the leading risk factor in high-income countries in the Americas is tobacco use, followed by hypertension

Figure 1: Chronic disease risk factors



The 2007 Regional Summit of Heads of Government of the Caribbean Community on Chronic Noncommunicable Diseases was a worldwide first in this regard. It led to the establishment of the annual Caribbean Wellness Day. Many of its recommendations are included in the climate change mitigation and 'green world' proposals, making them more attractive and easier to harmonise in order to maximise their impact.

In May 2010, the United Nations General Assembly unanimously agreed to a high-level meeting in September 2011 to discuss CNCDs as a problem affecting development and to call for action. G20 leaders at the Seoul Summit have the opportunity to set a global example, by promoting the required public-private partnerships and supporting the capacity-building efforts needed for low- and middle-income countries to implement the WHO's disease intervention guidelines. The support and cooperation of the G20 are imperative in making this issue a priority on the global political agenda. ◆

BASF uses smart initiatives to address multiple Millennium Development Goals, including poverty reduction.

From the simple to the sublime

There are times when resolving the most complex challenge starts with the simplest initiatives.

The UN Millennium Development Goals seem to pose an intractable challenge and serve as a case in point. Each goal is global in scope and complex in its own right. Yet the challenges posed by these eight goals overlap in a rippling cascade of cause and effect. Nonetheless, BASF has found that successfully addressing a linchpin issue can resolve numerous problems at once, effectively creating a reverse domino effect of positive consequences.

Consider the failing literacy program in the Jabote community in the Brazilian Amazon. For three consecutive years, malaria, which is endemic to the region, prevented children from attending class. In August 2007 alone, there were 64 registered cases of malaria in a community of 172 residents. A year later, there were only seven registered cases and, within six months, the school had achieved its literacy objectives.

The difference was a collaborative effort between a local government agency and BASF. The partnership distributed **Interceptor**® long-lasting, insecticide-treated mosquito nets (LLIN), developed by BASF, that prevented the mosquito-borne disease from afflicting children as they slept. With disease at bay, the children's attendance improved and literacy increased.

For more information, visit www.publichealth.basf.com

As a result of a collaborative public health initiative, BASF helped a community to move forward in its efforts to mitigate a devastating disease and improve primary education, a key step towards the larger but often neglected goal of poverty reduction. In effect, a single, focused initiative moved a community along the path to fulfilling four Millennium Development Goals: goal 1) Eradicate extreme poverty and hunger; goal 2) Achieve universal primary education; goal 4) Reduce child mortality and goal 6) Combat HIV/AIDS, malaria and other diseases.

BASF works hard to ensure that communities like Jabote are not alone in their efforts to improve their quality of life. Working with local leaders and global partners, BASF has established extensive insect-control programs throughout Africa, South/ Central America and Asia, seeking to eradicate malaria, dengue fever and guinea worm, diseases that are central elements in the vicious circle of poverty. As a result of such efforts, guinea worm disease is on the brink of eradication.

Adopting the right scale is critical to such success stories. In Myanmar, dengue fever afflicts both rural and urban dwellers and, like malaria, is spread by a mosquito vector. In two Myanmar townships, 2,000 Dengue Prevention Assistants and an extensive educational campaign have helped curb the disease.

Using **Abate**® larvicide from BASF and armed only with a metal teaspoon, a plastic cup and two plastic bags, the assistants have prevented literally millions of insects from proliferating. These simple tools are appropriate for the project and the locale, avoiding unnecessary logistic and technical challenges. At the same time, using the indoor residual spray **Fendona**® insecticide, the assistants have protected people in their homes by effectively controlling mosquitoes 24 hours a day for several months. The net result is fewer sick people, a workforce better able to sustain itself, healthier students prepared to learn and a brighter future.

Of course, the ultimate challenge is to ensure that the achievement of Millennium Development Goals is a sustainable achievement. Here, too, BASF is looking ahead.

Working with Professor Muhammad Yunus, Nobel Peace Prize Laureate and Managing Director of Grameen Bank, BASF established a joint venture called BASF Grameen Ltd. The goal of this social-business venture is to enable local entrepreneurs to sell public health products – initially, BASF **Interceptor** LLIN and dietary supplements. The result will be improved public health and sustainable business enterprises that foster community development and capacity, all critical pillars in the elimination of poverty.

The result will be improved public health and sustainable business enterprises that foster community development and capacity, all critical pillars in the elimination of poverty.

BASF recognizes that social responsibility is central to its own long-term growth. And, accordingly, it is committed to the principles of social responsibility. As one of the founding members of the United Nations Global Compact, BASF has been recognized by the Dow Jones Sustainability World Index for its social leadership for nine consecutive years. For BASF, these achievements are not an end in themselves, but a validation of its dedication to the UN Millennium Development Goals.

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A mother and her child wait to be attended to at a health clinic in Terekeka. The number of children dying from malaria is falling, but more needs to be done

The fight against malaria: what makes this time different?

Strong leadership, technology and influential funding campaigns all contribute to the fight against malaria

By Farah Mohamed, president, The Belinda Stronach Foundation

Malaria has been with us for centuries, and it has claimed millions of lives. At times, there have been important victories — eliminating the killer disease from the United States and Europe. There have been times when it seemed that victory was in sight in some of the hardest hit regions of the world, only to fall short.

But the good news is that this time is different. Armed with strong new leadership, exciting new technologies, unprecedented faith partnerships and historic pledges of financial resources, the world is making real, sustainable progress.

This time, a new generation of strong African leaders is rising to take on the malaria challenge. While it is true that Africa cannot conquer malaria alone, it is just as true that the killer disease cannot be defeated unless Africans lead the way. And they are.

At the 2009 United Nations General Assembly, 14 African heads of state and government joined together to rededicate themselves to the goal of ending malaria deaths by 2015.

They launched a new coalition called the African Leaders Malaria Alliance (ALMA).

Just one year later, ALMA has grown to more than 35 leaders. It has provided an invaluable forum for leaders to share ideas and best practices, and to collaborate on common challenges. In its first year of existence, ALMA has tackled important issues such as securing universal access to artemisinin-based combination therapy to prevent drug resistance; removing taxes and tariffs on essential anti-malaria products; increasing local production of high-quality, safe and effective anti-malaria interventions; and supporting the ban of mono-therapies.

> “The first ever, large-scale Phase 3 trial of a malaria vaccine is underway in seven African countries”

But it is not just strong leadership that is making the difference. More than ever before, this time public health experts are armed with effective new tools and technologies.

Just as with the struggle against killers such as smallpox and polio, scientists have laboured long and hard in pursuit of a vaccine against malaria. Researchers can now report historic progress: the first ever, large-scale Phase 3 trial of a malaria vaccine is underway in seven African countries.

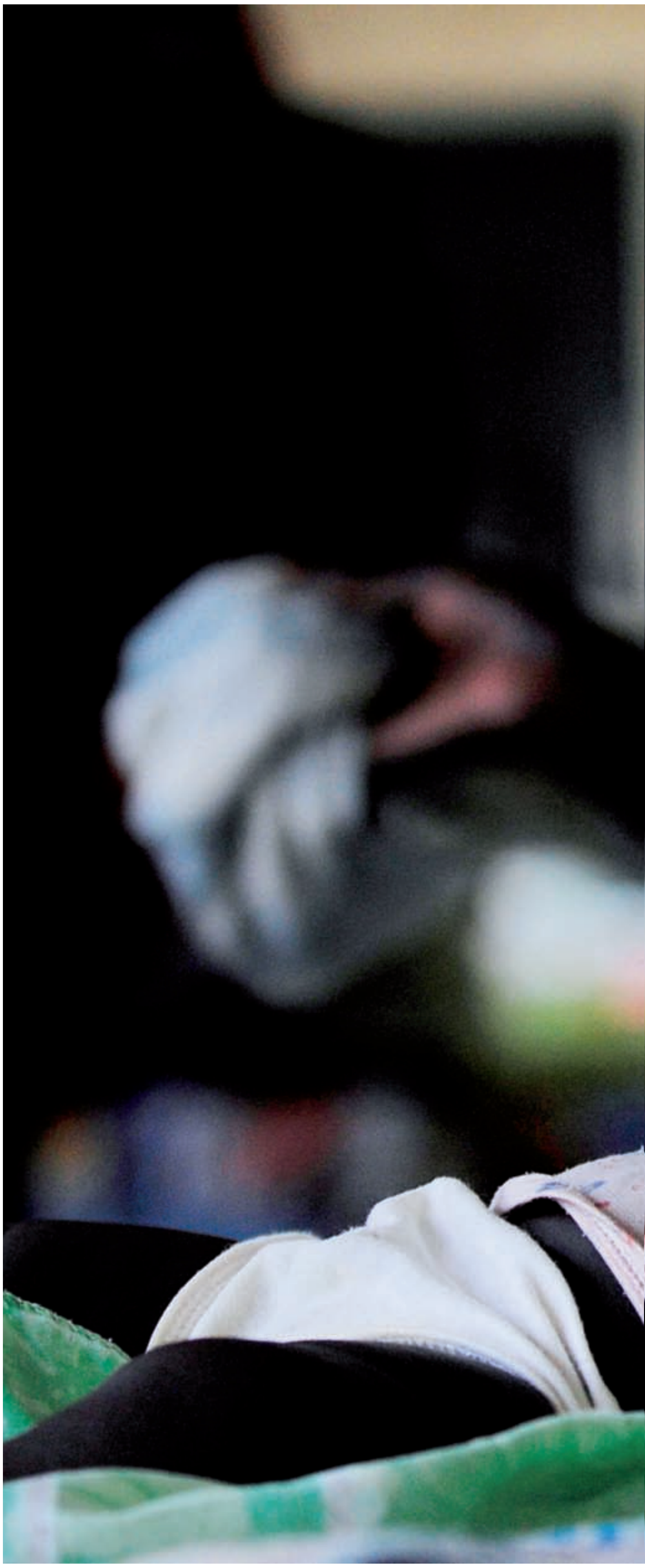
Some of the most exciting developments in the drive to end malaria deaths come not from new technology, but from new uses of existing technology and ideas. Mobile phones are already commonplace in sub-Saharan Africa. Now they are amazing logistical and analytical tools in the global health world. For example, the work of Malaria No More in Senegal — using modern public relations outreach — has successfully developed a ‘Surround Sound’ programme, using mobile technologies including SMS campaigns and Twitter to engage celebrities, politicians and the public as powerful tools to spread the malaria message and educate the people of Senegal.

Of course, the leadership needed to defeat malaria does not come only from governments or celebrities; it also comes from communities of faith. Nowhere in the world are faith networks more important or more influential than in Africa. Faith institutions — Christian and Muslim, in particular — are able to reach towns and villages that often seem cut off because of limited infrastructure. The messages that faith leaders express often carry more weight with believers than anything that health or political officials can say. The belief in the power of faith is the basis for the work of organisations such as the Tony Blair Faith Foundation, which are breaking down barriers by encouraging all people of faith to work within their own communities but also in collaboration with other faiths to address the Millennium Development Goals, starting with the one related to malaria.

> “Leadership needed to defeat malaria does not come only from governments or celebrities; it also comes from communities of faith”

The concept of faith-based collaboration is working. Faith communities are engaged like never before in the effort against malaria. For example, in early 2009, top Muslim and Christian leaders in Nigeria created an interfaith organisation that brought together networks of religious leaders to combat poverty and disease. They have mobilised thousands of faith leaders and their followers in pursuit of defeating malaria.

As important as technology and leadership are to the success of eradicating malaria, financial resources are key. Funding gaps clearly remain, but this time is different because the financial tools to defeat malaria are within reach.



In 2002, world leaders created the Global Fund to Fight AIDS, Tuberculosis and Malaria. The Global Fund now funds two-thirds of the world’s malaria projects. It has provided treatment for some 140 million cases of malaria and supported the indoor residual spraying of more than 24.7 million African homes.

Funding is not just important at the highest levels. It is crucial at the grassroots level. The Spread the Net

campaign to encourage Canadians, young Canadians in particular, to donate $10 toward the purchase and distribution of life-saving anti-malarial bed nets has proven to be an incredible success, resulting in enough funds raised to provide 250,000 nets each to Liberia and Rwanda.

The world has come a long way in this battle. More families have access to lifesaving tools, including anti-malarial bed nets, than ever before. As a result, malaria incidence and child mortality rates are falling.

But more funding is needed to keep the momentum going. So much progress has been made, but without robust new funding the gains that have been made might be lost. It is time for the G20 leaders to use their leverage and breadth to address development, which has long since been the domain of the G8.

More funding is needed for all the support and equipment required to treat and prevent malaria

History tells us that we cannot rest in status quo — that if we do, we could fall short once again. With new tools, new leaders and renewed efforts, there are no excuses. While the achievability of the 2015 goal to end all malaria deaths is in question, we can end malaria deaths in Africa. This time is different. ◆

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Novartis is the leading pharmaceutical partner in the fight against malaria, and has provided more than 360 million treatments without profit to the public sector in malaria-endemic countries since 2001. Novartis is committed to supporting educational initiatives for healthcare workers and their communities, and also hosts biannual Best Practice Sharing Workshops in Africa for National Malaria Control Programme managers.

"Facilitating the exchange of experience between NMCP Heads is essential."

Participant at the 8th Novartis-sponsored NMCP Best Practice Sharing Workshop, Rwanda, 2010

Ahead of a call from WHO for child-friendly medicines, Novartis, working in partnership with Medicines for Malaria Venture (MMV), developed an antimalarial formulation specifically for infants and young children.

"The dispersible formulation is easy to administer, gives compliance and effective treatment; and hence facilitates adoption in malaria control programmes."

Abdulla S, *et al. Lancet* 2008; 372: 1819–1827

Novartis Malaria Initiatives wins two prestigious awards

The 2010 World Business and Development Award

On September 21, 2010 Novartis was awarded the biennial World Business and Development Award (WBDA). This award is provided by the International Chamber of Commerce (ICC), the United Nations Development Program (UNDP) and the International Business Leaders Forum (IBLF).[1]

The biennial World Business and Development Awards acknowledge the contribution of the private sector to help achieve the Millennium Development Goals (MDGs) through their core business.

2010 World Business and Development Awards

The 2010 Prix Galien USA Award for Best Pharmaceutical Product

On September 28, 2010 Novartis was awarded the 2010 Prix Galien USA Award in the category of "Best Pharmaceutical Product" for its malaria treatment, Coartem® (*artemether/lumefantrine*) Tablets.[2]

The Prix Galien USA award is considered to be the industry's highest accolade for pharmaceutical research and development, and is often considered to be comparable to the Nobel Prize of the pharmaceutical industry.

PRIX GALIEN INTERNATIONAL PRIX GALIEN USA NEW YORK 2010

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Making malaria history: how the G20 can help

Malaria continues to be a health challenge across the globe, with women and children most affected. If malaria is to be defeated, further progress in both prevention and vaccination is crucial

By Jenilee Guebert, director of research, G20 Research Group and Global Health Diplomacy Program

"There is much to be done on ensuring that the more difficult drug-resistant malaria parasites and insecticide-resistant mosquitoes do not proliferate"

Malaria remains one of the world's biggest health challenges. Approximately 250 million cases are still diagnosed and more than 880,000 deaths occur ever year. These come mostly in Africa, but families in Asia, the Middle East and Latin America continue to suffer as well. Women and children are affected the most, and 85 per cent of deaths occur in children under five. Progress on malaria is crucial if the health-related Millennium Development Goals (MDGs) 4, of reducing child mortality, 5, of improving maternal health, and 6, of combating HIV/AIDS, malaria and other diseases, will be met by their 2015 deadline.

At the recent United Nations MDG summit, in September 2010, progress was identified and new resources were mobilised for malaria. UN secretary general Ban Ki-moon acknowledged that the international community was "on course to achieve universal mosquito-net coverage for 700 million people in sub-Saharan Africa" by the end of 2010, and that prevention and treatment had been successfully ramped up on malaria initiatives in recent years.

UN Photo/Evan Schneider

UN secretary general Ban Ki-moon (left) encourages the use of mosquito nets, a key malaria preventer, at Mwandama Millennium Village, Malawi

At the summit, countries also pledged more than $40 billion in resources for women and children's health over the next five years. Part of this money will help prevent women and children from contracting malaria and treating those who already have it. Behind the UN lies the Global Fund to Fight AIDS, Tuberculosis and Malaria, for which on 4-5 October just under $11.7 billion was pledged between 2011 and 2013. While this is the most money ever promised to the fund, it is less than the minimum requirement of $13 billion, and much less than the $20 billion that is needed for full success.

There is thus still much to be done if the ultimate goal of eradicating malaria is ever to be achieved. Estimates suggest that $4.2 billion is needed each year to fight malaria. The money from the recent UN Summit — which will help support a variety of maternal, newborn and child health initiatives — and the new money pledged to the Global Fund — which is for HIV/AIDS, tuberculosis as well as malaria — will not be enough.

There is also much to be done on developing a malaria vaccine and ensuring that the much more difficult drug-resistant malaria parasites and insecticide-resistant mosquitoes do not proliferate and stifle the progress that has been made. A reverse in recent advances could easily result if efforts are not maintained and improved.

In the past, the G8 has done much to combat malaria. It has repeatedly committed to tackling the disease. Starting in 1998, the leaders supported the Roll Back Malaria initiative. They pioneered the establishment of the Global Fund in 2001, and repeatedly committed funds for malaria research, prevention, treatment and control. They promised to try to reach the Abuja target to halve the burden of the disease by 2010. They also focused their efforts on providing bed nets, treatment and care and on improving collaboration in Africa to fight and limit the burden of the disease. However, at their most recent summit, leaders turned their attention to the related, but distinct, maternal, newborn and child health initiative. And while malaria mostly affects women and children, there have nonetheless not been enough resources dedicated to dealing effectively with the issue.

> "The G20 could help make malaria history by dedicating resources and support"

This is where the G20 could step in to help tackle the challenge. Indeed, in some ways it makes more sense for this broader, more global group of countries to help. Eleven G20 members still have cases of malaria reported in their countries. Since the G20 leaders started meeting in Washington DC in 2008, they have repeatedly stated their support for achieving the MDGs. They have also committed to expanding their development agenda at the Seoul Summit in November.

The G20 could help make malaria history by dedicating resources and support. It could also help the G8 by improving global and domestic health outcomes, showing that members are serious about achieving the MDGs and highlighting to the international community that they are serious about improving development, not only in their own countries, but for the broader global community as a whole. ◆

Maternal, newborn and child health: why the G20 needs to act now

Child and maternal health is always on the G8 agenda, but as the MDGs deadline approaches, it is clear that much more needs to be done

Many children suffered from diarrhoea — a primary contributor to child and newborn deaths — as a result of the recent flood in Pakistan

By James Orbinski, co-director, and Jenilee Guebert, director of research, Global Health Diplomacy Program, Munk School of Global Affairs

Since the G20 leaders first met in Washington DC in November 2008, they have formally reaffirmed many times the importance of meeting their international development commitments. At their latest summit in Toronto, the leaders once again committed to "meeting the Millennium Development Goals [MDGs] by 2015". However, despite repeated public commitments, no concrete actions have been taken.

The recent global financial crisis has hampered progress on the MDGs. Advances in health, nutrition, education and economic growth goals in developing countries have been stifled. Despite all the attention and focus that have been placed on advanced and emerging economies, it is those who have the least who have continued to suffer the most. While previously unimaginable billion and trillion dollar economic stimulus packages have been assembled, bonuses for bankers debated and paid, and offshore tax havens scrutinised, millions have suffered and died because they lack access to basic necessities such as clean water, sanitation, food, education and health care.

The MDGs — agreed to in 2000 — are the lowest common denominator of globally agreed goals rooted in and driven by social justice and equity. Six of the eight MDGs are on track to fail to meet their 2015 target date. At the pace of current funding, they will not be achieved until 2050.

Of all the MDGs, goal 4 to reduce child mortality and goal 5 to improve maternal health are furthest off track. While important improvements have been made in both areas, an astonishing 9 million children — about 70 per cent of whom are younger than one year old — and 350,000 mothers still die every year from largely preventable causes. Pneumonia and diarrhoea contribute to more child and newborn deaths than any other disease. Under-nutrition leads to more than one-third of all child deaths. Most maternal deaths occur during childbirth, the leading cause of which is postpartum haemorrhaging.

Much work needs to be done if the MDGs — particularly goals 4 and 5 — are to be met by 2015. The rate of progress needs to double on goal 5 alone. Improvements in financial, policy and service delivery are required. Health systems and delivery need to be strengthened. The number of health workers needs to increase. The prevention and treatment of infectious disease need to be ramped up. Evidence-based health policies need to be implemented. Better nutrition is necessary. Clean water must be available. Education needs to improve. And although many of the solutions are relatively cheap, funding needs to increase.

> Healthy children participate in the development of a country

Improving maternal, newborn and child health and achieving the MDGs are important for social and moral reasons, and are critical for economic improvement. As Norway's prime minister Jens Stoltenberg — a champion in the fight to improve global health — put it: "Healthy children participate in the development of a country and parents spend less time on nursing sick and dying children and more on creating income."

The G20 is a global governor — a group of the most powerful leaders in the world who cooperate and coordinate in concert on policies, actions and responses to address matters that transcend borders. It was created, first at the finance ministers' level in 1999, "as a new mechanism for informal dialogue… to promote cooperation to achieve stable and sustainable world growth that benefits all". As a global governor, the G20 needs to govern development if it is to achieve the stable and sustainable growth it desires. In India and China — members of the G20 — child deaths remain among the highest in the world. Only if the G20 commits to providing better outcomes for all — including the billions of people whom the MDGs are intended to benefit — will the world become a safe, sustainable place where economic growth can flourish. Only when the needs of the weakest and vulnerable are met are sustainability and stability possible.

At its latest summit in Toronto, the G20 had an opportunity to take decisive action on this matter. With the establishment of the G8 Muskoka Initiative on Maternal, Newborn and Child Health the day before — despite not being as robust as it could or should have been — and the United Nations summit on the MDGs in September, the time was ripe for the G20 to step up and take decisive actions on the development agenda. However, disappointingly, once again it did not.

When the G20 leaders meet again in Seoul in November, the G20 will have an opportunity once again to take concerted action on development and its critical health component. As one of the non-G8 countries to endorse and help fund the Muskoka Initiative in June, a country that recently transformed itself from a developing to an emerging one, as host of the upcoming summit and with development already highlighted as a key priority of their G20 agenda, the Republic of Korea is well positioned to champion a plan to improve maternal, newborn and child health. Such action would show that the G20 is truly committed to development and to producing better outcomes for the benefit of all. ◆

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Producing the Seoul Summit

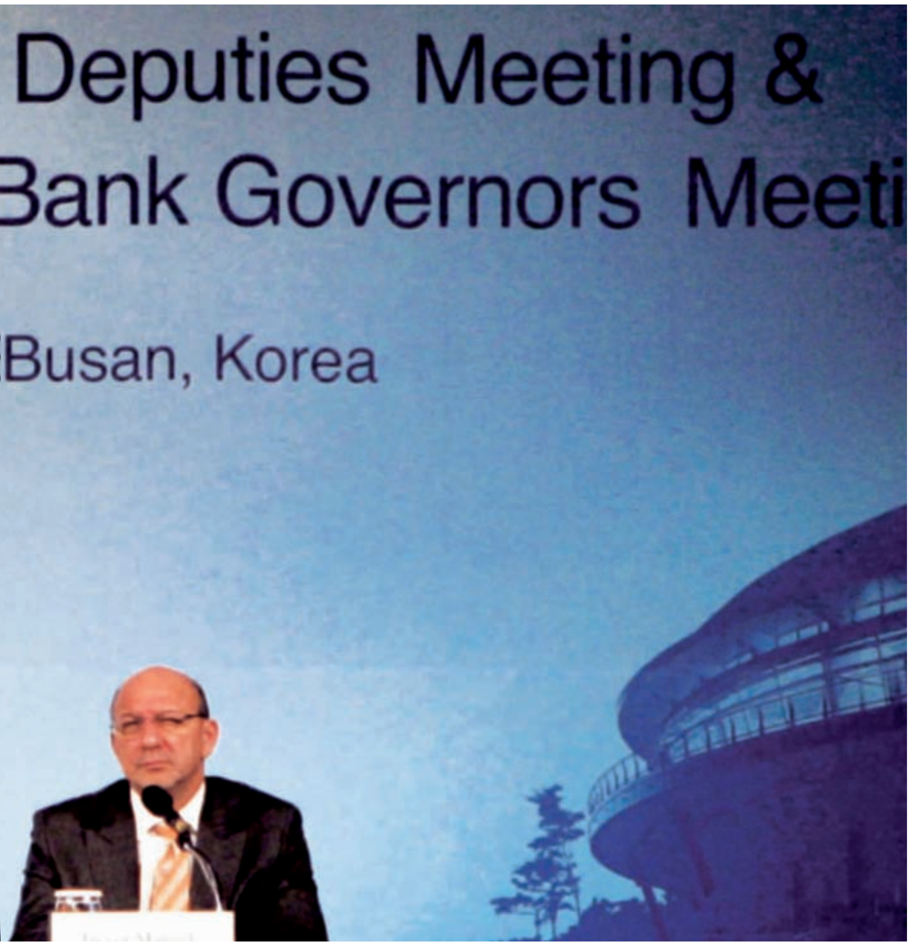
The Presidential Committee for the G20 Seoul Summit has been working tirelessly to host a summit that builds on the success of previous summits and a forum that delivers on its commitments

By SaKong Il, chair, Presidential Committee for the G20 Summit, Republic of Korea

It is a great privilege for Korea to host and chair the forthcoming G20 summit, the premier forum for international economic cooperation. Korea is obliged to have the G20 continue its momentum by making the Seoul Summit another success. So the Korean government has put the highest priority on the preparation of the Seoul Summit. It established the Presidential Committee for the G20 Summit, expanding Korea's existing G20 Coordinating Committee in the office of the president. The committee consists of cabinet members, including the ministers responsible for finance, foreign affairs, public administration and security, trade, and culture and tourism, as well as the mayor of Seoul, senior secretaries to the president and prominent representatives of the private sector. Its secretariat deals with the preparation of the agenda, logistical support and public relations. It has been working with the motto: 'shared growth beyond crisis'. An administrative innovation in G20 preparations, the committee indicates the Korean government's strong commitment to make the Seoul Summit another success.

The Seoul agenda can be broken into two parts. The first is the follow-through on the commitments made at the four previous summits. The second consists of new items initiated by Korea.

For follow-up, there are four areas, beginning with macroeconomic coordination for implementing the Framework for Strong, Sustainable and Balanced Growth.



> With regard to development, Korea's initiative is more growth-oriented development, rather than an aid-centred, project-based approach

The G20 is currently engaged in the second stage of the mutual assessment process to come up with specific policy recommendations for individual countries. Another follow-up is reform of the international financial institutions, especially the 5 per cent shift in the quotas at the International Monetary Fund (IMF). Financial sector reform is the third area. The Basel Committee on Banking Supervision recently announced a new capital framework that will be delivered to the Seoul Summit. There are other issues to be discussed at the Seoul Summit and mandated to France, which will chair next year, such as systemically important financial institutions. The fourth follow-up issue regards trade, energy subsidies, anti-corruption and so forth. These agenda items should be implemented in a given framework as the G20 leaders promised.

The G20 has so far successfully differentiated itself from other similar global forums by delivering on its commitments and producing concrete implementable policy options. However, sceptics predict that complacency will set in as the sense of urgency starts to recede. So Korea is making every effort to prove that such worries are unwarranted. Specifically, Korea will make sure that these agenda items will be properly followed up on. The importance of the IMF quota adjustment is particularly significant in this regard, since it involves a specific target number and a due date by when it must be completed for the integrity of the G20 process. The general public will judge the G20 by looking at its most easily understood promise.

Korea also proposed agenda items that primarily reflect the concerns and policy priorities of emerging and developing countries for the legitimacy and credibility of the G20 as a steering committee for global financial and economic affairs, albeit an informal one. Although the G20 produces more than 85 per cent of the world's gross domestic product and two-thirds of the global population live in those G20 countries, there are 173 members of the United Nations that do not belong to the G20. They are mostly developing and emerging countries. It is thus appropriate for the G20 to pay due attention to these countries, especially as, until now, the G20 has focused primarily on the advanced economies where the current crisis originated.

With regard to development, Korea's initiative is more growth-oriented development, rather than an aid-centred, project-based approach. The development framework will have eight pillars, including infrastructure, private investment and job creation, human resources development, financial inclusion and trade. A multi-year action plan is being prepared for each pillar for the leaders' consideration in Seoul.

The global financial safety net is not only a concern of the small, open economies of the emerging world, but is also an important element to help rebalance global macroeconomics. Already, the first stage of strengthening the global financial safety net was announced by the IMF in cooperation with Korea. In addition, the establishment of the Global Stabilization Mechanism and its link to regional financial arrangements should be implemented and reported to the Seoul Summit.

Korea also proposes an additional process for the G20, which is primarily an intergovernmental forum. It is organising a business summit, to which around 120 top global business leaders from G20 and non-G20 countries have been invited. Several issue areas have been identified, including trade and investment, green growth, finance and corporate social responsibility. Each of these areas has been broken down into three sub-groups, so the business leaders choose among 12 sub-groups in which to participate. Under the leadership of each sub-group's convener, the participants will produce a preliminary report to the finance ministers and sherpas, so that their views and suggestions can be considered. In fact, these sub-groups are already in the process of preparing their report. Since the business summit will meet on 11 November, when the G20 leaders will begin their meeting with a working dinner, some of the leaders will be able to participate in the business summit roundtables.

This business summit is a process and not a one-off event. It is hoped that it will become a new addition to the G20 summit process. Fortunately, France will likely continue it, which will help institutionalise the business summit as an integral part of the G20.

In this deeply integrated world, close international economic policy coordination is ever more important, simply because no single country or region can enjoy sustainable growth independently. Therefore, the role of the G20 as the premier forum for international economic cooperation is critically important. With the Seoul Summit's success, the G20 should seriously consider its institutionalisation, for example, by establishing a secretariat. ◆

The political-security context for the Seoul Summit

Managing the Korean Peninsula effectively and peacefully is a delicate task. Multilateral cooperation is key

By Lee Dong-hwi, Institute of Foreign Affairs and National Security, Ministry of Foreign Affairs and Trade, Republic of Korea

The global environment of the 21st century is marked by a sea change. Global, regional and state-level dynamics are closely intertwined as a result of the very factors that ended the Cold War, notably the powerful driving forces of globalisation, the information age and democratisation. Such changes can be broken down into three characteristics: first, diversification, which values non-military factors, particularly economic issues, just as much as traditional military security; second, multipolarisation, or the decentralisation of power in international politics, as the role of many major states has become important; and third, multilateralisation, a governance method whereby various actors tackle wide-ranging issues in concert. In addition to monitoring these enormous changes taking place at the global level, Korea must also keep a close eye on developments in Northeast Asia, which is home to, or is in the sphere of activity of, some of the world's great powers, including the United States, Japan, China and Russia. It faces foreign policy challenges on two other fronts: coping with North Korean change, which is inevitable, and seizing the historic opportunity for the unification of the Korean Peninsula.

The situation on the Korean Peninsula over the past six decades has consistently been one of a 'constant status quo'. This will gradually metamorphose into a 'changing status quo', however, due to an external factor — changes in neighbouring countries' strategies as dynamics shift in the global security environment — and an internal factor — the inevitability of overall change in North Korea. Viewed from the perspective of responding to changes in the international environment, a changing status quo will open up a window of opportunity for overcoming the unique situation of the Korean Peninsula's division. Korea should thus take advantage of the positive opportunities resulting from changes in the international environment to map out and implement its foreign policy in a way that minimises the country's weaknesses and maximises its strengths. This requires transforming the keynote of its standing foreign policy from a policy of managing the division, which seeks to manage the ongoing divided state of the Korean Peninsula peacefully and stably, to a policy of managing the unification process, which will aim at managing the unification process proactively and in a forward-looking manner.

> Korea will need to reach beyond the Korean Peninsula to expand the targets of cooperation to regional and global levels

Several preconditions exist for such a change in Korea's foreign policy. First, the country's diplomatic sphere must be enlarged. Korea would direct due attention to military security issues, as well as economic security affairs, by building a network of economic cooperation that allows for strengthening financial cooperation aimed at overcoming economic crises and promoting green growth.

Second, the extension of diplomatic objects will be required. Specifically, Korea will need to devise a grand national strategy for the 21st century that includes giving a more concrete shape to the strategic alliance between Korea and the United States and addresses Korea's ties with neighbouring countries, such as China. Within that framework, Korea will need to reach beyond the Korean Peninsula to expand the targets of cooperation to regional and global levels.

Third, Korea needs to regard the expansion of diplomatic capacity as one of the key factors for change in its foreign policy. In short, Korea will need to strengthen its diplomacy in order to build the system of complex multilateral networks required for smoothly advancing a peaceful unification process, as exemplified by the German reunification case.

A step toward a constructive transformation of 21st-century Korean diplomacy is Seoul's diplomatic efforts toward multilateral cooperation, epitomised by the G20 at present. These endeavours will open up new horizons for Korea's diplomacy for three reasons: they deal with non-military issues, such as global economic issues, beyond the framework of the Korean Peninsula, and they create a crucial turning point for reinforcing multilateral cooperation.

Multilateral cooperation provides an opportunity for Korea to surmount the structural vulnerabilities of international diplomacy while responding to the changes in the 21st-century international political and economic environment. Furthermore, it is all the more significant because of the unique security environment of the Korean Peninsula. Since multilateral cooperation will clearly play a pivotal role in managing the process of the inevitable integration of the Korean Peninsula, bolstering multilateral cooperation provides Korea with a kind of insurance policy.

Strengthened multilateral cooperation would have multifaceted effects on Korea's foreign affairs and national

> Multilateral cooperation provides an opportunity for Korea to surmount the structural vulnerabilities of international diplomacy

North Korean leader Kim Jong-il with his youngest son, Kim Jong-un: strengthening multilateral cooperation would help bring North Korea into the international community

security for many reasons. First, Korean-American cooperation in developing a mechanism for multilateral cooperation will be key to modernising the alliance between the two countries in the 21st century.

Second, Korea can reinforce its position with regard to Northeast Asian or East Asian regional cooperation, a subject of animated discussions among Korea, China and Japan, in a move toward multilateralism similar to the G20 process.

Third, by stepping up efforts toward multilateral cooperation, Seoul can play an active role in the international community's joint responses to new security threats, which have been on the rise since the onset of the 21st century.

Fourth, multilateral cooperation would help Seoul skirt the limitations of its bilateral relationship with Pyongyang (in short, political sensitivities between the two countries) and incorporate North Korea into the international community.

Fifth, multilateral cooperation would serve as a useful diplomatic channel through which to cement international support for unification, which will be critical in the course of a unification process.

Finally, Seoul can win international cooperation, which will be crucial for the indispensable post-unification reconstruction of North Korea.

The G8 and G20 summit talks in Canada in June suggested that these two forums will coexist over the short to medium term by sharing responsibilities. However, the diffusion of economic power, which accounted for the birth of the G20, will ultimately trigger changes in the political power realm. In this vein, if the G20 advances as planned, it might even take on the G8's security role in the medium to long term. In that case, the G20, equipped with proper instruments such as a meeting of G20 foreign ministers, would be able to handle not only human security issues at the global level, but also the Korean Peninsula question in Northeast Asia more effectively. ◆

The faces of China's leadership

Although China's 'neighbourhood relations' have demonstrated a new assertiveness, there remains much room for China in collective leadership at the G20 level

By Alan S. Alexandroff, director, Online Research, Munk School of Global Affairs, University of Toronto, and co-director, G20 Research Group

Recent events and near-crises in Asia have exposed several distinct faces of Chinese leadership. This variety of Chinese behaviour is confusing to many and raises questions about China's global stance. Is this a newly emergent assertive China bolstered by a rapid return to economic growth while the United States and other developed economies are barely growing? Have China's regional calculations — whether relations with North Korea, the Republic of Korea and most especially Japan — been materially altered by nationalist energies in the wider Chinese public? Is China now determined to constrain more openly the influence of the United States in the region?

This behaviour has left experts slightly bewildered. Has China altered its stance on bilateral relations as well as its approach to regional ones? Moreover, has China refashioned its multilateral approach? If it has, what does this mean for global governance and most particularly the informal but critical 'high table' of global economic leadership — the G20?

There are currently two competing models of global governance leadership. One is a better known and more traditionally diplomatic arrangement. It reflects a hard-nosed realist approach common and well understood in Washington, Beijing and elsewhere. This model of multilateral leadership relies on great power rivalry and competition — balancing and bandwagoning — where national interests are primary and tough incremental concessions dominate the fashioning of international policy.

The second model is far more collaborative. It relies on great powers reflecting some convergence on several basic values that gives these powers the glue to conclude agreements that rely principally on national interest but expand to incorporate broader 'public good' concerns. This more collaborative — more "concert-like" — leadership architecture has been in evidence only occasionally in international relations. But the capacity to overcome the collective action problem — achieving, in other words, multilateral agreements for the international system — and fashion great power solutions is a product of such a great power configuration. Have China's actions altered today's assessment of which global governance architecture is more likely to operate in the years ahead?

> China can still bring greater collective leadership to global governance… China and other G20 countries are tightly bound together

Digging in

The strong assertive character of China's policy was most recently displayed following the tensions generated by the collision of a Chinese fishing trawler with two Japanese coastguard vessels in the contested Diaoyu islands (the Japanese refer to these islands as Senkaku). Both Japan and China have claimed these uninhabited islands since the 1970s. Rather than the pattern of the past, where Japan had chased such fishing boats away, the Japanese took the Chinese captain, the trawler and the 14-member crew into custody and handed the captain over to Japanese prosecutors. The Chinese response was strong and insistent. China cut off ministerial-level talks with Japan, cancelled highly visible people-to-people contact, most particularly the visit to the Shanghai Expo by several thousand Japanese students, and apparently blocked the export of rare earth minerals vital to Japan's auto and electronics industries and then later detained Japanese construction workers in Hebei.

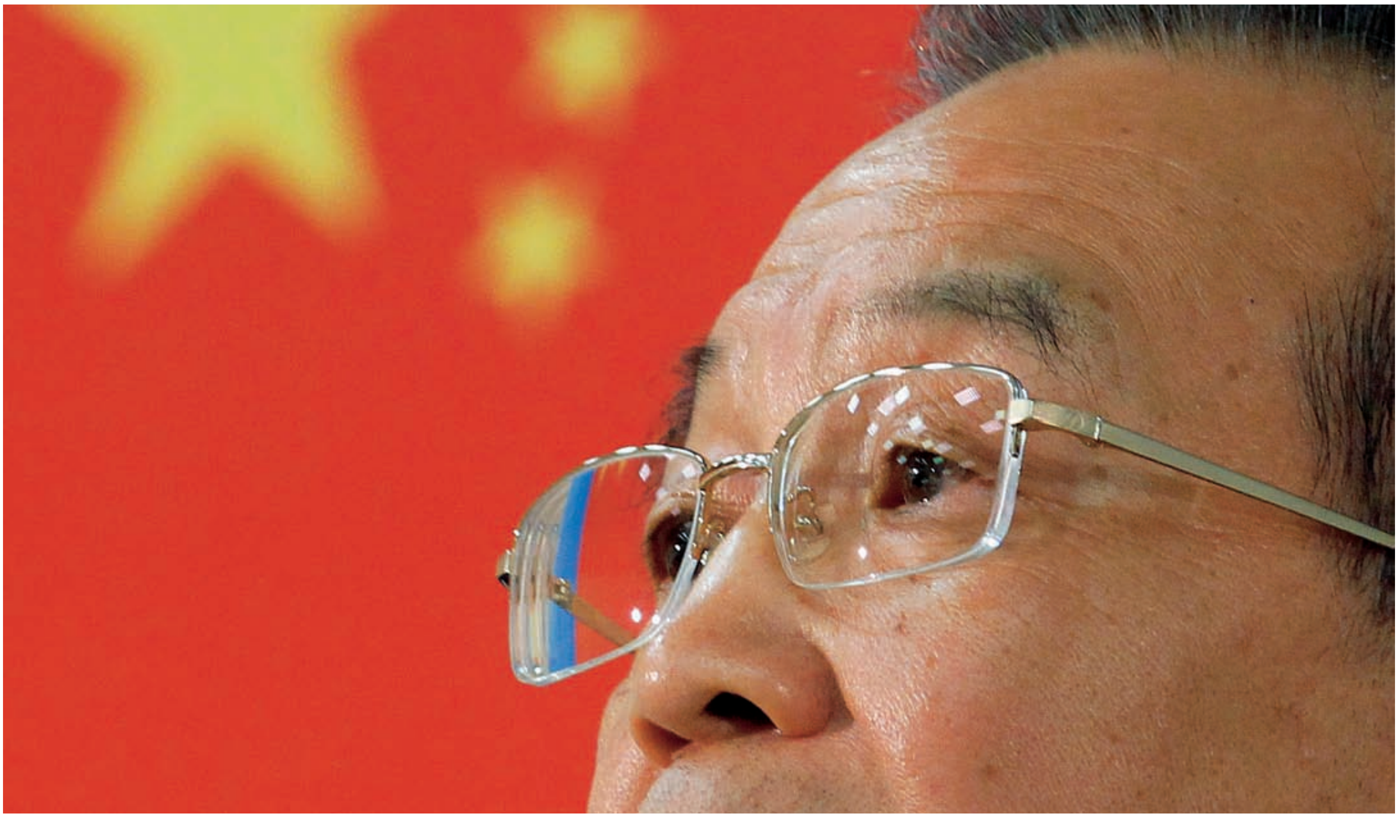
Chinese statements from officials were uncompromising. Premier Wen Jiabao used strong language, declaring the Japanese "solely responsible" and the Japanese actions as causing "severe damage". At the United Nations General Assembly in New York, he declared, "If Japan clings to its mistake, China will take further actions and the Japanese side shall bear all the consequences that arise". The premier refused to meet with Japanese prime minister Naoto Kan in New York and declared the islands to be "China's sacred territory". Repeated Japanese statements calling on the two countries to resolve the matter through diplomacy went unanswered.

In the face of these rising tensions — diplomatic and economic — the Japanese backed away. The prosecutors ended their investigation and released the Chinese captain, although they made it clear that their decision was being taken for diplomatic reasons.

In another bilateral and regional matter, China is caught in an awkward position between its long-time ally North Korea and its growing economic partnership with the Republic of Korea. The Chinese have been unwilling to accept Korea's findings that North Korea torpedoed the Republic of Korea's naval vessel *Cheonan* with the loss of 46 lives. China is concerned over succession in North Korea and the possibility that the collapse of the regime could lead to serious refugee flows and even the extension of the Republic of Korea, along with the United States, up to China's border.

China has been unwilling to back strong UN sanctions in the Security Council. In addition, China has expressed strong concern over the exercises planned by the Republic of Korea and the United States for the Yellow or the East China Sea as a demonstration against North Korean behaviour. Chinese officials indicated that any military exercises in the Yellow Sea would be taken as threatening to Beijing. Partly in an effort to reduce the tensions, the US deployed the aircraft carrier the USS *George Washington* in the Sea of Japan and further from China's coast. But the potential for further friction remains.

Tensions have also arisen between the United States and China over recent Chinese assertions of sovereignty concerning the South China Sea. It has remained an area



China's Premier Wen Jiabao attends the 6th EU-China Business Summit in Brussels

of contention between China and several Southeast Asian countries (Vietnam, Brunei, Malaysia, Indonesia and the Philippines), as well as the United States. The issues include the question of the freedom of shipping — the 3.3 million square kilometre sea carries significant percentage of the world's maritime trade each year — and the interest of all countries in the region in exploring for gas and other minerals. In March 2010 China's assistant minister of foreign affairs Cui Tiankai told two visiting US officials that the South China Sea was a "core interest" of China, thus diplomatically putting it on par with Tibet and Taiwan. Secretary of State Hillary Clinton delivered the US response at ASEAN's annual security conference in July, signalling that the US favoured multilateral resolution of disputes through a code of conduct in the region. Chinese foreign minister Yang Jiechi rebuffed Clinton's proposal asserting that such an approach would only make matters worse.

China and global governance leadership

A strange spectrum of China's leadership behaviour has been expressed in the last year. There is evidently a new assertiveness in China's 'neighbourhood' relations. In its relationship with the United States, China as an 'outside but also inside' regional actor has become more testy as it has reasserted its claim to sovereignty over the waters. China's forceful statement that disputes in the area are not multilateral but bilateral reflects earlier approaches to regional policy that seemed to exclude the United States and raise concerns by Asian neighbours over possible Chinese primacy in the region.

Meanwhile, China has exhibited little assertiveness in global governance. At the Toronto Summit in June 2010, President Hu Jintao issued a formal statement entitled 'Work in Unity for the Future'. The statement consisted principally of hortatory statements to the other G20 leaders to act together — for instance Hu's declaration that leaders should "continue to work in a spirit of unity and win-win progress". The statement contains a description of how China has aided others — bilaterally — but there are no proposals for how it might seize leadership in the global economy and among the G20 leaders.

So China has shown a new assertiveness in the regional context and with Asian partners, but continues to exhibit a non-assertive stance in global governance. And in the global currency debate — especially with the United States — China has deflected exhortations — even by the US president — to allow greater flexibility of the renminbi. Although China's officials have suggested that greater flexibility is at hand, little in the way of action has occurred. The renminbi has appreciated only about 2 per cent since Chinese officials issued these statements. As a result there has been growing pressure from the US Congress on the US administration to act against what is seen by American politicians to be a manipulation of the renminbi to advantage China's exports and take jobs away from Americans.

On the positive side China can still bring greater collective leadership to global governance. There remains much room for China in collective leadership at the G20 level and principally — for now — in fashioning the global economy. China and other G20 countries are tightly bound together. The large emerging market countries — China, India and Brazil — have been far more resilient than the developed economies and have returned to growth following the global financial crisis. But at the edge of global financial disaster in 2008, all major powers knew they were facing the same bleak outcome. This interdependence sets a bedrock for a possible concert-like leadership. Such a structure is not beyond reach; but neither is it guaranteed.

China's recent bilateral and regional assertiveness combined with deflection and inaction on currency issues have sharpened its relations with many major powers. If these current frictions were to harden and infect the global governance context, it would diminish the prospects for greater leadership collaboration and for a more concert-like leadership, including on global financial challenges. Rivalry and competition would also threaten the prospects for meeting the two great existential challenges in global governance — climate change and the suppression of nuclear proliferation. ◆

The new dynamic of summitry

The cultural diversity of the G20 provides an in-depth understanding of economic and institutional models and processes across continents, enhancing the summit's aim of promoting a global future that is more stable and more representative

By Colin Bradford, non-resident senior fellow, Brookings Institution, and senior fellow, The Centre for International Governance Innovation

The most distinguishing feature of G20 summitry is the diversity of the countries that comprise it. That diversity is at once both its major challenge and its most important asset.

The G20 is a focal point of an historic cultural encounter at the leaders' level between East and West, between North and South, and between Islam and the rest of the world.

The G8 consists of six trans-Atlantic countries from Europe and North America along with Russia and Japan. By contrast, the G20 has six Asian countries, instead of the G8's one, and three Islamic countries, instead of none in the G8 or in the G8 Plus Five (Brazil, China, India, Mexico and South Africa), an intermediate group of countries that has met as part of the G8 in recent years. The G20 adds ten emerging market economies from Africa, Asia, the Mediterranean Middle East and Latin America to the G8, in addition to Australia and the European Union.

As a result, since the G20 leaders began meeting in November 2008 to deal with the economic and financial crisis, the cultural content and representation at summits have shifted significantly. For the first time, the world is witnessing — and leaders at the highest level are experiencing — encounters of cultures from vastly different worlds in an experiment in global strategic leadership. The Seoul Summit will be the fifth leaders'-level G20 summit in the last two years.

This shift in the summit grouping, the regularity of its meetings and their importance create new demands on the abilities of leaders and their governments. The broader cultural diversity of the G20 requires better communications, clearer understandings, stronger capacities to grasp and deal with differences in meaning, style and substantive positions that are broader and deeper than ever before at the apex of the international system. G20 summits present to the world an exciting new opportunity to forge a flexible, feasible and workable forum for global leadership based on the cultural diversity of its members and the global reach and inclusion that diversity represents.

This new opportunity comes at a moment of economic crisis that itself has strong cultural dimensions. Cultural differences generate differences among countries in their institutional arrangements, which, in turn, lead to differences among countries in economic relations between private markets and public agencies, between banks and businesses, between labour unions and firms, and between the invisible hand of markets and the visible hand of public responsibility. Different cultures breed different economic models, processes and patterns; not uniform, universal and homogenous modalities.

The recent economic crisis has caused a seismic shift in the global debate on the role of the state and the market in economic life. The Anglo-Saxon model of "free markets, free trade and free enterprise" trumpeted by Ronald Reagan in the 1980s, which has dominated the international debate since then, has now been thrown into question. How can democratic leaders now herald unfettered free market capitalism as the servant of efficiency and socially optimal outcomes when hands-off market fundamentalism has generated job losses, mortgage defaults, declines in pension values and increased global poverty affecting billions of ordinary citizens everywhere?

The diversity of economic models based on institutional and cultural differences has become visible in the wake of this economic crisis. Some countries have stronger institutions than others for oversight, supervision and regulation of financial institutions and markets. Some countries have stronger social programmes that act as automatic stabilisers that are triggered in economic downturns, relieving pressures on the unemployed and reviving levels of aggregate demand. Some countries have stronger relationships among government, businesses and banks in terms of longer-term strategic interests and investments for future growth and trade.

All these differences — buried for the last 25 years in ideological debates about the state versus the market, protectionism versus free trade, and globalisation versus internal dynamics of growth — now surface as assets. There is now a new global search for combinations of market forces and public responsibility and new forms of international cooperation that can chart steadier pathways to financial stability and economic growth, avoiding the boom-bust cycles of the last 40 years. The cultural diversity embodied in the G20 provides the basis for new pathways for institutional reform, economic policies and global cooperation.

The mistaken view in the West that drove the ideological economic debate in recent decades has been that cultural encounters lead either to emulation or to clashes of civilisations. Both views are flawed. The patterns of cultural encounters of non-Western countries with the West have been ones in which leading artists have been stimulated by external influences to generate artistic innovations that have deepened internal cultural dynamism and greater differentiation of distinctive forms of modernism, rather than either imitating Western forms of modernism or rebelling against them by refusing to be influenced by them. The pattern of cultural

Leaders from around the world, including President Barack Obama, Prime Minister Stephen Harper, President Lee Myung-bak and President Dmitry Medvedev, pose for the G20 summit 'family photo' at the Metro Toronto Convention Centre, Canada

encounter in art has been one of selective borrowing, not one of replication or rejection.

In truth, despite the dichotomous debate in economics in recent decades, governments and countries have also been engaged in selective borrowing of economic policies, practices and institutional arrangements rather than seeking to adopt or reject economic models wholesale from abroad.

The seismic shift now underway is that the clear examples of market failure coupled with the failure of leaders to take public responsibility for market outcomes open up new opportunities for listening, learning, exchanging best practices and engaging in selective borrowing. This moment is one of seeking new institutional arrangements to establish stronger domestic mechanisms for public accountability for economic outcomes in major economies as the basis for a stronger international system of arrangements, understandings, norms and mechanisms to provide greater protection of the public interest in both financial stability and growth.

This is the new agenda for the G20 summit and for the diverse group of countries that comprise it. The cultural diversity of G20 countries constitutes a rich palette from which to paint a new picture of the global future that is safer, more stable, more realistic and more representative than has been possible with the partial embrace of cultural diversity of the G8.

> "The cultural diversity embodied in the G20 grouping provides the basis for new pathways for institutional reform"

The cultural diversity of G20 countries is the new dynamic of summitry. It is its most significant asset because it has economic and institutional meaning in addition to its intrinsic cultural significance. ◆

G20 accountability: monitoring and delivering

The Seoul Summit offers the G20 an opportunity to establish an accountability working group, which could include individuals from both inside and outside the group

By Jenilee Guebert, G20 Research Group, and Marina Larionova, State University Higher School of Economics

Since November 2008, G20 leaders have been meeting to discuss and act on matters of global urgency, with economic and financial matters taking centre stage. At their four summits, hundreds of commitments have been made, including refraining from raising new trade barriers, cracking down on tax havens, reforming voice and vote at the International Monetary Fund and World Bank, implementing higher and better quality capital requirements for banks, phasing out fossil fuel subsidies, cancelling debt in Haiti and stepping up efforts to reach the Millennium Development Goals. On the eve of the fifth summit in Seoul, it is important to ask what the G20 has done to take stock of the delivery of its growing number of promises.

Certain commitments have been delivered swiftly and transparently. The G20 quickly delivered on its pledge to expand the Financial Stability Forum into the Financial Stability Board following the London Summit in April 2009. Most other pledges, however, such as the G20's repeated anti-protectionist pledge, its commitment to pursue a green recovery and its promise to make labour markets fairer, require more transparent and detailed monitoring.

G20 leaders know how important accountability is. In March 2010, the leaders of the United States, United Kingdom, Canada, Korea and France (the past and current chairs of the G20) issued a letter emphasising their responsibility in this regard. In it, the leaders stated that "now is the time for the leaders of the G20 both to recommit themselves and deliver on the ambitious reform objectives and agenda we have already agreed to and to explore cooperative approaches to meeting our common goals. We all know that an agreement to act is just a start.

> "For the G20 to live up to its claim of being the premier forum for its members' international economic cooperation, accountability is crucial"

It is acting on the agreement that matters. We are all accountable." However, despite this letter and the claim of its host that accountability would be a "defining feature" of their Toronto Summit, the G20 has made no real advances to adequately and transparently monitor its performance.

Efforts have been made by the G20 to report on accountability, including the progress reports released by the Korean and British chairs and statements contained within summit documents. But they have been weak at best. They have been much too general and have excluded critical components, such as detailed, supportive evidence, country-specific information and quantitative reporting.

Assessments asked for by the G20 and delivered by multilateral organisations slightly removed from the G20 process, such as the World Bank, World Trade Organization (WTO), the Organisation for Economic Co-operation and Development (OECD) and the International Energy Agency, have been better. The joint reports prepared by the OECD, WTO and the United Nations Conference on Trade and Development on the G20's anti-protectionist commitments have provided detailed and transparent information on members' compliance. However, improvements could be made to further improve the detail, clarity and credibility of these reports.

Beyond these official efforts, non-governmental organisations and academic centres have also taken stock of a variety of G20 commitments, including those in the areas of trade, development, climate change, clean energy and domestic financial regulation. These reports have provided useful and transparent outsider assessments. But they have lacked the detailed 'insider information' required to provide a complete and accurate accountability assessment.

So has the G20 actually delivered? By examining the limited, piece-meal monitoring that has taken place, it appears that the G20 leaders have delivered on their pledges — at least to some degree. But while efforts have been made to move forward on implementation, most pledges have not been met by all members. G8 members have done better than non-G8 members. There is thus much room for improvement, both in the members' compliance and in the monitoring thereof.

For the G20 to live up to its claim of being the premier forum for its members' international economic cooperation, accountability is crucial. Better monitoring and delivery of promises are required. If regulators, investors, accountants, consumers, producers and traders cannot easily see if the G20 has fulfilled its commitments, not only will the credibility and success of the group come into question, but members could also miss out on potential market gains.

At the Seoul Summit, the G20 would be wise to establish an accountability working group. It should include individuals from both inside and outside the G20, to systematically and regularly monitor progress — or lack there of — on its commitments. Including individuals from inside the G20 will help ensure that there is a detailed understanding of the process and a proper interpretation of pledges. Including individuals from outside the G20 will help to ensure that reporting is transparent — including both positive and negative information; user friendly — ensuring it is easy to read and understand; and delivered in an effective manner — clearly available and useful to all interested stakeholders. Beyond the benefits already highlighted, this open and transparent accountability mechanism could also help to improve members' compliance, for fear of being publicly shamed if they do not deliver.

The summit in Seoul provides the G20 with an opportunity to improve its accountability

The summit in Seoul provides the G20 with an opportunity to improve its accountability — both in terms of delivery and monitoring. The leaders have already openly committed to accountability. Will they finally deliver in Seoul or fall short once again? ◆

ARGENTINA

Cristina Fernández de Kirchner

Cristina Fernández de Kirchner became president of Argentina in December 2007 after winning the general election in October. She replaced her husband, Néstor Kirchner, who had been president since May 2003. She is Argentina's second female president, but the first to be elected. Prior to her current position, she was a senator for the provinces of Buenos Aires and Santa Cruz. She was first elected to the Senate in 1995, and in 1997 to the Chamber of Deputies. In 2001 she won a seat in the Senate again. Born on 19 February 1954 in La Plata, Buenos Aires, Kirchner studied law at the National University of La Plata. She and her husband have two children. This will be Kirchner's fifth G20 summit.

Finance minister: Amado Boudou
Central bank governor: Mercedes Marcó del Pont
Sherpa: Alfredo Chiaradia

AUSTRALIA

Julia Gillard

Julia Gillard became prime minister of Australia on 24 June 2010, replacing Kevin Rudd, who had held the position since 2007. Before entering into politics, Gillard worked as a lawyer. From 1996 to 1998, she served as chief of staff to Victorian opposition leader John Brumby. Gillard was first elected as a member of the House of Representatives in 1998. She has served in various positions including shadow minister for population and immigration, shadow minister for health and deputy leader of the opposition. From 2007 to 2010, Gillard served as deputy prime minister. She was born in Barry, Vale of Glamorgan, Wales, on 29 September 1961 and emigrated to Australia in 1966. She earned a bachelor of arts and bachelor of law in 1986 from the University of Melbourne. She lives with her partner, Tim Mathieson. This will be the first G20 summit that she has attended.

Finance minister: Wayne Swan
Central bank governor: Glenn Stevens
Sherpa: Gordon De Brouwer

BRAZIL

Luiz Inácio Lula da Silva

Luiz Inácio Lula da Silva first assumed the office of the president in January 2003, after being elected in October 2002. He was re-elected in October 2006, extending his term until January 2011. Lula first ran for office in 1982 in the state of São Paulo and in 1986 was elected to congress. He did not run for re-election in 1990. Instead, he became more involved in the Workers' Party, where he continued to run for the office of president. Lula was born in Caetés, Pernambuco, on 27 October 1945. He received no formal education and began working in a copper pressing factory at the age of 14. He became heavily involved in the workers unions at a young age. He is married to Marisa Letícia and has five children. Lula did not attend the Toronto Summit in June 2010. This will be Lula's fourth summit.

Finance minister: Guido Mantega
Central bank governor: Henrique de Campos Meirelles
Sherpa: Pedro Luiz Carneiro de Mendonça

CANADA

Stephen Harper

Stephen Harper was elected prime minister of Canada in January 2006, assuming office from Paul Martin in February with a minority government. Harper ran for re-election in October 2008 and returned to the House of Commons with a stronger minority. Before running for politics he served as a policy adviser for the Reform Party. Harper was first elected as a member of Parliament in 1993. He served as leader of the opposition for several years before becoming prime minister. Harper was born in Toronto, Ontario, on 30 April 1959. He studied at the University of Toronto and the University of Calgary, earning his master's degree in economics in 1991. He and his wife, Laureen Harper, have two children. This will be the fifth G20 summit that he has attended.

Finance minister: James Flaherty
Central bank governor: Mark Carney
Sherpa: Louis Lévesque

CHINA

Hu Jintao

Hu Jintao has been president of the People's Republic of China since March 2003. He replaced Jiang Zemin, who had held the position since 1989. Hu also serves as general secretary of the Communist Party of China's (CPC) Central Committee and chair of the Central Military Commission. Before entering politics he worked as an engineer. He joined the CPC in April 1964 and began working with the party in 1968. In 1992, he was elected to the Standing Committee of the Political Bureau of the CPC Central Committee and was re-elected in 1997. He became vice-president of China in March 1998 and vice-chair of the Central Military Commission in 1999. In 2002, Hu was elected general secretary of the CPC Central Committee. Born in Jiangyan, Jiangsu, on 21 December 1942, he received his engineering degree from Tsinghua University in 1965. He is married to Lui Yongqing and they have two children. This will be the fifth G20 summit that Hu has attended.

Finance minister: Xie Xuren
Central bank governor: Zhou Xiaochuan
Sherpa: Tiankai Cui

FRANCE

Nicolas Sarkozy

Nicolas Sarkozy became president of France in May 2007, taking over from Jacques Chirac, who had held the position since 1995. Sarkozy worked as a lawyer while he pursued politics. From 1983 to 2002, he was mayor of Neuilly-sur-Seine. He has been president of the Union pour un Mouvement Populaire since 2004. During his time in parliament he has held a number of cabinet portfolios including minister of state of the economy, finance and industry, minister of the budget and minister of the interior. Sarkozy was born in Paris on 28 January 1955 and received his law degree from the Université de Paris in 1978. He is married to Carla Bruni and has three children from two previous marriages. This will be the fifth G20 summit that Sarkozy has attended. He is scheduled to host the next G20 summit in November 2011.

Finance minister: Christine Lagarde
Central bank governor: Christian Noyer
Sherpa: Xavier Musca

GERMANY

Angela Merkel

Angela Merkel became chancellor of Germany in November 2005, replacing Gerhard Schröder, who had been in power since 1998. Before entering politics she worked as a researcher and physicist. She was first elected to the Bundestag in 1990 and has held the cabinet portfolios for women and youth, environment, nature conservation and nuclear safety. She was born in Hamburg on 17 July 1956 and received her doctorate in physics from the University of Leipzig in 1978. She is married to Joachim Sauer and has no children. This will be the fifth G20 summit that Merkel has attended.

Finance minister: Wolfgang Schäuble
Central bank governor: Axel Weber
Sherpa: Jens Weidmann

INDIA

Manmohan Singh

Manmohan Singh became prime minister of India in May 2004, replacing Atal Bihari Vajpayee, who held the position from 1998 to 2004 and also for a short period in 1996. Singh was re-elected in May 2009. Before entering into politics, he worked as an economist, including for the International Monetary Fund. He was governor of the Reserve Bank of India from 1982 to 1985. Singh was first elected to the upper house in 1995. He was re-elected in 2001 and 2007 and has held cabinet positions including minister of finance and minister for external affairs. Singh also served as minister of finance from November 2008 to January 2009. He was born in Gah, Punjab (now known as Chakwal district, Pakistan), on 26 September 1932. He received his bachelor's and master's degrees from Punjab University in 1952 and 1954. He also received an additional undergraduate degree from Cambridge University in 1957 and a doctorate from Oxford University in 1962. He and his wife, Gursharan Kaur, have three children. This will be Singh's fifth G20 summit.

Finance minister: Pranab Mukherjee
Central bank governor: Duvvuri Subbarao
Sherpa: Montek Singh Ahluwalia

INDONESIA

Susilo Bambang Yudhoyono

Susilo Bambang Yudhoyono assumed the presidency in October 2004, replacing the incumbent Megawato Sukarnoputri. He was re-elected for a second term in July 2009. Before entering politics, he served as a lecturer and a military general. His first experience in politics came when he was appointed minister of mines and energy in 1999. Yudhoyono later served as coordinating minister for politics and security. He was born on 9 September 1949 in Pacitan, East Java. He received his doctorate in agricultural economics from the Bogor Institute of Agriculture in 2004. He and his wife, Kristiani Herawati, have two children. This will be Yudhoyono's fifth G20 summit.

Finance minister: Sri Mulyani Indrawati
Central bank governor: Darmin Nasution
Sherpa: Mahendra Siregar

ITALY

Silvio Berlusconi

Silvio Berlusconi became prime minister of Italy for the third time after winning the April 2008 election. Before entering politics, he started his career as a building contractor. In 1980, he established Canale 5, the first private national television network in Italy. He also became a leading Italian publisher with Mondadori. In 1994 he resigned from Gruppo Fininvest in order to establish the political movement Forza Italia. In the same year, he became president of the Council of Ministers for the first time. In June 2001 Berlusconi became prime minister again, an office he held until 2006. Born in Milan on 29 September 1936, he received his law degree from the University of Milan. He is married to Veronica Lario and has five children. This will be the fifth G20 summit that Berlusconi has attended.

Finance minister: Giulio Tremonti
Central bank governor: Mario Draghi
Sherpa: Bruno Archi

JAPAN — *Naoto Kan*

Naoto Kan became prime minister of Japan on 8 June 2010, replacing Yukio Hatoyama, who had held the position since September 2009. Kan was first elected to the House of Representatives in 1980. He has served as minister of health and welfare, minister of state for science and technology, deputy prime minister and minister of finance. Kan was born in Ube City, Yamaguichi Prefecture on 10 October 1946. He graduated from the Tokyo Institute of Technology in 1970 and opened a patent office in 1974. Kan is married and has two children. This will be the second G20 summit that Kan has attended.

Finance minister: Yoshihiko Noda
Central bank governor: Masaaki Shirakawa
Sherpa: Yoichi Otabe

KOREA — *Lee Myung-bak*

Lee Myung-bak became president on 25 February 2008, replacing Roh Moo-hyun, who had occupied the position since 2003. Lee joined the Hyundai Construction Company in 1965 and eventually became chief executive officer of the Hyundai Group before being elected to the Korean National Assembly in 1992. In 2002 he was elected mayor of Seoul, a position he held until 2006. He was born in Kirano, Osaka, Japan, on 19 December 1941. He received a degree in business administration from Korea University in 1965. Lee and his wife, Kim Yun-ok, have four children. This will be his fifth G20 summit and the first he has hosted independently.

Finance minister: Yoon Jeung-hyun
Central bank governor: Jim Choongsoo
Sherpa: Rhee Changyong

MEXICO — *Felipe Calderón Hinojosa*

Felipe Calderón Hinojosa became president of Mexico in December 2006, replacing Vicente Fox, who had held the position since 2000. In his early twenties Calderón was president of the youth movement of the National Action Party. He later served as a local representative in the legislative assembly in the federal chamber of deputies. In 1995 he ran for governor of Michaocán. He served as secretary of energy from 2003 to 2004. Born in Morelia, Michoacán, on 18 August 1962, Calderón received his bachelor's degree in law from Escuela Libre de Derecho in Mexico City. He later received a master's degree in economics from the Instituto Tecnológico Autónomo de México, as well as a master's degree in public administration from Harvard University. He and his wife, Margarita Zavala, have three children. This will be Calderón's fifth G20 summit.

Finance minister: Ernesto J. Cordero
Central bank governor: Agustín Carstens
Sherpa: Maria de Lourdes Aranda

RUSSIA — *Dmitry Medvedev*

Dmitry Medvedev became president of Russia on 7 May 2008, after winning the presidential election in March and replacing Vladimir Putin, whose term in office had expired. Before entering politics, Medvedev worked as a legal expert and lawyer. He was officially endorsed as a presidential candidate in December 2007, by Russia's largest political party, United Russia. Medvedev served as deputy prime minister from 2005 to 2008. He was born in Leningrad (now St. Petersburg) on 14 September 1965 and earned a degree in law in 1987 and a doctorate in private law in 1990 from Leningrad State University. He is married to Svetlana Medvedeva and they have one child. This will be the fifth G20 summit that Medvedev has attended.

Finance minister: Alexei Leonidovich Kudrin
Central bank governor: Sergey Ignatiev
Sherpa: Arkady Dvorkovich

SAUDI ARABIA — *Abdullah bin Abdul Aziz Al Saud*

King Abdullah bin Abdul Aziz Al Saud has been in power since August 2005. He replaced Fahd bin Abdul Aziz Al Saud, who had reigned since June 1982. As crown prince since 1987, Abdullah had previously acted as de facto regent and thus ruler since 1 January 1996, after Fahd was debilitated by a stroke. He was formally enthroned on 3 August 2005. He also serves as prime minister of Saudi Arabia and commander of the National Guard. Abdullah is chair of the supreme economic council, president of the High Council for Petroleum and Minerals, president of the King Abdulaziz Centre for National Dialogue, chair of the Council of Civil Service and head of the Military Service Council. He was born 1 August 1924 in Riyadh and has a number of wives and children. This will be the fifth G20 summit Abdullah has attended.

Finance minister: Ibrahim Abulaziz Al-Assaf
Central bank governor: Muhammad Al-Jasser
Sherpa: Hamad Al Bazai

SOUTH AFRICA

Jacob Zuma

Jacob Zuma became president of South Africa on 9 May 2009, succeeding Petrus Kgalema Motlanthe, who had held the position since September 2008. Zuma joined the African National Congress (ANC) in 1958 and joined the ANC's National Executive in 1977. In 1994, he was elected National Chair of the ANC and chair of the ANC in KwaZulu-Natal. He was re-elected to the latter position in 1996 and selected as the deputy president in December 1997. Zuma was appointed executive deputy president of South Africa in 1999 and held that position until 2005. He was elected ANC president at the end of 2007. Born on 12 April 1949, in Inkandla, KwaZulu-Natal Province, he has received numerous honorary degrees. He has three wives and several children. This will be Zuma's third G20 summit.

Finance minister: Pravin Jamnadas Gordhan
Central bank governor: Gill Marcus
Sherpa: Sipho George Nene

TURKEY

Recep Tayyip Erdoğan

Recep Tayyip Erdoğan became prime minister of Turkey in March 2003, replacing Abdullah Gül, who had occupied the office since 2002. Before becoming prime minister, Erdoğan was mayor of Istanbul from 1994 to 1998. He was born on 26 February 1954 in Rize, Turkey, and studied management at Marmar University's faculty of economics and administrative sciences. He is married to Emine Erdoğan and has two children. This will be the fifth G20 summit Erdoğan has attended.

Finance minister: Mehmet Şimşek
Central bank governor: Durmuş Yılmaz
Sherpa: Hakkı Akil

UNITED KINGDOM

David Cameron

David Cameron became prime minister of the United Kingdom of Great Britain and Northern Ireland on 11 May 2010. He was first elected to parliament in 2001 as representative for Witney. Before becoming a politician he worked for the Conservative Research Department and served as a political strategist and adviser to the Conservative Party. He has served as the leader of the Conservative Party since December 2005. Born in London, England, on October 9, 1966, Cameron received his bachelor's degree in philosophy, politics and economics at the University of Oxford. He is married to Samantha Sheffield and has two children. This will be Cameron's second G20 summit.

Finance minister: George Osborne
Central bank governor: Mervyn King
Sherpa: Jonathan Cunliffe

UNITED STATES OF AMERICA

Barack Obama

Barack Obama became president of the United States on 20 January 2009, replacing George W Bush, who had held the presidency since 2002. In 2005 Obama was elected to the Senate, having previously worked as a community organiser, a civil rights lawyer and a state legislator for Illinois. He was born on 4 August 1961 in Honolulu, Hawaii, to a Kenyan father and American mother. He received his bachelor's degree from Columbia University in 1983 and a law degree from Harvard University in 1991. Obama is married to Michelle Obama and they have two children. This will be the fourth G20 summit that Obama has attended.

Finance minister: Timothy Geithner
Central bank governor: Ben Bernanke
Sherpa: Michael Froman

EUROPEAN UNION

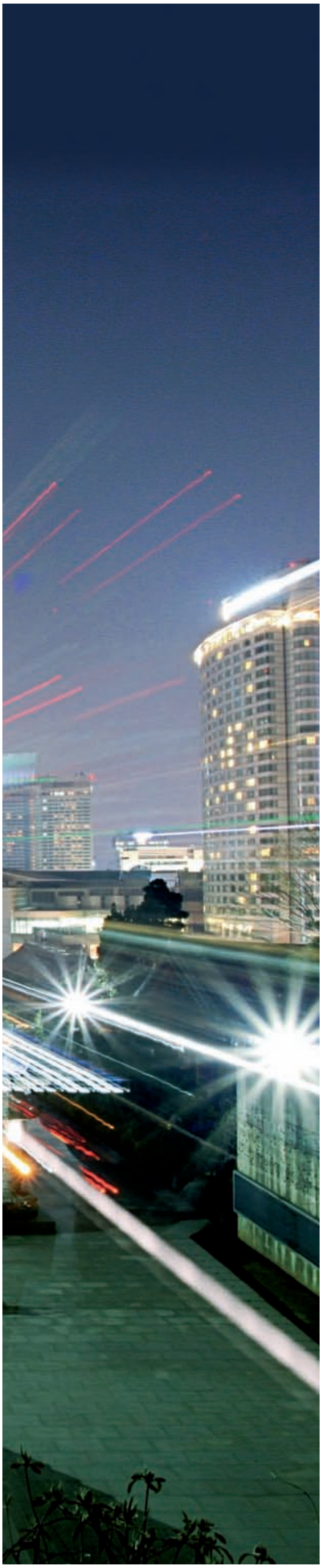
Herman Van Rompuy

Herman Van Rompuy was elected the first full-time president of the European Council on 19 November 2010. He was previously prime minister of Belgium from 2008 to 2009. Before entering politics, Rompuy was a lecturer. Born in Etterbeek, Belgium, on 31 October 1947, he holds a bachelor's in philosophy and a master's degree in applied economics from Katholieke Universiteit Leuven. He is married to Geertrui Windels and has four children. This will be the second G20 summit Van Rompuy has attended.

José Manuel Barroso

José Manuel Barroso became president of the European Commission in November 2004. Previously, he was prime minister of Portugal from 2002 to 2004. Before entering politics Barroso was an academic. He studied law at the University of Lisbon, holds a master's degree in economics and social sciences from the University of Geneva and received his doctorate from Georgetown University in 1998. He is married to Maria Margarida Pinto Ribeiro de Sousa Uva and has three children. This is Barroso's fifth G20 summit.

Finance minister: Didier Reynders
Central bank governor: Jean-Claude Trichet
Sherpa: António Cabral



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G8 Research Group
Munk School of Global Affairs, 1 Devonshire Place, Room 209N, Toronto, Ontario M5S 3K7 Canada
Telephone 416-946-8953 • Fax 416-936-8957 • E-mail g8@utoronto.ca
www.g8.utoronto.ca


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