



G20 MONITOR

New considerations for China's 2016 G20 Presidency

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OVERVIEW

TRISTRAM SAINSBURY¹

It is now close to the halfway point in China's 2016 G20 Presidency, and this issue of the G20 Monitor discusses several additional considerations for China as it pursues a vision of an innovative, invigorated, interconnected, and inclusive world economy.

In light of the challenges governments are facing in pursuing growth objectives and structural reforms, and the lack of consensus on how best to stimulate demand, the pressure remains on the Chinese G20 Presidency to lead by example. **David Dollar** suggests that China can set a positive example by opening up at least some important parts of its economy. Dollar highlights that if such change is linked to the global agenda, it can also help China in articulating its goals of an innovative, invigorated, interconnected, and inclusive world economy. Such domestic reform would inject new dynamism and innovation into sectors that are largely dominated by state enterprises and that are likely to be important growth centres in the new Chinese growth model; and would reaffirm an open trading and investment system at a time of difficult global growth and rising voices of protectionism around the world.

Nicolas Véron reviews the achievements and challenges of the G20's financial regulatory agenda. Financial regulation was very prominent in the initial stages of the G20 as a leaders' forum, and this early emphasis saw significant successes. Over time, however, the success gradually gave way to a sense of disillusionment as the delivery of consistent outcomes was not sustained and the divergence among key jurisdictions became increasingly noticeable. Véron argues that the shortcomings are largely structural in nature, and that the G20 should identify and acknowledge the gaps in the institutional architecture during the Chinese Presidency in 2016 and the German 2017 G20 Presidency.

Hannah Wurf cautions that the G20 should consider closely the way that it approaches target-setting. Poorly defined and measured targets with unclear burden-sharing responsibilities perpetuate uncertainty about the effectiveness and credibility of the G20. Wurf scrutinises three current, high-profile targets: the much-publicised ambition to lift G20 GDP by 2 per cent by 2018, the goal to reduce the gap in participation rates between men and women in G20 countries by 25 per cent by 2025, and the commitment to reduce the share of young people most at risk of being permanently left behind in the labour market by 15 per cent by 2025. These targets have added political momentum to addressing global challenges and allow the G20 to tell a compelling story to the

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public, but meeting the targets is proving challenging and the targets themselves face a variety of hurdles. Wurf concludes that the G20 cannot ignore the targets it has set and it would be fickle to abandon them. However, rather than setting new aspirational objectives, the G20 should go back to basics: focus on cooperation and in communicating agreed outcomes, even if there is no headline-stealing outcome.

Lastly, **my paper** focuses on the G20's approach on climate change in the aftermath of the Paris Agreement. In Hangzhou, the G20 should provide its political endorsement of the Paris Agreement, and key individual countries such as China and the United States should continue to influence global norms by setting an example in their domestic actions to mitigate the effects of climate change. However, the diversity of views around the G20 table and fractious discussion means that it is unrealistic to expect a world-changing 'signature' outcome in Hangzhou where leaders signal their determination to take dramatic additional climate change action that exceeds the Paris Agreement. This is not to say that the G20's hands are tied. Thanks to the innovative joint leadership displayed by the People's Bank of China, the Bank of England, and the United Nations Environment Programme, discussions on promoting green finance and setting standards on climate disclosures holds the promise of additional, real action in years to come. A significant outcome from Hangzhou would be a clear signal that the G20 is on a path of transforming the talk that is taking place throughout 2016 into concrete policy. Such an outcome would reflect well on Chinese leadership in 2016.

Also provided is a summary of policy options for the G20's energy agenda that came out of the conference "From Knowledge to Action: G20 Global Energy Governance Innovation", co-hosted by the Lowy Institute, the Shanghai Institutes for International Studies, the Centre for International Governance Innovation, and the Korean Development Institute, and held in Shanghai on 11–12 March 2016.

BACKGROUND

The macroeconomic outlook that economic policymakers face remains highly challenging. The global economy is seemingly rooted in a perpetual low growth, high unemployment path, facing mounting risks and persistent vulnerabilities. Financial risks have abated somewhat in recent months, but major countries still face daunting policy challenges, and the direction of revisions to economic forecasts continue to be downwards. We are, in the words of Larry Summers, one major adverse shock from a global recession.

At the same time, policy space is smaller than it was before the global financial crisis. Meetings are not being convened under crisis settings, but sovereign debt levels are higher, governments around the world are struggling to convince of the merits of structural reform, and although the

The macroeconomic outlook that economic policymakers face remains highly challenging.

potential for additional monetary policy stimulus has not been exhausted, there are growing concerns about the role that monetary policy is able to play. There is broad agreement that all three policy tools — monetary, fiscal and structural — are needed if the G20 is to achieve its goals of strong, sustainable, and balanced growth.

However, those around the G20 table do not see eye to eye on the need for demand support, and finance ministries are generally resisting the broad chorus of calls from the likes of the International Monetary Fund, the Organisation for Economic Co-operation and Development, *The Economist*, members of think tanks, academia, and financial market analysts, for the G20 to position fiscal policy more prominently in the policy mix and act with a greater sense of urgency. A recent breakfast hosted by the Peterson Institute for International Economics, and involving a US Treasury representative, led Domenico Lombardi from the Centre for International Governance Innovation to tweet an expectation that no global economy collective action would be expected under China's G20 Presidency.

...the G20 is charting a steady and constructive path under Chinese leadership.

Against this backdrop, the G20 is charting a steady and constructive path under Chinese leadership. The first two meetings of finance ministers and central bank governors in the Chinese Presidency have shown encouraging signs of real, incremental progress in areas as broad as safety nets, climate finance, international tax, tax transparency, and financial regulation and investment. The G20 is well placed to build on the platform established at these meetings. The G20 can also progress issues such as agriculture, development, trade, innovation, energy and employment, where other ministries take the lead. It is not an easy task or foregone conclusion, but the signs are there that China will continue to deliver progress meeting on meeting and leaders will welcome advances across a broad range of topics in Hangzhou.

Emerging from a poor 2015 in which the G20 struggled to assert its relevancy, solid incremental progress will likely cement a positive legacy for China and no doubt be a relief to officials the world over. Whether it will be enough for policymakers to keep up with the evolving economy, and enough to convince them of the enduring value of the G20, as well as the cost-benefit calculations that determine if business and broader society invest in the process in the years to come, remains an open question.

OPENING THE SERVICES SECTOR WOULD BE GOOD FOR CHINA, DOMESTICALLY AND INTERNATIONALLY

DAVID DOLLAR¹

INTRODUCTION

China's G20 Presidency is a watershed moment. China is the largest trading nation and second largest economy. It has emerged as a global player and is influencing the international architecture, for example through the creation of the Asian Infrastructure Investment Bank. For its G20 year it has proposed four themes: creating an invigorated, interconnected, inclusive, and innovative global economy. As always it will be difficult to get the disparate group of 20 countries to firmly unite behind an action plan. One concrete thing that China can do to set a good example and create a better environment for success is to pursue its own economic reforms. Domestic reform, linked to the global agenda, can help with all four of the 'I's'.

CHINA IN TRANSITION

China's growth model is in transition. For a long time China's growth was powered by exports and investment, which provided steady demand for the growth of Chinese industry. That old growth model, however, inevitably runs out of steam. China has been so successful on the external front that it is the largest exporter in the world.² As such, it is now difficult for its exports to grow any faster than world trade, which is growing slowly. On the investment side, China took its investment rate up to one-half of GDP. That spurred rapid expansion of the housing stock, manufacturing capacity, and infrastructure. But now excess capacity has become a problem in many sectors — empty apartments in third- and fourth-tier cities, vast idle capacity in heavy industries such as steel and cement, and recent infrastructure projects that find little use.

In this environment it is natural for the growth of investment to slow down, and that has been the main factor pulling down the overall growth rate. At the same time, there is some good news in the Chinese economy. The labor market so far remains relatively tight, and wages

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² World Trade Organization, *International Trade Statistics 2015*, https://www.wto.org/english/res_e/statis_e/its2015_e/its15_toc_e.htm.

[China's]...new growth model is characterised by services growing faster than industry...

and household income are rising at steady rates.³ This fuels a steady growth in real consumption at about an annual rate of 8 per cent. Household and government consumption together make up half the economy so this has become the main source of demand growth. At China's level of income, increases in consumption primarily provide demand to the services sector. Hence we see a dualistic development in China that is apparent in the nominal data: services growing at more than 10 per cent per year while industry grows at zero. Those services sectors are more labor intensive than industry,⁴ so this pattern of growth is creating enough jobs (and the need for jobs is diminished because of the country's changing demographics). So the new growth model is characterised by services growing faster than industry and by consumption growing faster than investment. It is also the case that China's export of capital is on the rise: the national investment rate is falling faster than the national savings rate, and the excess of savings over investment equals the current account balance or the net outflow of capital. If current trends persist, China will replace Japan as the world's largest net creditor within a few years. Increases in net foreign assets come through current account surpluses. In the past four years China had a cumulative surplus of about \$1 trillion, compared with \$200 million for Japan. If those trends persist, China will replace Japan as the largest net creditor by around 2020.

PURSUING WIN-WIN REFORMS

There are many reforms that could help China's economy perform well under this new growth model. I would argue that a good one to consider this year, with China as G20 President, is to open up China's services sector to foreign trade and investment. This would address both a domestic issue and an external one, and in fact would be aimed at all four 'I's'.

On the domestic side, under the old growth model China benefited from rapid growth of total factor productivity (TFP) in its manufacturing sector.⁵ That came from high-productivity foreign firms investing in China as well as domestic firms, especially private ones, rapidly building up their capabilities in a competitive market. That TFP growth has slowed down in recent years is one more indication that the old model has run out of steam. The problem with the new model is that the services sector in general does not display as rapid TFP growth as does the

³ W Raphael Lam, Xiaoguang Liu and Alfred Schipke, "China's Labor Market in the 'New Normal'", IMF Working Paper WP/15/151, July 2015, <https://www.imf.org/external/pubs/cat/longres.aspx?sk=43072.0>.

⁴ Nicholas R Lardy, "Skeptics of China's GDP Growth Have Not Made Their Case", *China Economic Watch*, 14 August 2015, <http://blogs.pie.com/china/?p=4469>.

⁵ Chong-En Bai, Chang-Tai Hsieh and Yingyi Qian, "The Return to Capital in China", *Brookings Papers on Economic Activity* 2, Vol 37 (2006), 61–102, http://www.brookings.edu/~media/projects/bpea/fall-2006/2006b_bpea_bai.pdf.

manufacturing sector. China is shifting resources into sectors in which it is hard to get productivity growth. The shift is unavoidable because these services sectors produce what people want to consume as they get richer: travel services, entertainment, health care, and education, to name a few.

The general problem with the services sector is compounded in China because these sectors tend to be dominated by large state enterprises in oligopolistic settings. There is ample evidence that private firms are more productive than state-owned firms in China.⁶ The manufacturing-heavy model enabled resources to shift away from state enterprises to private ones. The relative growth of services now risks a shift back in the other direction. To get more dynamism out of these services sectors, at least in the short run, it would be smart for China to open up these sectors to competition from private firms, including foreign investors. Early in its reform China opened up most of manufacturing to foreign investment and trade, and got good results. It could make a parallel reform for the services sector now. This reform would help China invigorate its growth during a time of structural adjustment, and also spur innovation. A growth model based more on services and less on industry will also be more inclusive within China because the services sector is more labor intensive and its expansion is driving an increase in wages and a decline in inequality.

Aside from supporting its domestic agenda, opening up more of the economy would also help China on the external side. As noted, China is exporting large amounts of capital and is likely to soon emerge as the largest net creditor in the world. Most of the major investing countries in the world are developed economies; in addition to making direct investments elsewhere, they tend to be very open to inward investment. Much of the direct investment in the world is cross-investment among developed economies.⁷ Each nation's firms benefit from expanding their specialised niche and getting closer to their worldwide markets. China is unusual in that it is a developing country that has emerged as a major investor. China itself is an important destination for foreign investment, the number 2 recipient in the world after the United States. Opening up to the outside world has been an important part of its reform program since 1978. However, China's policy is to steer foreign direct investment (FDI) to particular sectors. In general it has welcomed FDI into most but not all manufacturing industries. The automobile sector, for example, is only partially open as foreign firms have to operate through awkward joint ventures. However, other sectors of the economy are more closed

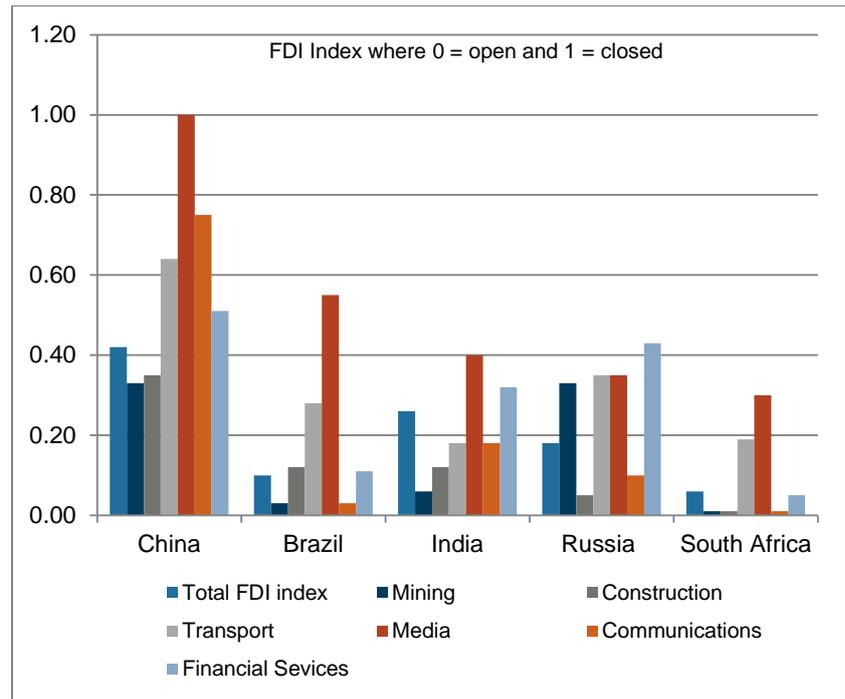
China is unusual in that it is a developing country that has emerged as a major investor.

⁶ Nicholas R Lardy, *Markets over Mao: The Rise of Private Business in China* (Washington DC: Peterson Institute for International Economics, 2014).

⁷ David Dollar, "United States–China Two-way Direct Investment: Opportunities and Challenges", Brookings Institution Working Paper, January 2015, <http://www.brookings.edu/~media/research/files/papers/2015/02/23-us-china-two-way-direct-investment-dollar/us-china-two-way-direct-investment-dollar.pdf>.

than manufacturing: including mining, construction, and most modern services. It is not surprising that China is less open to FDI than developed economies such as the United States. But it is also the case that China is relatively closed among the big developing countries that are part of the G20.

China is the most closed of the BRICS (FDI restrictiveness index, 2014)



Source: OECD Data⁸

The Organization for Economic Cooperation and Development (OECD) calculates an index of FDI restrictiveness for OECD countries and major emerging markets. The index is for overall FDI restrictiveness, and also for restrictiveness by sector. The measure covers various investment restrictions, the most important of which is equity caps on what percentage of a domestic enterprise can be owned by a foreign investor. The chart above shows the restrictiveness index in 2014 for the whole economy and some major industries for Brazil, Russia, India, China, and South Africa (the BRICS). Overall, Brazil and South Africa are highly open, similar to advanced economies with measures around 0.1 (on a scale of 0 = open and 1 = closed). India and Russia are less open with overall measures around 0.2. China is the most closed with an index above 0.4.

⁸ B Kalinova, A Palerm and S Thomsen, "OECD's FDI Restrictiveness Index: 2010 Update", *OECD Working Papers on International Investment*, 2010/03 (Paris: OECD Publishing, 2010), <http://www.oecd-ilibrary.org/docserver/download/5km91p02zj7g.pdf?expires=1463482062&id=id&accname=guest&checksum=D3177599F242B7454D5026C34FEC9A16>.

The industries highlighted are some of the more closed sectors in China. China's restrictiveness index in mining is 0.33, compared with an average of 0.11 for the other four BRICS countries; in communications, 0.75 compared with 0.08; in financial services, 0.51 compared with 0.23; and so on. Some of the key sectors in which China is investing abroad, such as mining, infrastructure, and finance, are relatively closed at home.

This lack of reciprocity creates problems for China's partners. China has the second-largest economy in the world. In these protected sectors, Chinese firms can grow unfettered by competition, and then use their domestic financial strength to develop overseas operations. In finance, for example, China's four state-owned commercial banks operate in a domestic market in which foreign investors have been restricted to about 1 per cent of the market. The four banks are now among the largest in the world and are expanding overseas. China's monopoly credit card company, Union Pay, is similarly a world leader based on its protected domestic market. A similar strategy applies in mining and telecommunications.

This lack of reciprocity also creates an uneven playing field. A concrete example is the acquisition of the US firm Smithfield Foods by the Chinese firm Shuanghui. In a truly open market, Smithfield, with its superior technology and food safety procedures, may well have taken over Shuanghui and expanded into the rapidly growing Chinese pork market. However, investment restrictions prevented such an option, so the best way for Smithfield to expand into China was to be acquired by the Chinese firm. Smithfield CEO Larry Pope stated the deal would preserve "the same old Smithfield, only with more opportunities and new markets and new frontiers". No Chinese pork would be imported to the United States, he stated, but rather Shuanghui desired to export American pork. There is a growing demand for foreign food products in China due to recent food scandals. Smithfield's existing management team would remain intact and no major changes to its workforce would occur.⁹

NEXT STEPS

The Chinese approach creates a dilemma for its partners. It would be irrational for economies such as the United States or Australia to limit Chinese investments. In the Shuanghui–Smithfield example, the access to the Chinese market gained through the takeover makes the assets of the US firm more valuable and benefits its shareholders. Assuming that the firm really does expand into China, the deal will benefit the workers of the firm as well. It would be even better, however, if China opened up

⁹ Michael Felberbaum with Michelle Chapman, "China's Shuanghui in \$4.7b Deal for Smithfield", Associated Press, 30 May 2013, <https://www.yahoo.com/news/chinas-shuanghui-4-7b-deal-smithfield-124432214.html?ref=gs>.

This issue of getting China to open up its protected markets is high on the policy agenda of many G20 members...

its protected markets so that such expansions could take place in the most efficient way possible. In some cases that will be Chinese firms acquiring US firms, but in many other cases it would involve US firms expanding into China.

This issue of getting China to open up its protected markets is high on the policy agenda of many G20 members, including Australia, as well as the United States and Europe. The United States has been negotiating with China over a Bilateral Investment Treaty (BIT) that would be based on a small negative list; that is, there would be a small number of agreed sectors that remain closed on each side, but otherwise investment would be open in both directions. So far, however, negotiations on the BIT have been slow. It is apparently difficult for China to come up with an offer that includes only a small number of protected sectors.

While it seems to be difficult for China to open up its whole economy, it could set a good example in its G20 host year by opening up at least some important parts of its economy. This would simultaneously meet several goals. It would inject new dynamism and innovation into sectors that are largely dominated by state enterprises, and that are likely to be important growth centres in the new growth model. And it would reaffirm an open trading and investment system at a time of difficult global growth and rising voices of protectionism around the world. It could be an important effort to create a more interconnected world, meeting one more objective of China's G20 year.

THE G20 AND FINANCIAL REGULATION: EARLY ACHIEVEMENTS AND STRUCTURAL GAPS

NICOLAS VÉRON¹

Financial regulation was very prominent in the initial stages of the G20 as a venue for coordination among global political leaders. This early emphasis led to significant successes, but also to a sense of disillusionment as delivery of consistent outcomes could not be sustained and divergence among key jurisdictions became increasingly noticeable. It is argued here that the causes of the G20's shortcomings are largely structural, linked to a lopsided architecture of global institutions for the preparation of financial regulatory policy. These structural gaps are inherently hard to correct. Any efforts during the Chinese and German presidencies of the G20 to identify and acknowledge them would help to pave the way for future progress towards fulfilment of the G20's proclaimed objectives.

THE G20'S FINANCIAL REGULATORY TRACK RECORD: ACHIEVEMENTS AND DISAPPOINTMENTS

Following the great financial crisis of 2007–08, G20 summits started with a very strong focus on financial regulatory matters. The first G20 Leaders' Summit, held in Washington DC on 15 November 2008, listed no fewer than 39 actions to be taken in the area of financial regulation alone, or 83 per cent of the 47 points in the summit declaration.² This was accompanied by highly aspirational rhetoric. Following the Washington Summit, for example, the then French President Nicolas Sarkozy immediately declared that “this summit is historic” and that it had introduced “a new regulation of financial markets so that such a crisis could not happen again” and “a new, more effective and fairer global economic governance”.³

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² Stéphane Rottier and Nicolas Véron, “An Assessment of the G20's Initial Action Items”, Bruegel Policy Contribution 2010/08, Brussels, September 2010, http://bruegel.org/wp-content/uploads/imported/publications/pc_2010_08_fin_reg.pdf.

³ Transcript of the joint press conference of Nicolas Sarkozy and José Manuel Barroso, 15 November 2008, accessed at <http://www.g20.utoronto.ca/summits/2008washington.html>.

...the [financial regulation] changes resulting from successive G20 summits can be labelled successful.

The actual achievements, of course, were more nuanced. The two subsequent summits, held in London in April 2009 and in Pittsburgh in September 2009, resulted in a series of wide-ranging financial regulatory decisions. The assessment of policy reforms is never a matter of universal consensus, perhaps even less so in the area of financial regulation than in other areas of economic policy. Nevertheless, some of the changes resulting from successive G20 summits can be labelled successful.

The prime example for this is arguably the Basel III accord on capital, leverage, and liquidity, initially formulated in December 2010 and updated since by the Basel Committee on Banking Supervision (BCBS).⁴ Compared with the previous Basel II accord of 2004, which it replaced, Basel III considerably reinforces the requirements for banks' capital as measured as a share of their risk-weighted assets; introduces an additional leverage ratio, thus creating a check against the possibility of risk-weighting manipulations by banks; and creates an entirely new framework for bank liquidity regulation. Basel III has been criticised from various corners, both for being too rigorous⁵ and for being too lax.⁶ But there is no question that it is an improvement on the prior global Basel II regime, and little doubt that it owed its rather quick finalisation to the political impetus provided by the G20.

Aside from Basel III, there are other global financial regulatory reform initiatives that came in the wake of G20 discussions and are unquestionably useful. One of the more significant, though scarcely visible, is a joint effort to improve financial statistics, coordinated by the International Monetary Fund (IMF) and the Financial Stability Board (FSB) and known as the 'Data Gaps Initiative'. Even though progress in this area tends to be slow and incremental, this has led to an improvement in the quality and quantity of information available to policymakers and to the wider public to analyse financial systems and their evolution. One particularly pioneering aspect of the Data Gaps Initiative is the creation of an International Data Hub on global systemically important banks at the Bank for International Settlements (BIS), in Basel, which to an extent transcends traditional jurisdictional boundaries of banking supervision on a global scale.⁷

⁴ See Basel Committee on Banking Supervision, "Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems", December 2010 (revised June 2011), <http://www.bis.org/publ/bcbs189.htm>, and "Basel III: The Liquidity Coverage Ratio and Liquidity Risk Monitoring Tools", January 2013, <http://www.bis.org/publ/bcbs238.htm>.

⁵ See, for example, Institute of International Finance, "The Cumulative Impact on the Global Economy of Changes in the Financial Regulatory Framework," September 2011.

⁶ See, for example, Anat Admati and Martin Hellwig, *The Bankers' New Clothes: What's Wrong with Banking and What to Do about It* (Princeton NJ: Princeton University Press, 2013).

⁷ For more information, see Financial Stability Board, "FSB Data Gaps Initiative: A Common Data Template for Global Systemically Important Banks: Phase 2", 6 May 2014, http://www.fsb.org/2014/05/r_140506/.

Still, other G20 endeavours, even after more than seven years of discussions, remain largely a matter of work in progress. To start with, the Basel III accord is not yet fully implemented, and some of its requirements will only be fully in place in 2019. International Capital Standards for internationally active insurers have not yet been agreed on, let alone implemented. The FSB's approach to the orderly resolution of future crises involving global systemically important banks, grandly labelled 'Ending Too-Big-To-Fail' since 2011, has not attracted an enthusiastic reception from jurisdictions other than its initial promoters in the European Union, Switzerland, and the United States.⁸ The approach to the so-called shadow banking system has been generally long on rhetoric and short on actual policy, reflecting the imprecision of the concept of shadow banking itself.

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There has also been a journey of discovery on many of the reforms, involving initially unforeseen consequences. For example, the G20 in 2008–09 decided to impose profound structural changes on the market for financial derivatives transactions, which until then had been only lightly regulated. One of the key measures was the requirement to move the clearing of many derivatives contracts from bilateral relations to central clearing houses, also known as central counterparties (CCPs). But this leads to massive risk concentrations inside the CCPs, and also raises questions about the possibility of fragmentation of derivatives markets across jurisdictional lines, since CCPs are supervised on a country-by-country basis. It is increasingly clear that these challenges had not been comprehensively evaluated at the time the G20 made its decision, as is apparent from a still widely open policy debate about the future framework for the resolution of CCPs in systemic crisis scenarios.

Yet other G20 initiatives have simply failed to come to fruition. One clear example is the G20's initially expressed ambition to achieve global convergence of financial accounting standards. In spite of the existence of a tried-and-tested set of such standards, known as International Financial Reporting Standards and adopted by the European Union and many other jurisdictions in the course of the 2000s, accounting standard-setters in the United States and in other countries have successfully resisted pressure to converge towards this global framework. The mantra of convergence towards a single set of high-quality global accounting standards was initially announced by the G20 with a mid-2011 deadline; that deadline was extended several times, then was entirely dropped, and then the mere mention of the commitment to global accounting standards convergence was quietly abandoned.⁹

⁸ See Financial Stability Board, "Second Thematic Review on Resolution Regimes", 18 March 2016, <http://www.fsb.org/2016/03/second-thematic-review-on-resolution-regimes/>.

⁹ G20, *Leaders Statement*, Pittsburgh Summit, 24–25 September 2009, <http://www.g20.utoronto.ca/2009/2009communique0925.html>.

Another impactful G20 innovation was a major enhancement of the arrangements to monitor the implementation of reforms from a global perspective. The Basel Committee, in particular, has established a pioneering program to monitor not only which jurisdictions have transposed Basel III into their laws and regulations, but also the precise level of compliance of such transposition with the global accord, and also some aspects of its practical implementation. In this, the BCBS has established strong methodologies to ensure the neutrality of the assessment, and has not shied away from 'naming and shaming' — for example, in a 2014 report, the BCBS found the European Union, its biggest jurisdiction in terms of total banking assets, to be "materially non-compliant" with Basel III.¹⁰ The FSB has regularly collected information about the application of all G20 reforms since 2008, and since 2015 delivers annual reports to G20 Leaders summarising its findings across the entire financial regulatory scope, including some elements of economic impact assessment.¹¹

...the G20's efforts have not put an end to the considerable diversity of financial system structures around the world.

Unsurprisingly, the G20's efforts have not put an end to the considerable diversity of financial system structures around the world. Different jurisdictions have diverse histories, levels of development, and political and social arrangements which all stand in the way of cross-border convergence. Even so, there has been a remarkable shift of the policy consensus, in different ways in the European Union, China, Japan, and other jurisdictions, towards a recognition that their financial systems' present domination by banks (as opposed to a large role for securities markets to finance the economy, as is most notably the case in the United States) may not be in their best interests from the standpoint of both economic growth and financial stability.¹² This acknowledgment has motivated the ongoing EU policy of 'capital markets union' and various other initiatives around the world to develop capital markets. The G20, however, has played no direct role in this shift, and it remains to be seen how much impact it will have on the actual evolution of financial systems.

Overall, the action of the G20 since 2008 qualifies as the most ambitious and impactful coordinated effort ever to overhaul financial regulation at a global level. But its achievements are lopsided, and far from the vision initially expressed by political leaders (especially European ones) of a globally consistent approach to financial regulatory policy.

¹⁰ Basel Committee on Banking Supervision, "Regulatory Consistency Assessment Programme (RCAP): Assessment of Basel III Regulations — European Union", December 2014, <http://www.bis.org/bcbs/publ/d300.pdf>.

¹¹ See Financial Stability Board, "Implementation and Effects of the G20 Financial Regulatory Reforms", 9 November 2015, <http://www.fsb.org/2015/11/implementation-and-effects-of-the-g20-financial-regulatory-reforms/>.

¹² See, for example, Sam Langfield and Marco Pagano, "Bank Bias in Europe: Effects on Systemic Risk and Growth", European Central Bank Working Paper No 1797, May 2015, <http://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1797.en.pdf>.

INSTITUTIONAL IMBALANCES AND PROSPECTS

The contrasted landscape of G20 successes, half-measures, and failures is not only the product of randomness. There is a degree of correlation between G20 achievements and the strength of existing international arrangements. Perhaps unsurprisingly, treaty-based institutions such as the IMF and World Bank have been able to deliver more quickly on the G20's early initiatives than looser coordination bodies.¹³ Furthermore, it is not a coincidence that Basel III stands out among G20 reforms for effectiveness and impact.

The Basel Committee, created in late 1974, is one of the oldest and most established bodies for global financial regulatory coordination, and is itself hosted by the Basel-based BIS, established by treaty in 1930 and thus the dean of all public international financial organisations. Both the BCBS and BIS, together with other lesser-known bodies such as the Committee on the Global Financial System (CGFS) and Committee on Payments and Market Infrastructures (CPMI), rely on the global community of central banks and central bankers, which is comparatively more cohesive than other networks of national regulatory authorities. By contrast, securities markets authorities, even though they gather in the International Organization of Securities Commissions (IOSCO, created in 1983), have been collectively less effective in the promotion of common standards, as illustrated by the fiasco of G20 efforts to promote accounting standards convergence.

Furthermore, issues which are relevant to both central banks and securities regulators, such as reforms of the over-the-counter (OTC) derivatives markets, have been characterised by a near-complete inability to effectively set standards at the global level. To remedy this gap, there has been a proliferation of initiatives which have not achieved much more than underlining the problem, including an OTC Derivatives Supervisors Group (ODSG) since 2005, an OTC Derivatives Regulators Forum (ODRF) since 2009, an OTC Derivatives Regulators Group (ODRG) since 2011, and an OTC Derivatives Coordination Group (ODCG) since 2012 with largely overlapping compositions and mandates.

It is striking that the financial crisis of 2007–08 has not led to the creation of any significant new global institution for financial regulatory reform.¹⁴ The G20 itself, as a grouping of countries if not a format of top leaders' summits, was born of the Asian crisis of 1997–98, as was the FSB (the successor to the Financial Stability Forum). In 2008–09, a number of existing bodies — including the FSB, BCBS, CGFS, and CPMI — expanded their membership to large emerging economies, but there was

...the financial crisis of 2007–08 has not led to the creation of any significant new global institution for financial regulatory reform.

¹³ Stéphane Rottier and Nicolas Véron, "Not All Financial Regulation Is Global", Bruegel Policy Brief 2010/07, August 2010, http://bruegel.org/wp-content/uploads/imported/publications/pb_2010-07_FINREG_30082010_01.pdf.

¹⁴ To the author's knowledge, the only exception is the Global Legal Entity Identifier Foundation, established by the FSB in 2014 with a fairly narrow remit.

much less institutional creativity than in the wake of the Asian crisis. It is tempting to correlate this observation with the fact that the 2007–08 crisis affected the core of the global financial system, including the United States and European Union, while the Asian crisis had been more contained from a global financial standpoint, even though it covered a very large area in terms of geography and population.

Even after the shift of leaders' summits to the G20 format and the above-mentioned expansion of membership of several key organisations to include emerging economies, the structure of global financial bodies remains markedly imbalanced. Europe is still significantly overrepresented — especially now that the implementation of the set of reforms known as 'banking union' implies that national authorities from the 19 euro area countries no longer have policy autonomy, in either banking supervision or monetary policy.¹⁵ Furthermore, almost all global financial regulatory bodies are led by westerners, and headquartered in either Europe or the United States.¹⁶

NEXT STEPS: WHERE TO FROM HERE

...it would be sensible to empower a global body...to issue standards for the global derivatives markets.

Evidently, it is comparatively easier for the G20 to change the content of financial regulations than the architecture of the institutions which prepare them. Nevertheless, some of the gaps in the current organisational arrangements should be addressed if the G20 is to become more effective at achieving its financial reform objectives. For example, it would be sensible to empower a global body with relevant membership and a clear mandate to issue standards for the global derivatives markets. Some categories of regulated market participants which handle crucial cross-border information, such as credit rating agencies, trade repositories and audit firms, may need to be supervised at a supranational level, as is now partly the case in the European Union.¹⁷ Even some entities that may require public financial assistance in a crisis scenario, such as CCPs, may require more internationally centralised supervisory arrangements in the future than is currently deemed feasible. Among existing entities, future choices of leadership

¹⁵ Still, the central banks of Belgium, France, Germany, Italy, Luxembourg, the Netherlands, and Spain remain full members of the BCBS, alongside the European Central Bank (ECB) and its Single Supervisory Mechanism; and the national central banks of France, Germany, Italy, the Netherlands, and Spain all retain representation in the FSB's Steering Committee, alongside the ECB.

¹⁶ See Nicolas Véron, "Asia's Changing Position in Global Financial Reform", in *Asian Capital Market Development and Integration: Challenges and Opportunities*, Asian Development Bank and Korea Capital Market Institute (New Delhi: Oxford University Press, 2014), <http://www.adb.org/sites/default/files/publication/31180/asian-capital-market-development-integration.pdf>. In terms of location, the only outlier is the International Forum of Independent Audit Regulators, which in April 2016 announced plans to establish a permanent secretariat in Tokyo.

¹⁷ The European Securities and Markets Authority is the sole supervisor of rating agencies and trade repositories for all 28 member states of the European Union, including the United Kingdom.

should tilt much more towards diversity of jurisdictional background (and of gender), and, to ensure better legitimacy and acceptance, the relocation of some away from the North Atlantic should be seriously envisaged.¹⁸

Such suggestions run against considerable institutional and political inertia. The G20 itself is a consensus-based venue, but many of the specialised global public financial regulatory bodies are even more driven by the need for unanimity. In other terms, it would be unreasonable to expect the FSB or any of its members to take the initiative of proposing changes to the existing architecture, even changes that are sorely needed — such initiative belongs to the political leaders. The heads of state who will gather in Hangzhou later this year would do well to reserve part of their time for an open-ended discussion on this theme that might crystallise a process of recognition of at least some of the current institutional gaps, possibly leading to a first set of proposals as early as the G20's German Presidency in 2017. Going forward, incremental and not-so-incremental changes in the set-up and organisation of global public regulatory and oversight bodies will eventually be needed to enable the maintenance of a decently regulated, globally integrated financial system.

¹⁸ Nicolas Véron, "Move the Financial Stability Board's Secretariat to Asia", *RealTime Economic Issues Watch* (Blog), 10 May 2012, <https://piee.com/blogs/realtime-economic-issues-watch/move-financial-stability-boards-secretariat-asia>.

RECONSIDERING THE G20 APPROACH TO SETTING TARGETS

HANNAH WURF¹

INTRODUCTION

It has become common practice for governments to use numerical targets as a communication tool for specific ambitions or objectives. A target is a neat way of announcing an outcome and it can be used to establish timelines and the resources needed to reach the designated benchmark. This allows progress on meeting the target to be measured and evaluated. International organisations have also been in the habit of setting numerical targets for countries to reach collectively, such as the Millennium Development Goals and the Sustainable Development Goals.

This paper argues that setting targets for the distant future does not necessarily help to progress G20 work if the target is not clearly articulated and publicly monitored. There is a risk that targets offer a 'get out of jail free' card for governments because of weak peer review processes and the voluntary nature of commitments within the G20. Currently, there is a lack of available information on the progress of G20 targets and how they are being measured. It is for these reasons that the G20 should reconsider its approach to setting targets and strengthen the targets that have already been agreed.

Three recent examples of G20 targets are the focus of this paper: the much-publicised ambition to lift global GDP by at least 2 per cent by 2018; the goal of reducing the gap in labour participation rates between men and women in G20 countries by 25 per cent by 2025; and the intention to reduce the share of young people who are most at risk of being permanently left behind in the labour market by 15 per cent by 2025. China, Germany, and future hosts should be wary about adding new targets to the agenda. Instead, G20 countries should spend more time implementing policies to meet the targets that they have committed to. This would help to boost the credibility of the forum.

THE G20 APPROACH TO TARGETS

Robin Davies, Australia's first representative to the G20 Development Working Group, classifies setting targets as one of the three main strategies available to the G20 as a forum, along with developing international standards and improving the functioning of global

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...targets offer a 'get out of jail free' card for governments because of weak peer review processes...

institutions.² In his view, the G20 can set shared global targets either by creating new targets or adopting existing international targets, such as those set by the United Nations or G7. For example, the G20 has taken the latter approach by supporting the UN Green Climate Fund and the Sustainable Development Goals. After a target has been created or adopted by the G20, the G20 then has a responsibility to monitor the progress and share the burden of meeting those targets.³

Targets appeal to leaders because a new target enables the G20 host country to declare that the G20 has a headline outcome, rather than the usual incremental progress on a multi-year agenda. A target is more likely to be picked up by the media and can be used to communicate with the general public. The G20 Summit is a notoriously closed event and targets can illuminate the goals that members are working towards collectively.

The G20 has set a number of targets in different forms since its establishment as a leader-level forum in 2008, including:

- In 2009, the G20 agreed to phase out (i.e. reduce to zero) inefficient fossil fuel subsidies over the medium term.⁴
- In 2009, the G20 committed to bringing the World Trade Organization Doha Round to a successful conclusion in 2010.
- In 2009, the G20 supported the International Monetary Fund's (IMF's) quota review and urged "an acceleration of work toward bringing the review to a successful conclusion" by January 2011.⁵
- In 2010, advanced G20 economies committed to fiscal plans to halve budget deficits by 2013 and stabilise or reduce government debt-to-GDP ratios by 2016.⁶
- In 2013, the G20 supported efforts to reduce the global average cost of transferring remittances to 5 per cent.⁷

Given that of these targets, only IMF quota reform was passed (and that was after domestic legislation finally got through the US Congress at the end of 2015), this is not a great track record. To be fair to the G20, the impediments to the Doha round and the idiosyncrasies of the US

² Robin Davies, "The Indivisibility of Prosperity", in *The G20 and the Future of International Economic Governance*, Mike Callaghan and Tristram Sainsbury, eds (Sydney: UNSW Press, 2015).

³ Ibid.

⁴ G20, *Leaders Statement*, Pittsburgh Summit, 24–25 September 2009, <http://www.g20.utoronto.ca/2009/2009communique0925.html>.

⁵ Ibid.

⁶ G20, *The G20 Toronto Summit Declaration*, 26–27 June 2010, <http://www.g20.utoronto.ca/2010/to-communique.html>.

⁷ G20, *Leaders' Declaration*, St Petersburg Summit, 6 September 2013, <http://www.g20.utoronto.ca/2013/2013-0906-declaration.html>.

...the growth and employment targets...are so firmly tied to the G20 message about creating growth and jobs.

Congress are outside of the G20's sphere of influence. The fossil fuel subsidies commitment has been contentious because it is difficult to define an inefficient subsidy and the subsidies have proven stubbornly tough policies to address domestically. The fiscal consolidation plans were moderated as it became clear that the global economy was too weak for austerity measures. The G20 efforts on remittances are a work in progress and are politically difficult to implement.

So, how are the current global growth and employment targets different to previous commitments? Joe Hockey, the former Australian Treasurer who promoted the growth target, argues it is a fundamentally different G20 commitment because "there had always been words to reflect ambition but never numbers, let alone a target".⁸ There is a lot at stake with the growth and employment targets because they are so firmly tied to the G20 message about creating growth and jobs. Having a specific number attached means that the targets either will or will not be definitively met.

There is a role for the G20 to set targets within certain constraints. I propose a successful G20 target to be one that is:

- clearly articulated and communicated with set definitions
- achievable within a relative short time-frame, preferably within the government cycle of the G20 host country that promotes the target
- monitored publicly by an external body with regular updates and annual assessments.

I will use this framework to assess the growth and employment targets.

1. THE GROWTH TARGET

In February 2014, G20 finance ministers and central bank governors announced a plan to boost collective economic output by an additional 2 per cent over five years through structural reforms and other measures. As at May 2016, halfway through that time frame, the G20 believes that half of the commitments have been implemented (based on countries reporting on their commitments), contributing to approximately 0.8 per cent additional growth by 2018.⁹ The growth target was well communicated and within an achievable time frame. But it falls down on monitoring as the methodology for translating policies into growth numbers is imprecise and the mutual assessment peer review process

⁸ Joe Hockey, "Keynote Address to the CSIS", (transcript of audio) Washington DC, 8 October 2014, <http://www.g20australia.org/sites/default/files/documents/transcripts/Transcript%20-%20Treasurer%20Joe%20Hockey%20address%20to%20CSIS%20and%20Q%26A%20-%202014.pdf>.

⁹ IMF and OECD, "Quantifying the Impact of G-20 Members' Growth Strategies", <https://www.imf.org/external/np/g20/pdf/2014/growthstrat.pdf>.

— which involves countries assessing one another on performance — lacks ‘teeth’ to punish laggards.

The Organization for Economic Cooperation and Development (OECD) and IMF, tasked with measuring these commitments, have admitted that there is a “high degree of uncertainty entailed in quantifying the impact of members policies” and repeatedly warned of “implementation risks”.¹⁰ The bigger challenge is that G20 numbers are simply not converting into growth forecasts. Leon Berkelmans and Tristram Sainsbury have observed that the IMF is not acknowledging the G20 growth commitments in its growth forecasting and this means it has either accounted for the fact that the actions would have gone ahead in G20 countries regardless of the agreement, or they suspect that there will not be additional commitments that will change the growth trajectory.¹¹

All of this comes back to the original intent of the G20’s growth commitments: to be more ambitious on structural reform in response to the stagnant economic context. The policies of G20 member countries are more important than an artificial number. The real success of the Brisbane Action Plan was the number of structural policies that countries pledged to implement.

Yet there are reasons to doubt that G20 countries are fully meeting their obligations. First, it assumes all remaining measures will be implemented, a somewhat heroic assumption given that many of the bigger measures, such as migration reform in the United States, remain delayed by domestic political processes. Second, measures need to be implemented in a timely way if they are to translate into growth as soon as 2018. Despite the IMF and OECD asking the G20 to prioritise the more significant reforms, policymakers are not responding with a sense of urgency. G20 communiqués in recent years have had the right economic analysis, but this has not resulted in macroeconomic policy action.

In all, the growth target has revealed the limits as to how much the G20 can do to boost growth when countries disagree on policy settings and do not fear a looming crisis. Further measures are needed if the G20 is to meet the 2 per cent growth target, but growth measures will be taken depending on the specific economic situation within a country. There is no silver bullet for the structural problems across G20 countries. There are also new doubts as to whether structural reforms are the answer to

...G20 numbers are simply not converting into growth forecasts.

¹⁰ Joe Hockey, “Keynote Address to the CSIS”.

¹¹ The authors note that the IMF has issued eight updates to its forecasts of the world economy but have only mentioned the growth strategies once, in the context of a scenario which showed the strategies having little effect by 2018. Leon Berkelmans and Tristram Sainsbury, “Why the G20’s Bold Brisbane Growth Pledges are Turning Out a Dud”, *Australian Financial Review*, 13 April 2016, <http://www.afr.com/opinion/why-the-g20s-bold-brisbane-growth-pledges-are-turning-out-a-dud-20160413-go568t>.

the G20's woes in a weak economic climate where there is need for a short-term demand boost and social protections.¹²

2. THE GENDER TARGET

Like the growth target, the female employment target — a goal set by G20 Leaders at the 2014 Brisbane Summit to reduce the gap between male and female labour participation by 25 per cent by 2025 — sounds impressive. The target promised to bring 100 million women into the labour force, significantly increasing global growth and reducing poverty and income inequality.

Two years in, the '25 by 25' target faces some challenges. The first is that this was largely a political statement in Brisbane, without accompanying details for how to monitor progress and share burdens. The burden-sharing is particularly challenging given that few, if any, of the leaders who committed to it in Brisbane are likely to be attending the G20 Summit to oversee the delivery of the target in 2025. This means there is even more of an incentive for a public monitoring process year on year to see whether it is being achieved.

The gender participation target is currently being monitored in the G20's Employment Working Group (EWG) and the newly created engagement group of the Women 20 (W20).¹³ The 2015 Antalya communiqué was a lot more subdued about the target, with a bland statement in paragraph 7 to "continue monitoring the implementation of our Employment Plans as well as our goals to reduce gender participation gap".¹⁴ In Turkey in 2015, there was discussion within the EWG about monitoring the gender gap, on how regularly it would be reported on (every year or every two years), and whether monitoring would be conducted through employment plans or a separate questionnaire sent to G20 countries.¹⁵

Under China's G20 Presidency, the unwieldy website for the EWG has no reports tabled for 2016 and the employment plans for each G20 member remain those delivered in 2014.¹⁶ At least the growth target has the IMF and OECD working in tandem on a monitoring process.

¹² For example, the IMF is suggesting a combination of fiscal stimulus and structural reform in Europe: "Don't Stop Believing", *The Economist*, 9 April 2016, <http://www.economist.com/news/21696437-some-sweeteners-could-help-bitter-medicine-go-down-imf-weighs-europes>.

¹³ There is currently no website for China's W20. The 2015 Turkey W20 website offers some information: see <http://w20turkey.org/about-w20/>.

¹⁴ G20, *Leaders Communiqué*, Antalya Summit, 15–16 November 2015, <http://www.mofa.go.jp/files/000111117.pdf>.

¹⁵ OECD, "Monitoring Progress in Reducing the Gender Gap in Labour Force Participation", 7–8 May 2015, <https://www.oecd.org/g20/topics/employment-and-social-policy/Monitoring-progress-in-reducing-the-gender-gap-in-labour-force-participation.pdf>.

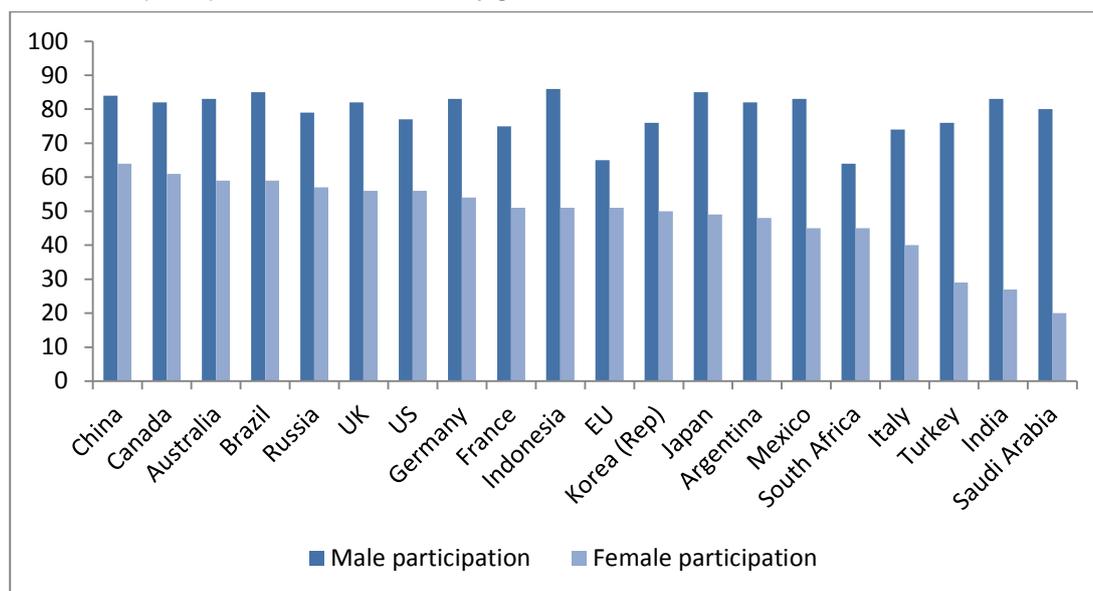
¹⁶ G20 China 2016, Employment Working Group, "G20 Employment Plans", <http://www.g20ewg.org/index.php/2015-07-09-20-38-21/employment-plans#>.

There has been some recognition of the difficulties in implementing the target. Christine Lagarde, Managing Director of the IMF, made it clear at the official launch of the W20 that “setting a goal and achieving it are two very different propositions”.¹⁷ The W20 responded by suggesting to the G20 a scorecard of ten measures as a proposed monitoring framework for the target.¹⁸ Arrangements for the W20 under the Chinese G20 Presidency are still being confirmed so it is unclear if this framework will be further developed.

The W20 will have to overcome some big hurdles in order to make an impact. Not all G20 countries sent delegates to the W20 last year and there are deep cultural divisions in some of the G20 countries with the lowest female employment, such as Saudi Arabia and India. World Bank and International Labour Organization (ILO) data show big discrepancies between G20 countries on gender participation.¹⁹ Burden-sharing becomes difficult if the countries with the most heavy lifting to do are not committed to the target.

Burden-sharing becomes difficult if the countries with the most heavy lifting to do are not committed to the target.

2015 labour participation in G20 countries by gender



Sources: World Bank and International Labour Organization, Key Indicators of the Labour Market database

¹⁷ Christine Lagarde, “Delivering on the Promise of 2025”, Keynote address to the W20 Summit, Ankara, 6 September 2015, <https://www.imf.org/external/np/speeches/2015/090615.htm>.

¹⁸ W20, “Final Declaration – W20 Communiqué”, 16–17 October 2015, <http://w20turkey.org/w20-final-declaration-w20-communique/>.

¹⁹ Hannah Wurf, “The G20 Can Help Women Enter the Global Economy”, *The Interpreter*, 9 March 2015, <http://www.lowyinterpreter.org/post/2015/03/09/The-G20-can-help-women-enter-the-global-economy.aspx>.

Discussions about improving women's economic empowerment and labour force participation are progressing outside the G20. A 2015 McKinsey report demonstrated that measures to improve women's equality could add \$12 trillion to global growth.²⁰ Countries are taking domestic actions. In Australia, the government will invest around A\$40 billion in childcare and early learning support to promote more flexible, affordable, and accessible childcare.²¹ Japan has passed legislation requiring public and private sector organisations to set numerical targets for the hiring and promotion of female employees, and Germany has quotas for non-executive boards. But progress is uneven; the University of Toronto's G20 Research Group saw little to no progress on gender policies in Argentina, China, India, Indonesia, and South Africa in 2015.²²

The objective of lowering barriers and creating opportunities for women in the global economy should be internalised in G20 work. Currently, the G20 gender gap target is not being publicly monitored and progress on the target is coming from independent domestic actions that have a tenuous link to G20 discussions. Those links should be strengthened and the target needs to continue to be a part of leader discussions. The gender target was announced prematurely given that there was no plan as to how to achieve it. The lack of time frames and monitoring mechanisms weakens its impact.

The G20's most recent target is the youth unemployment goal...

3. THE YOUTH UNEMPLOYMENT TARGET

The G20's most recent target is the youth unemployment goal established under the Turkish Presidency at the end of 2015. Youth employment remains low across many G20 countries, especially in Europe. There has been support for a youth unemployment target from the Youth 20 (Y20) engagement group and some in the Think 20 community.²³ However, the G20 target is very lenient given that the commitment is to "agree to the G20 goal of reducing the share of young people who are most at risk of being permanently left behind in the labour market by 15% by 2025 in G20 countries".²⁴

²⁰ Jonathan Woetzel et al, "How Advancing Women's Equality Can Add \$12 trillion to Global Growth", McKinsey Global Institute, September 2015, <http://www.mckinsey.com/global-themes/employment-and-growth/how-advancing-womens-equality-can-add-12-trillion-to-global-growth>.

²¹ Michaela Cash, "International Women's Day National Press Club Speech", Canberra, 9 May 2016, <https://ministers.dpmc.gov.au/cash/2016/international-women%E2%80%99s-day-national-press-club-speech>.

²² Julia Kulik, "Making the Workplace Work for Women", G20 G7, 16 October 2015, <http://www.g7g20.com/articles/julia-kulik-making-the-workplace-work-for-women>.

²³ Lachlan Campbell and Erin Watson-Lynn, "The Y20 2015: The G20 Youth Perspective", in *G20 Outreach to Society in 2015*, G20 Monitor No 18 (Sydney: Lowy Institute for International Policy, 2015), <http://www.lowyinstitute.org/publications/g20-outreach-society-in-2015>.

²⁴ G20, *Leaders Communiqué*, Antalya Summit.

How are those 'left behind' being defined? Two key groups of young people aged 15 to 29 years have been singled out. The G20 wants to reduce the number of low-skilled youth who are "Not in Employment, Education or Training" (NEET) and low-skilled youth in informal employment.²⁵ The youth unemployment target is not about employment per se but rather about reducing the percentage of young people in the informal or non-productive parts of a national economy. But there are no guaranteed jobs for these young people once they enter the formal economy. It looks as though there was not enough political will to commit to a firm goal to a certain percentage of employed or unemployed young people.

The vagueness of the youth target has raised some alarm bells. The Australian Y20 representatives from last year observed that "assessing which young people meet the definition of 'at risk' will no doubt prove difficult" and concluded that "a more ambitious target would focus on headline youth unemployment relative to total unemployment".²⁶ Like the gender target, the long time frame of 2025 means little to current G20 Leaders. The OECD and ILO proposed a G20 youth employment scoreboard for each G20 economy and a list of possible indicators.²⁷ A systematic approach to monitoring the target would be a good way forward. There might also be an opportunity to engage the Y20 in this process.

The youth employment target in its current formulation does not perform strongly against the framework. The target is not well articulated because of the confusion around definitions — it is not a target about employing a certain number of young people. It also did not get the media attention that the growth and gender targets did in 2014. This may be due to the circumstances surrounding the G20 summits. Australia had a message about jobs and growth in 2014 that linked strongly to the targets set during its presidency, while Turkey's summit in 2015 was overshadowed by security and the Paris terrorist attacks. Like the gender target, the long time frame is worrying and the monitoring process needs strengthening.

The vagueness of the youth target has raised some alarm bells.

²⁵ OECD and ILO, "Setting Objectives for Achieving Better Youth Employment Outcomes", 23–24 July 2015, <https://www.oecd.org/g20/topics/employment-and-social-policy/Setting-objectives-for-achieving-better-youth-employment-outcomes.pdf>.

²⁶ Campbell and Watson-Lynn, "G20 Outreach to Society in 2015".

²⁷ OECD and ILO, "Achieving Better Youth Employment Outcomes: Monitoring Policies and Progress in G20 Economies", 26–27 February 2015, <https://www.oecd.org/g20/topics/employment-and-social-policy/Achieving-better-youth-employment-outcomes.pdf>.

THE EFFECT OF TARGET-SETTING ON THE G20

Mike Callaghan, former G20 Finance Deputy, predicted in 2014 “the credibility of the G20 will be enhanced if there is a strong focus on follow-through and monitoring progress in implementing commitments”.²⁸ Conversely, if the G20 is unable to meet its growth target, its credibility could be jeopardised. This applies to the gender and youth targets too. Joe Hockey himself recognised in 2014 that “the G20’s credibility has been called into question because members did not always deliver on their commitments”.²⁹

It will always be difficult for the G20 to show the direct effect it has on country actions. Although targets are a good communication tool, they produce a ‘doomed if you do, doomed if you don’t’ scenario for policymakers. If the G20 sets a target and meets it, cynics will say the trend was inevitable and the outcome would have been reached anyway. If the G20 does not reach the target, cynics will say the G20 has a poor record of achievement. Another possible outcome for the growth target is the G20 congratulating itself in 2018 on meeting its commitments while global growth continues to perform poorly, causing a disconnect between G20 rhetoric and economic reality.

It is important to remember why these targets were set in the first place. They add political momentum to G20 decisions and tell a compelling story to the public. But there are limitations to G20 decision-making. Poorly defined and measured targets perpetuate uncertainty about the effectiveness of the G20 and risk detracting from the G20’s main purpose of communication among systemically important countries to avoid a crisis.

Poorly defined and measured targets perpetuate uncertainty...

SUGGESTIONS FOR CHINA, GERMANY, AND FUTURE HOSTS

The G20 cannot ignore the targets it has set and it would be fickle to abandon them. It needs to be honest about the shortcomings of the growth target and outline a more public roadmap for how it intends to meet the gender and youth targets, preferably to hit the targets before 2025. The growth target should be thoroughly assessed under China’s and Germany’s presidencies. In 2018, if it has not been successful, the G20 will need to own up to the failed target. We are in a period of low growth and if the G20 tries to present its efforts on growth as successful,

²⁸ Mike Callaghan, “The G20’s Credibility Is on the Line as Growth Task Gets Harder”, *Australian Financial Review*, 19 September 2014, <http://www.afr.com/news/policy/foreign-affairs/the-g20s-credibility-is-on-the-line-as-growth-task-gets-harder-20140918-jf4v5#ixzz46cak1FZa>.

²⁹ Joe Hockey, “Keynote Address to the CSIS”.

it will ring hollow. Joe Hockey has suggested that G20 countries should “hold each other to the fire” on their reform efforts.³⁰

The fact that the employment targets are so vague could suggest there is little political will to strengthen them. It will be the responsibility of future hosts to clarify the targets and convince G20 members to agree to a set time frame with annual updates on progress on both targets. The international organisations involved in these targets, especially the OECD, will have to scrutinise the self-reporting of G20 countries. The OECD’s proposed template to standardise self-reporting on national employment plans across G20 countries is a step in the right direction.³¹

The G20 under China’s Presidency should not be afraid to go back to basics; focusing on cooperation and communication even if there is no headline number. China should be wary of adding any new targets to the agenda. For example, there have been discussions of a measure for structural reforms or an investment number for the multilateral development banks. What China can do is highlight the targets that the G20 has already set and put them back on course. A positive development would be systematically investigating which G20 countries have implemented successful policies that are improving growth, female employment, and youth employment in the current economic climate, and to see if there are any lessons to be shared.

³⁰ Personal communication.

³¹ OECD, “G20 National Employment Plans: Proposed Self-Reporting Template”, Draft for discussion, 2015, <https://www.oecd.org/g20/topics/employment-and-social-policy/G20-National-Employment-Plan-proposed-self-reporting-template.pdf>.

THE G20 AND CLIMATE CHANGE IN 2016

TRISTRAM SAINSBURY¹

INTRODUCTION

In December 2015, the world reached a major global agreement to address climate change. While the Paris Agreement, which emerged from the December 2015 United Nations Framework Convention on Climate Change (UNFCCC) Conference of the Parties (COP21) in Paris, was a positive step, the world needs to increase ambition in the years to come. The UNFCCC process will continue to be the globe's central climate change policy discussion. That said, many look to the G20 to play a role in supporting the UNFCCC process and progressing global climate objectives. Such expectation is heightened for China's 2016 Presidency and Germany's 2017 Presidency, given their favourable domestic contexts for discussions on environmental sustainability.

This paper details the context for climate change in the aftermath of the Paris Agreement, and outlines how addressing climate change requires a combined macroeconomic, fiscal, and financial policy response across climate change mitigation, adaptation, and climate finance. After discussing the G20's chequered history on climate issues, the paper examines the innovative 'new frontiers' of G20 climate discussion in 2016: green finance and climate-related financial disclosures. Looking ahead to the Hangzhou Leaders' Summit, the G20 should look at it as an opportunity to provide its political endorsement of the Paris Agreement, and also to send a clear signal that the G20 is on a path of transforming the talk that is taking place throughout 2016 into concrete policy in the years ahead.

THE GLOBE'S CLIMATE DILEMMA

With the world continuing to set unwelcome climate records — for example, 2015 was the hottest year on record and 15 of the past 16 warmest years on record have occurred in the twenty-first century — the results from the Paris UNFCCC COP21 meeting are undeniably positive.² The Paris Agreement is, in fact, one of the most significant landmarks in a climate negotiation process that has been going on for more than two decades. In December 2015, 195 countries adopted the

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² National Aeronautics and Space Administration (NASA), "NOAA Analyses Reveal record-shattering global warm temperatures in 2015", *Research News*, 20 January 2016, <http://www.giss.nasa.gov/research/news/20160120/>.

first-ever universal, legally binding global climate deal. On 22 April 2016, 175 countries signed in New York,³ and the agreement will enter into force once 55 UNFCCC Parties, and enough members to account collectively for 55 per cent of total emissions, have ratified.

The scale of ambition delivered in Paris was a significant advance on what was discussed and expected at COP20 12 months earlier. The diplomatic efforts involved in reaching such a broad accord reflects positively on a wide range of actors, headlined by the leadership of France, the meeting host, as well as the joint leadership shown by China and the United States in norm-setting.⁴ That said, the substance of the agreement needs to be viewed in a less favourable light. The key features in the final deal include:⁵

- an overall **aspirational temperature goal** to limit warming (which is already 1°C above pre-industrial levels) to less than 2°C, and possibly even keep it down to 1.5°C;
- an **overall emissions goal** to peak emissions as soon as possible and net zero emissions by the second half of the century, given current emission trajectories imply a 2030 peak that makes it extremely difficult to stay below 2°C;
- **non-binding national climate pledges** (Intended Nationally Determined Commitments or INDCs), which collectively imply warming of 2.7°C, will be **reviewed every five years from 2020** to help lift global ambition over time;
- **financing from developed countries** to assist poor countries adapt to climate change and adopt clean energy, although it doesn't mandate a specific number⁶ and accountability measures are fairly weak; and
- a **'transparency framework'** for reporting and monitoring the implementation of national pledges that is facilitative, non-intrusive, non-punitive, respectful of national sovereignty, and avoids placing undue burden on UNFCCC Parties.

³ United Nations, "What Exactly Is Going to Happen at the Climate Signing Ceremony on 22 April", 13 April 2016, <http://www.un.org/sustainabledevelopment/blog/2016/04/what-exactly-is-going-to-happen-at-the-climate-signing-ceremony-on-22-april/>, accessed 29 April 2016.

⁴ Tristram Sainsbury, "US Global Economic Leadership: Responding to a Rising China", Lowy Institute for International Policy Analysis Paper, 19 August 2015, <http://www.loyyinstitute.org/publications/us-global-economic-leadership-responding-rising-china>.

⁵ Brad Plumer, "The World Just Agreed to a Major Climate Deal in Paris. Now Comes the Hard Part", Vox Energy and Environment, 12 December 2015, <http://www.vox.com/2015/12/12/9981020/paris-climate-deal>.

⁶ Developed countries have set a non-binding goal of \$100 billion per year in public and private investment by 2020, and the Paris Agreement calls for an increase over time.

...the [Paris] agreement hasn't by itself guaranteed that temperatures will rise more than 2 degrees...

In short, what the Paris Agreement has delivered is for countries to (a) agree to ambitious aspirational targets; (b) submit non-binding pledges for action that collectively imply warming that is not even close to meeting the aspiration targets, that occur too slowly and won't be reviewed for five years; and (c) commit to reasonably soft burden-sharing, reporting and monitoring processes. As such, the agreement hasn't by itself guaranteed that temperatures will rise more than 2 degrees, much less solve global warming or save the planet. The effect of the agreement was neatly summed up when 350.com founder Bill McKibben tweeted that the Paris agreement may have "saved the chance to save the planet (if we all fight like hell in the years ahead)".⁷ The main contribution of the agreement has, instead, been to add structure and momentum to efforts underway across the world to reduce greenhouse gas emissions.

ADDRESSING CLIMATE CHANGE IS A MACROECONOMIC, FISCAL, AND FINANCIAL POLICY ISSUE

Climate change remains, at its core, an issue of an externality. The consequences of greenhouse gas emissions are not being adequately reflected in the prices that economic agents (households and firms) face. As the logic goes, the most convenient way to ensure appropriate 'real economy' price signals exist is to 'internalise the externality'; that is, raise the price of carbon emissions in a way that also sends an appropriate investment signal. Efficiently functioning financial markets then allow financiers with cheap access to quality information on climate risks to respond by making equally appropriate decisions.

The bedrock of global climate mitigation efforts are the individual country actions implied in the INDCs, with countries left to determine the most suitable domestic path to achieve their targets.⁸ Raising a price in the most efficient, effective, and appropriate manner generally boils down to a choice between an emissions trading scheme or a carbon tax.⁹ Some 40 nations, and more than 23 cities, states, and regions currently implement a price on carbon emissions. Unfortunately, this covers just 12 per cent of global emissions.¹⁰ Calls from the International Monetary

⁷ Bill McKibben, Twitter post, 12 December 2015, 8.11 am, <https://twitter.com/billmckibben/status/675709560712204288>.

⁸ A list of country pledges can be found at Carbon Tracker, <https://docs.google.com/spreadsheets/d/1LtaBOv70pvXVPDgLUgtTKnSxofjfZy7jx06bTSaMaH4/pubhtml?gid=14385633&single=true>, accessed May 2016.

⁹ As long as one covers emissions comprehensively, establishes stable prices, and can exploit fiscal opportunities. See Mai Farid et al, "After Paris: Fiscal, Macroeconomic and Financial Implications of Climate Change", IMF Staff Discussion Note SDN/16/01, January 2016, <https://www.imf.org/external/pubs/ft/sdn/2016/sdn1601.pdf>.

¹⁰ Thomson Reuters Foundation, "Carbon Pricing Campaign Stepped Up Ahead of Climate Deal Ceremony", 22 April 2016, <http://www.eco-business.com/news/carbon-pricing-campaign-stepped-up-ahead-of-climate-deal-ceremony/>.

Fund (IMF) for pricing systems to cover 25 per cent of the global economy by 2020 and 50 per cent by 2030 seem highly ambitious.¹¹

The remaining 88 per cent of the world relies on a variety of regulatory alternatives to place an implicit price on carbon, such as standards on emissions rates, energy efficiency, and renewables. Such schemes are often less effective (and more expensive) as they are more narrowly targeted; multiple programs are needed which adds to complexity and leads to varying implicit carbon prices among industries; and standards may not be well enforced, particularly in developing countries where regulatory capacity is low. Incentives to invest in climate-related research and development remain lower than might be desirable. The absence of an explicit price signal may also be delaying shifts away from carbon-intensive industries, impeding the development of so-called 'green' finance regulatory architectures and markets to mobilise private green investment. Further complicating this story are questions about how quickly regulatory frameworks can keep up with changing industry mixes and current rapid rates of technological advance, particularly in the energy sector.

Distributional consequences remain a prominent factor in climate change adaptation considerations. These are based on disconnects between the beneficiaries of carbon emissions and those incurring the burden of costs of the changing climate. In particular, advanced economies have contributed most significantly to existing carbon emissions in the course of industrialisation; and the costs of climate change are likely to be felt disproportionately by vulnerable communities and low-income countries that have not industrialised. International climate finance discussions have a starting point that advanced economies pledged in 2009 to mobilise US\$100 billion a year by 2020, by private and public means, for mitigation and adaptation needs in developing countries.¹² The IMF calculates climate finance flows in 2014 of \$62 billion, although the path to meeting the US\$100 billion commitment at this stage remains unclear.

This is not the end of the story, either. Even if there was a carbon price covering the entire global economy and financing was adequately mobilised, there are failures in international capital markets that would prevent appropriate investment signals from being established. Chief among these is the lack of clear information on climate-related risks. There are some 400 existing climate or sustainability disclosure regimes that are promoted and disseminated by various industry groups, non-governmental organisations, stock exchanges, regulators, and international organisations. The absence of a globally standardised

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¹¹ International Monetary Fund, "Leaders Set Landmark Global Goals for Pricing Carbon Pollution", Press Release No 16/179, 21 April 2016, <http://www.imf.org/external/np/sec/pr/2016/pr16179.htm>.

¹² A useful summary of progress on the global finance commitments can be found on the Green Climate Funds "Pledge Tracker", available at <http://www.greenclimate.fund/contributions/pledge-tracker> (accessed May 2016).

framework for disclosing climate-related risks has led to fragmented reporting practices. The lack of consistency in reporting impedes decision-making by financial market participants and insurers, and hampers efforts by regulators to determine system-wide exposures.

The lack of adequate information on climate risk exposures has macroeconomic consequences. Mispricing of assets and misallocation of investment can lead to financial stability concerns, given the propensity of market corruptions to occur abruptly. Further, inadequate information on risk exposures can make it much more difficult for firms to decide how quickly to transition to a world which appears, increasingly, to have a binding carbon budget. Increased disclosure on carbon footprints, prudential requirements in insurance, and improved stress-testing for climate risks are all important avenues for future financial regulatory policymaking.

THE G20 CAN HAVE A ROLE, BUT NEEDS TO OVERCOME A FRAUGHT HISTORY

Climate change remains a peculiar issue for the G20. There appears to be a broad underlying recognition that it is a crucial issue of resilience in the global economy and for policymakers in the world's premier international economic forum. There is also the implicit understanding that the G20 is a major part of the global climate discussion, given G20 countries are collectively responsible for three-quarters of global greenhouse gas emissions.¹³ As Barry Carin and Mike Callaghan observe, references to G20 members taking action on climate change first appeared at the London Summit in April 2009 and received significant attention at the Pittsburgh Summit in September 2009.¹⁴ Climate change has featured in all subsequent G20 Leaders' Summit communiqués, with commitments to support the UNFCCC process — in recognition that the G20 is not a forum for detailed negotiations — accompanied by various commitments in areas such as fossil fuel subsidies, climate finance, and energy efficiency.

But the G20's record on climate change issues has not been impressive, notwithstanding the many commitments made by G20 Leaders to fight climate change and to achieve a successful outcome from UNFCCC negotiations. Moreover, instances of actual discussion of climate change issues at the G20 have invariably been contentious. For example, in Pittsburgh, G20 Leaders asked for options on climate change finance ahead of the Copenhagen UNFCCC meeting. Despite an all-night

...G20 countries are collectively responsible for three-quarters of global greenhouse gas emissions.

¹³ United Nations, "Paris Climate Summit Must Balance Leadership Role of Developed Countries, Responsibility of Developing Ones, Says Secretary-General at G20 Meeting", Secretary-General Press Release, 15 November 2015, <http://www.un.org/press/en/2015/sgsm17327.doc.htm>.

¹⁴ Barry Carin and Mike Callaghan, "Climate Change: Can the G20 Address It?", in *The G20 and the Future of International Economic Governance*, Mike Callaghan and Tristram Sainsbury, eds (Sydney: UNSW Press, 2015).

drafting session at a subsequent G20 Finance Ministers Meeting in St Andrews in 2009, no substantive progress was possible.¹⁵ The major stumbling block was the insistence by the BRICS countries that climate change negotiations should only be pursued through the UNFCCC and not the G20.

The lack of consensus on how to approach climate change issues and contrasting views of the role of the G20 relative to the United Nations in this space has similarly plagued recent summits. An EU official at the Brisbane Summit publicly likened the state of climate change discussions to trench warfare, and the G20 was unable to reach a consensus in Brisbane on even when to report country national pledges in 2015, let alone set a level of ambition for what was announced. The heated discussions in Brisbane were repeated in Antalya a year later, with negotiations on the climate change communiqué text extending again into the final day of the leaders' summit. The end result was a muted signal of support for the COP21 meetings, with the communiqué able to encourage UN negotiators to "engage constructively and flexibly".¹⁶

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More generally, Carin and Callaghan argue that the result of the diversity of views within the G20 has led to references in the G20 summit communiqués to the UNFCCC negotiations becoming almost formulaic, and typically lacking in follow-up action.¹⁷ On top of this, the absence of a clear path towards meeting the US\$100 billion global climate finance ambition is combined with G20 output on climate finance, which since that fateful 2009 St Andrews discussion has been characterised by largely disappointing, bureaucratic reports. Together, these outcomes create strong doubts over the ongoing viability of the G20's dedicated Climate Finance Study Group (CFSG), established in 2012 "to consider ways to effectively mobilize resources, taking into account the objectives, provisions and principles of the UNFCCC".¹⁸ It is noteworthy that the CFSG's 2015 report to G20 Finance Ministers recommended revisiting the status of the group.

¹⁵ Ibid.

¹⁶ Tristram Sainsbury and Hannah Wurf, "Paris Attacks Cast a Shadow over 2015 G20 Summit", *The Interpreter*, 17 November 2015, <http://www.lowyinterpreter.org/post/2015/11/17/Paris-attacks-cast-a-shadow-over-2015-G20-Summit.aspx>.

¹⁷ Carin and Callaghan, "Climate Change: Can the G20 Address It?".

¹⁸ G20, "G20 Climate Finance Study Group — Report to the Finance Ministers, 2014", September 2014, http://www.g20australia.org/sites/default/files/g20_resources/library/g20_climate_finance_study_group.pdf.

NEW FRONTIERS: GREEN FINANCE AND FSB TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Under the Chinese G20 Presidency in 2016, the G20 is taking a fresh approach to tackling the old problem of strengthening climate change policy efforts. The most promising avenues are the options being discussed through the Green Finance Study Group (Study Group) that G20 finance ministers and central bank governors formally endorsed in Shanghai in February 2016. At the same time, the Financial Stability Board (FSB) has established a task force on climate-related financial disclosures.¹⁹ Led by Michael Bloomberg, it has determined the scope of climate disclosure work required and proposed a set of basic voluntary principles for disclosure, and will undertake public consultations on the disclosure principles and lending practices in the latter half of 2016.²⁰

The goal of the Study Group, articulated in the Shanghai communiqué — the Study Group's terms of reference have not been publicly released — is to identify institutional and market barriers to green finance, and to develop options on how to enhance the ability of the financial system to mobilise private capital for green investment. The Study Group will specifically focus on mobilising private finance and financial regulation, and so is distinct from the CFSG. It will work across three main areas: issues relevant to green bond markets, banks and investors; risk analysis; and experience sharing and measurement issues.

The Study Group is due to present a “synthesis report” at the July finance ministers and central bank governors meeting in Chengdu.²¹ An update on progress towards this report, delivered to finance ministers in Washington in April, identified that many of the challenges to green finance can be addressed by financial innovations, knowledge sharing and capacity building, risk analysis and international cooperation. Finance ministers have requested specific options on how to develop green banking, scale-up green bond markets, support the integration of environmental factors by institutional investors, and develop ways for measuring progress of green financial activities as part of the July report.²²

¹⁹ Mark Carney, “Breaking the Tragedy of the Horizon — Climate Change and Financial Stability”, Speech to Lloyd's of London, 29 September 2015, <http://www.bankofengland.co.uk/publications/Documents/speeches/2015/speech844.pdf>.

²⁰ Financial Stability Board, Chairman's statement to G20 Finance Ministers and Central Bank Governors, 22 February 2016, <http://www.fsb.org/wp-content/uploads/FSB-Chair-letter-to-G20-Ministers-and-Governors-February-2016.pdf>.

²¹ G20, *Communiqué*, G20 Finance Ministers and Central Bank Governors Meeting, Shanghai, 27 February 2016, <http://www.g20.utoronto.ca/2016/160227-finance-en.html>.

²² *Communiqué*, G20 Finance Ministers and Central Bank Governors Meeting, Washington, 15 April 2016, http://wjb.mof.gov.cn/pindaoliebiao/gongzuodongtai/201604/t20160416_1952794.html.

The task force on climate-related financial disclosures follows a request from the G20 in April 2015 for the FSB to convene public and private sector participants²³ to review how the financial sector can take account of climate-related issues. Wide-ranging discussions at a subsequent meeting in September focused on a common theme: the need for better information.²⁴ Recognising these issues, in September 2015 the Chair of the FSB, Mark Carney, suggested that there would be merit in developing consistent, comparable, reliable, and clear disclosure around the carbon intensity of different assets. The FSB also acknowledged that what constitutes effective disclosure should be something with industry buy-in and be the product of an open process.

THE GREEN FINANCE STUDY GROUP IS ALSO A LESSON IN G20 GOVERNANCE

The establishment of the Study Group is a success story in gradually introducing and building momentum around a 'peacetime' discussion by G20 finance ministers and central bank governors. The development has parallels with the tax base erosion and profit shifting agenda, in that technical expertise within an international organisation provides the evidence base that supports consideration of an issue by the G20, which provides the political impetus. In this case, the United National Environment Programme (UNEP) has been driving a green finance agenda since January 2014 through the UNEP Inquiry into the Design of a Sustainable Financial System,²⁵ drawing on a broad and growing body of sustainable finance and green economy work and extensive collection of country case examples.

The political context has been reshaped by the Paris Agreement and by the increasing recognition that all countries have a role in sharing the burden of mitigating and responding to climate change efforts. Political drive within the G20 has been largely provided by two members: a China 2016 G20 President keen to prioritise both sustainability issues and a UNEP–People's Bank of China (PBC) Green Finance Task Force²⁶ that examined domestic actions to green the rapidly developing Chinese

...the United National Environment Programme (UNEP) has been driving a green finance agenda since January 2014...

²³ Ibid.

²⁴ Task Force on Climate-Related Financial Disclosures, "Phase 1 Report of the Task force on Climate-Related Financial Disclosures", 31 March 2016, https://www.fsb-tcfd.org/wp-content/uploads/2016/03/Phase_I_Report_v15.pdf.

²⁵ The UNEP Inquiry examined examples in more than 15 countries and across areas as broad as banking, bond and equity markets, institutional investment and insurance as well as monetary policy. To reach its findings, the Inquiry has worked with central banks, environment ministries and international financial institutions as well as major banks, stock exchanges, pension funds and insurance companies: see <http://web.unep.org/inquiry>.

²⁶ United Nations Environment Programme, "Establishing China's Green Financial System — Report of the Green Finance Task Force", Press Release, 22 April 2016, <http://www.unep.org/newscentre/default.aspx?DocumentID=26802&ArticleID=34981>.

financial and capital market system; and a Bank of England (BoE) that was examining the opportunities that green investment offers and interested in managing the risks of financial transition. The depth of preparation was impressive; the Shanghai endorsement of the Study Group was preceded by a process that included two pilot preparatory meetings in 2015, and the Study Group was jointly announced by PBC Deputy Governor Yi Gang and BoE Governor Mark Carney at the IMF–World Bank Spring Meetings in October 2015.

G20 support has been able to coalesce around an agenda where participation has been voluntary, there is no expectation or implied support for particular outcomes, and there has been an initial focus on building a consensus around the need to foster green finance opportunities. A master stroke, and somewhat radical development, was in ensuring that discussions on green finance would be advanced through finance ministers and central bank governors, and not through G20 Sherpas (as has generally been the case for the bulk of climate and energy issues). The 'Finance track' process has several advantages relative to the Sherpa track, in particular that discussions among finance ministers have a longer history, having taken place since 1999, and meetings with ministerial involvement occur at more regular intervals, generally four a year in the lead-up to the annual leaders' summits. It is often a higher bar to successfully add issues for consideration by finance ministers, but once added the opportunities for incremental change are far greater.

LOOKING FORWARD — ADDING SUBSTANCE TO THE RHETORIC AND OFFICIAL DISCUSSIONS

It remains to be seen how the G20's green finance focus will evolve. A natural question is whether the 2017 G20 Presidency will choose to maintain the 'talk' taking place inside the Study Group, or even 'upgrade' the voluntary Study Group to a more permanent G20 discussion. Many countries, advanced and emerging, have an incentive to develop and deepen green markets and to transition to a low-carbon future in a way that does not create or exacerbate financial instability. There therefore remains substantial scope for countries to learn from successful policy examples to promote green finance and financial sector resilience, implement carbon prices or optimise regulatory policy alternatives. The FSB and UNEP, with support from other international organisations, are well placed to coordinate such a technical agenda and report back to the G20 when it is appropriate to engage with decision-makers. But the biggest challenge for an enduring, substantive climate finance working group will be how to make best use of the G20's toolkit, which generally involves articulating collective goals, setting global standards or improving the functioning of global architecture, and also maintain the consensus that is necessary for constructive G20 deliberation. An agreed definition of what actually constitutes green finance — something

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that has been purposely kept 'creatively ambiguous' to date — would be a valuable, if challenging, starting point.

In Hangzhou, the G20 should provide its political endorsement of the Paris Agreement, and key individual countries such as China and the United States should continue to influence global norms by setting an example in their domestic actions to mitigate the effects of climate change. However, those hoping that the summit will be a venue by which the G20 can demonstrate a significant collective display of leadership that raises global ambition beyond the Paris Agreement should temper their expectations. The diversity of views around the G20 table and fractious nature of climate change discussion within the forum means that it is unrealistic to expect a world-changing 'signature' outcome in Hangzhou where leaders signal their determination to take dramatic additional steps that exceed the Paris Agreement.

This is not to say that the G20's hands are tied. Thanks to the innovative joint leadership displayed by the PBC, the BoE, and the UNEP, discussions on promoting green finance and setting standards on climate disclosures holds the promise of additional, real action in years to come. It is likely that the German G20 Presidency will take a lead from its successful 2015 G7 Summit and prioritise sustainability as part of the 2017 G20 agenda. A significant outcome from the Hangzhou Summit would be a clear signal that the G20 is on a path of transforming the talk that is taking place throughout 2016 into concrete policy. Incremental progress is very much an appropriate outcome, and China should be praised for its leadership in driving this agenda in 2016.

POLICY OPTIONS FOR THE G20'S ENERGY AGENDA

The recommended options set out here are based on discussions at the conference “From Knowledge to Action: G20 Global Energy Governance Innovation”, held in Shanghai on 11–12 March 2016. The conference was organised by the Shanghai Institutes for International Studies, with support from the Centre for International Governance Innovation, the Lowy Institute for International Policy, and the Korea Development Institute.

In 2016, there is new context for energy governance with an international climate agreement from COP21, a UN framework for Sustainable Development Goals, and new vulnerabilities in the global economy. Conference participants reviewed the current G20 avenues for energy discussions, namely:

- the Energy Sustainability Working Group in the Sherpa track
- the Climate Finance Study Group in the Finance track
- the Green Finance Study Group in the Finance track (focused on greening banking systems, bond markets, and institutional investors)
- the G20 Energy Ministers meeting.

China should integrate preparations across the Finance and Sherpa tracks.

ENCOURAGE MORE INCLUSIVE ENERGY GOVERNANCE

There was a divergence of views on the relative merits of a new global energy organisation versus the International Energy Agency (IEA) reinventing itself by deepening and extending association agreements with countries that are not currently members. Accordingly, the G20 can:

- Endorse the IEA's new association agreements and encourage further efforts at modernisation of the voting shares criteria, which were established in 1973 based on oil consumption.
- Further elaborate the G20 principles on energy collaboration, and look into the possibility of creating a new global energy organisation as well as reinventing the IEA.

ESTABLISH A NEW INTERNATIONAL ORGANISATION TO PROMOTE ENERGY RESEARCH AND DISSEMINATION OF RESULTS

- China could establish a consultative group for international energy research (in the same way that the Consortium of International Agricultural Research Centers does for international agricultural research). Building on the Antalya Mission Innovation commitment, it would take the form of a network of energy research institutes, each funded independently by its own government. Funds invested would be spent domestically within each G20 country. Research results would be available open source and patent free, on a reciprocal basis to countries that join the group. China could offer to host the coordinating secretariat.

PROMOTE THE GREEN ECONOMY: INFRASTRUCTURE AND LEVERAGED FINANCE

- Invite the World Trade Organization to suggest enhanced initiatives to promote trade in renewable energy technology and equipment.
- Request multilateral development banks devise new financial mechanisms to promote investment in renewable energy and green infrastructure.
- Invite G20 Finance Ministers, with the support of Business 20, to review potential regulatory initiatives in the fields of superannuation, banks, insurance, credit ratings agencies, and voluntary codes of conduct for green investment.
- Request the Financial Security Board produce a report assessing long-term sustainability risks.

CONTINUE SUPPORT FOR THE UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE

- Reaffirm commitment to implementing and increasing Intended Nationally Determined Contributions.
- Commit to voluntary renewable energy targets.

INITIATE HIGH-LEVEL CONSULTATION ON NATURAL GAS

- Invite G20 Energy Ministers to discuss promotion of investment in natural gas production and infrastructure, incentives to replace coal, and best regulatory practices to minimise methane emissions.

PROMOTE RESEARCH ON CARBON PRICING SCENARIOS

- G20 Energy Ministers could be asked to report on experiences from national and sub-national cap-and-trade programs and carbon taxes.
- The International Monetary Fund and World Bank could be asked to simulate models of global cooperation on carbon taxes and border tax adjustments.

SHARE INFORMATION ACROSS G20

- China could share how it has increased renewables in its energy mix, promoted the widespread provision of electricity, and initiated a green bond market.
- G20 Energy Ministers and the Energy Sustainability Working Group could formulate proposals to make energy data more transparent and timely.

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