

# The G-20 and the Charter for Sustainable Economic Activity

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## Abstract

Two meetings of high officials of the G-20 countries were held last June and beginning of September in Berlin and Washington D.C, respectively, to discuss the content of the Charter for Sustainable Economic Activity. This charter was proposed in the London Summit Declaration of last April with the aim of setting the principles of a new global consensus on international economic development. This article summarizes the documents dealt with and the discussion of their contents. It is worth highlighting that two different positions were made clear during the meetings. The first, supported by some OECD countries, was concentrated in the economic and financial area; the second, of greater reach, was introduced by developing countries and it incorporates issues such as employment, trade, the environment and development.

## 1. Introduction

The Second G-20 Summit,<sup>1</sup> held in London on 1 and 2 April 2009, introduces the negotiation of a charter of values and economic principles to guide the design and execution of government policies and the behavior of social actors in the future. It is meant to be a political not legally binding declaration.

In that respect, the Declaration of the London Summit states in its paragraph 21: "In addition to reforming our international financial institutions for the new challenges of globalization we agreed on the desirability of a new global consensus on the key values and principles that will promote sustainable economic activity. We support discussion on such a charter for sustainable economic activity with a view to further discussion at our next meeting. We take note of the work started in other fora in this regard".

Reference to other fora is related to the discussion on the Global Standard taking place within the G-8, which mainly focuses on the reform of the global financial system and the guidelines that will drive said reform.

The first discussions on the charter, called Charter for Sustainable Economic Activity, took place in Berlin on 12 June 2009, and in Washington D.C, on 9 September, during meetings of high-level officials—referred to as "sherpas"—who are responsible for organizing the summits and preparing the drafts that will facilitate leaders' discussions as well as policy and decision making. At these meetings there were representatives from the G-20, Spain, the Netherlands, the World Trade Organization (WTO), the International Labour Organization (ILO), the International Monetary Fund (IMF), the OECD, the World Bank and the New Partnership for Africa's Development (NEPAD).

As basic elements for the discussion, some informal notes prepared by the German government were made available, as well as some work on the Global Standard introduced by the representative of Italy, which hosted the last G-8 Summit in L'Aquila on 8 and 9 July 2009.

It was assumed that after the meeting of September 9 some inputs will be conveyed for consideration of the leaders at the Third G-20 Summit in Pittsburg, United States, during September 24-25. This last country, Germany and South Africa are coordinating the tasks leading to the elaboration of the preliminary drafts of the Charter.

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<sup>1</sup> The G20 is formed by Germany, Saudi Arabia, Argentina, Australia, Brazil, Canada, China, South Korea, the United States, France, India, Indonesia, Italy, Japan, Mexico, the United Kingdom, Russia, South Africa, Turkey and the European Union.

<sup>2</sup> See Stancanelli (2009), "The world economic crisis and the role of the G-20".

Said meetings are aimed at defining the scope of the Charter, namely, the areas of principles and values, and the content of each area. Before Pittsburgh, consensus on the core principles is intended to be reached, so as to facilitate the preparation of a provisional document containing a description of the Charter concept, a part on its scope and substance of principles, and a working program.

After the Third Summit, definition of the principles (phase 1), of the instruments (phase 2) and of the implementation mechanisms (phase 3) should follow. The Charter is scheduled to be approved in 2010.

## 2. Proposals

As stated in the introduction, two working drafts prepared by the German Chancellery were made available so as to support the exchange of ideas during the meetings. At the same time, written comments made by member's representatives were formulated to help the discussions.

The justification of the Charter, pursuant to the **first draft**, is given by the need for a new international financial structure compatible with the micro- and macroeconomic responsibilities and a sustainable economic development. As a legally non-binding political instrument, it must promote coherence between the different political areas at domestic and international levels.

Regarding the management of the economy, it emphasizes the role of the market within a framework that guarantees stability, social balance and sustainability. Concerning the content, it refers to a set of general and specific principles in accordance with certain goals. It stated that the principles must encompass the values that are sought in the context of a sustainable economic activity. They must be supported by a code of codes derived from existing rules that could be adapted, as appropriate, to the new state of affairs, and any new rule that is deemed necessary to meet the Charter's goals.

Regarding goals, the following are mentioned: sustainable and balanced growth, financial markets supporting growth and employment, a sustainable macroeconomic policy, labor market productivity, decent jobs and social protection, propriety, integrity, transparency, preservation of the environment and the natural resources, and a global partnership for a balanced economic development.

With respect to the implementation of the Charter, three situations are contemplated: the first deals with adherence to the existing set of rules that are considered in line with the principles; the second is a critical discussion about the coherence of existing policy instruments; and the last deals with the creation of new rules or the adaptation of the current ones to the present and future contexts. It states that for the first situation, the task can be approached on the basis of oversight and control mechanisms by the G-20 and the relevant international organizations, like the OECD, the WTO, the IMF and the World Bank. However, for the other two situations, it considers it necessary to have guides or guidelines set by the highest political spheres.

A final aspect that is highlighted relates to G-8 negotiations on the Global Standard, which is initially centred on one of the Charters' goals, that of propriety, integrity and transparency of international economic and financial activities. It states that said standard, discussed at the G-8 Summit held in L'Aquila, can contribute significantly to the drafting process of the G-20 Charter.

**The second draft** approaches the practical aspects of the structure and elaboration of the Charter. Regarding its structure, it proposes a preamble, a chapter with the general and specific core principles—in the latter case, related to each of the goals identified in the first document—a chapter on the implementation, a chapter on the participation or number of member countries—which suggests it should be higher than that of the G-20—and an annex of existing rules, which are deemed essential to the implementation of the Charter.

**The Preamble** stems from the current crisis, highlights the goal of stable, sustainable and socially balanced development, proposes an ample participation of countries and stresses the non-legally binding nature of the Charter.

**The Chapter of General Principles** identifies those of well-being of all citizens and that of sustainability. It points out that strong and sustainable growth and a fair global economic order rely on free competition to promote innovation and wealth, and on effective rules and instruments to avoid excesses and crises.

**The specific principles** coincide with the goals of the first document, which were previously referred to.

In matters of **sustainable and balanced growth**, free trade, open investment regimes, fair and transparent competition and effective protection of intellectual property are mentioned as cornerstones to foster growth and economic development. International labor mobility appears as a condition favoring an efficient allocation of human resources.

Regarding **Financial Markets to Support Employment and Growth**, it states that the crisis has shown that a comprehensive and efficient regulation of said markets is indispensable. It suggests that governments should commit to international cooperation in setting standards and in ensuring adequate regulation and supervision.

Regarding **Sound Macroeconomic Policy**, it highlights the importance of budget balances and price stability as cornerstones of a balanced global development.

In terms of **Productive Labor Markets, Decent Work and Social Protection**, it stresses the dialogue between the relevant actors (employers, workers and the state), effective employment policies and social protection systems taking into account the respective state of economic development in each country.

In relation to the concepts of **Propriety, Integrity and Transparency**, the areas of tax evasion and avoidance, bank secrecy, corporate governance, bribery, money laundering and government/business interaction are identified as those that need effectively being addressed. To that aim, it suggests taking into account the body of work being carried out at the different international fora.

When referring to the **Preservation of our Environment and Natural Resources**, it points out that the Charter's principles must promote actions to combat climate change, foster energy efficiency and renewable energies, and conserve natural resources.

The approach to the **Global Partnership for Balanced Economic Development** relates to the development of least advanced countries so that they participate fully in the international division of labor. It points out that, to that aim, ownership and leadership are necessary in the developing world. It promotes improvement and adaptation of development assistance by developed countries and emerging economies.

**The Chapter on Implementation** proposes the use of oversight and monitoring structures in the different international fora. Likewise, it suggests that political leaders should take into account the reports by the "Sherpas" and the group of special appointees, who can make proposals for increasing the coherence between the different policy areas and measures.

**The Chapter on Participation** recommends that the G-20 should invite all third countries to endorse the Charter and suggest implementation mechanisms to be defined on a case-by-case basis.

**The Annex** is related to the stock of existing rules deemed essential for implementing the Charter. The OECD has prepared a first provisional inventory to that aim.

### 3. Discussion

The Berlin and Washington meetings allowed the first occasions of discussions on the Charter to take place. The ideas expressed at said meetings mainly tended to specify the convenience, opportunity and likely content of the principles and values.

#### 3.1. General Ideas

Support of the negotiation of the Charter—in general backed up by all G-20 members—lay on the importance of the crisis and the need to have a set of principles and standards to avoid its recurrence and lead towards the design of policies and measures that guarantee a sustainable development of the world economy.

It was stressed that while the Charter is being negotiated, it is necessary to advance towards the implementation of some of the relevant decisions agreed upon during the London Summit. Particularly, those relative to increased resources for developing countries derived from multilateral and regional financial institutions and to the stabilization of the international financial system.

It was agreed that its elaboration should be simple, written in a language that can be understood by the laymen and be based on principles and values shared by all. It was stressed that even though there was agreement on the fact that its regulations would not be mandatory, they should guide policy proposals.

It was expressed that it would first be convenient to concentrate on the principles, then on the policies and finally on the oversight and control mechanisms. Regarding the process, it was estimated that after the discussion at the G-20, it should be analyzed how other countries would be incorporated into the discussion, so that the Charter can have broad international consensus.

The OECD countries with the greatest economic weight stated that the Charter should give guidance for the process of coordination of international policies, and support the principles of open markets, resistance to protectionism, fiscal imbalance and balance of payment reduction, countercyclical policies against the crisis, intellectual property protection, strengthening of labor and social security standards, protection against climate change and development promotion.

Some concern was raised regarding the definition of a sustainable economy since, on the one hand growth is being promoted, but, on the other, there is awareness of the existing limitations like those related to environmental protection and climate change. Furthermore, the social issue, that of full employment and of equitable distribution of income were mentioned as elements that should necessarily be incorporated into all notions of sustainability.

The opportunity to advance in policies and disciplines under current circumstances was also questioned, considering the long term priority of the goals, principles and values of the Charter. It is for that reason that some delegations opted to postpone the issues of the implementation until a second stage, linking the analysis to what was being performed at the different multilateral institutions.

Regarding its scope, several ideas favouring a broad approach were introduced besides those giving preference to the economic and financial spheres, thus contributing to the Global Standard.

In the first case, it was pointed out that the gap between political and economic integration should be filled. Apart from the coordination of policies aimed at avoiding the recurrence of speculative bubbles and serious macroeconomic imbalances, it was stated that those of job promotion, preservation of the environment, social protection and development should be incorporated.

Regarding the limited approach, it was argued that the London Summit had agreed as a priority to progress in matters of financial regulation and in the issue of macroeconomic—fiscal, balance of payment and exchange rate—imbalances.

Referring to the Global Standard, the G-8 presidency pointed out that it was aimed at soundness of the financial system and at preventing crisis recurrence, thus complementing the work undertaken on the G-20 Charter. It considered that the tasks on the Global Standard carried out by the G-8 did not conflict with what was proposed there. It stated that it was necessary to substitute the principles of the Washington Consensus, given the changes the world had gone through. It defined the Charter as a Code of Codes that would contain principles to guide the policies in a top-down approach. It gave particular importance to the principles of Stability, Sustainability, Integrity, Decency and Transparency. The first principle referred to the national responsibility of macroeconomic balance; the second related to policy consistencies along time; the third to growth with no critical oscillations aimed at resource preservation; the fourth to ethics; and the last one to the interested parties' knowledge of policies, instruments and risks.

Most representatives from developing countries advocated a more balanced international economy with equal opportunities for all countries. They expressed that, in that sense, the crisis should be profited from for the design and application of policies leading to recovery and development promotion. Reform and democratic control of the international financial institutions were deemed important. Regarding the process, they suggested listening to other countries apart from those of the G-20.

They expressed that conditions in developing countries were different from those of the developed world, for which they needed space or flexibility to perform their policies. They questioned the inventory or code of disciplines by the OECD, which focused on those corresponding to that organization, the IMF, the WTO, the ILO and the World Bank. They stated that the issue deserved to be further discussed.

The United States, where the next G-20 Summit will be held—in Pittsburg in fact—estimated that several questions stemmed from that discussion. One of the questions was the reach of the Charter, whether it should be centred on the economic and financial aspects or on other issues recently incorporated into the discussion. The second question referred to the principles that are fundamental values to be shared, clearly interpreted and agreed upon so that they can guide the coordination of policies. The third question referred to the legitimacy linked to the high level of participation in the endorsement of the Charter. The last question had to do with the responsibility and commitment to apply those principles and be guided by them.

### **3.2. Principles and Values**

At the G-20, presentations were made on five topics of discussion which are closely related to the inclusion of principles and values in the Charter for Sustainable Economic Activity.

#### **a. Financial Markets**

In its presentation, the United Kingdom stated that it was necessary to strengthen transparency, soundness of the financial system and investors' protection. To that aim, a framework of international regulatory standards to be accepted by all countries should be negotiated. For this task, the leadership should be assumed by the Financial Stability Board, with the likely cooperation of the OECD, the IMF and the World Bank. They pointed out that the elaboration of the Charter should be focused on the financial sector given that open, global and stable financial markets were essential for the development of the world economy.

#### **b. Trade and Sustainable Growth**

The Netherlands representation, which introduced the topic, expressed that enforcement of the multilateral disciplines and commitment to them constituted a challenge for the Charter. It deemed it necessary to achieve an ambitious and balanced outcome in the Doha Round and resist protectionism to overcome the crisis. It said that a successful conclusion of the Round would strengthen the WTO and the multilateral system. It advocated the negotiation of a multilateral framework and a favorable atmosphere in investment matters, in spite of the failures on that subject at the WTO and the OECD. It highlighted cooperation by the

UNCTAD and the OECD in that respect, which should be intended to continue. Another aspect mentioned was that of protection of intellectual property rights, which it considered necessary in order to promote research and knowledge.

### **c. Social Dimension**

ILO representatives referred to the significance of employment policies, which should be present in the proposals for a solution to the crisis and economic growth, in such a way that benefits can reach all. They highlighted how important it is to respect labor standards, freedom of association and the three fold dialogue between workers, businessmen and the government. They supported cooperation between the different international institutions so that the issue of employment can be considered within the negotiating elements and decisions.

### **d. Climate and Resources**

The Australian delegation, when introducing the issue, stressed the need to achieve an agreement at the meeting of the United Nations Framework Convention on Climate Change to be held in December in Copenhagen to reduce greenhouse gas emissions. They stated that preservation of our environment and resources was crucial and should play a key role in the Charter. In this respect, they were in favour of guaranteeing a synergy between environmental investments, the generation of new environmentally-friendly technologies and greater energy efficiency.

### **e. Global Partnership for Development**

The Argentine delegation, when referring to this issue, stated that developing countries' progress is fundamental to a sustainable global economy in the long run. Consequently, it remembered that the developing world demands equity rather than assistance, although the latter may be necessary in some cases.

With the aim of promoting development, it stressed the need to achieve a balanced outcome in the Doha Round. Said outcome assumes a substantial reduction in subsidies and opening developed countries' markets in Agriculture, as well as granting adequate flexibility so that developing countries can pursue their policies of industrial production and service activity diversification and expansion.

It supported the adoption of symmetric macroeconomic disciplines, so that countries that are issuers of reserve currency were obliged to correct their budget and balance of payment deficits, which have led to the crisis. At the same time, it favoured the reform of international financial institutions and of the financial system so that lendable funds with no conditions can be channeled to support the level of activity and investment in developing countries, which are the most affected by credit concentration in developed markets. It pointed out that the new regulations should guarantee that savings are directed through productive investment and projects of social interest and that bank secrecy and tax havens are eliminated, including the activity of subsidiaries of international financial institutions.

It supported the inclusion of the ILO in the G-20 to make the issue of employment an indissoluble part of the goal of sustainable growth and of the policies aimed at overcoming the crisis.

Regarding intellectual property protection, it indicated that it should be in connection with technology transfer to developing countries, access to medicines and health services and that it should acknowledge a fair remuneration for traditional knowledge.

It fostered an agreement on climate change on the basis of the commitment to a substantial reduction in emissions by the main developed countries. It expressed that the environmental issue could not be an excuse for the application of disguised barriers to trade, that fund creation to ease technology adaptation of developing countries should be fostered, and that exports of goods, technology and equipment that do

not respond to the environmental standards accepted by exporting countries in their domestic markets should be banned.

#### 4. Summary by the Chair

The coordination of the meetings stated that the opinion exchanges and presentations on the principles and values had been powerful and served the purpose of advancing in the Charter's negotiation. It stated that, according to them, there was:

- general consensus to pursue the exercise initiated;
- awareness of the fact that the exercise would take a relatively long time;
- awareness of the incorporation of issues that are of interest to other parties apart from the G-20;
- awareness that the elaboration of the Charter must not interfere with the instrumentation of the commitments agreed upon at the London Summit;
- acknowledgement of the fact that there is not one formula to meet everybody's needs and that, depending on the level of development, it is necessary to have room for policy design and making;
- agreement on the fact the process must be staged, starting from the principles and values, going through the regulations —existing, modified and new— to finally reach implementation, oversight and control;
- consensus on the G-20 legitimacy to face the solution to the crisis and the promotion of a sustainable economy for the future; and
- a majority of opinions regarding a broader scope of the charter, that encompasses the issues of employment, development, fighting poverty and food security among others.

#### 5. Conclusions

The proposal to discuss a Charter on sustainable economic activity, contemplated in paragraph 21 of the Declaration of the G-20 London Summit, responds to the goal of reaching a new global consensus on the development of the international economy.

The Charter is conceived as a goal set for the medium run, apart from a reform of the international financial institutions, which is considered indispensable to the solution to the current economic crisis. According to some OECD member governments, like the Italian, French or British, the new instrument imposes itself in view of the so-called Washington Consensus being no longer in force.<sup>3</sup> It has to be said that the ideas of the Washington Consensus prevailed for more than a decade, after the set of the respective principles was enumerated in 1989 for the first time.

The ideas exposed at the meetings enabled the perception of two positions with respect to their scopes: one of them of a strictly economic and financial nature, and the other, a broader one, where issues like employment, the environment and development were included.

In the broader approach, the ideas are close to the content of the Charter of the United Nations. Said Charter, in Article 55 of Chapter IX referred to International Economic and Social Cooperation, aims at promoting:

- higher standards of living, full employment, and conditions of economic and social progress and development; and
- solutions to international economic, social, health and related problems.

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<sup>3</sup> The ten principles of the Washington Consensus (Williamson, 1990) refer to: Fiscal discipline; Reordering public expenditure towards highly-profitable sectors with a potential for income distribution improvement (health, primary education and infrastructure); Tax reform (to reduce marginal rates and broaden the tax base); Liberalization of interest rates; A competitive exchange rate; Trade liberalization; Liberalization of inward foreign direct investment; Privatizations; and Property right security.

From the documents prepared by the coordination, as well as from the positions expressed so far, it can be seen that there are important differences within the G-20. These differences will make negotiations on the Charter last, in principle, until 2010. A preliminary draft of the contents and the enumeration of the principles agreed upon and under discussion are likely to be considered at the Third Summit in Pittsburgh.

The inconsistency in setting as conditions free trade, open investment regimes, fair and transparent competition and an effective protection of intellectual property greatly reflects the G-8 and OECD agendas more than the interests of a broad community of countries and regions representative of the world economy. It seems to ignore, on the other hand, the causes and structural problems that have given rise to the crisis.

In that regard, during the meetings, representatives from China, India, Brazil, South Africa and Argentina highlighted that the crisis and the structural problems of the world economy must be the starting point for the diagnosis and the solutions. They emphasized that developing countries' growth was a crucial factor in achieving sustainable economic activity in the medium and long run.

Of the positions expressed, it is worth mentioning the importance of the reform of international financial bodies and institutions, the need to set symmetric macroeconomic disciplines, the need to stimulate financing for development by means of capitalization of the International Monetary Fund, the World Bank and the regional development banks, the connection between intellectual property, technology transfer and access to medicines and health, a substantial reduction in agriculture subsidies and protection by developed countries, a space for the design and application of policies aimed at diversifying the production and service structure of developing countries, and the commitment to substantially reduce greenhouse emissions by developed countries.

So far, it can be said that after the first two G-20 Summits, progress has been made in the discussions about the crisis and in acknowledging the need of strong regulations to prevent the recurrence of a crisis with these dimensions in the future. Likewise, some commitments have been made on the financial reform, which must be gradually accomplished. However, no clear awareness has been raised on the scope of the reform and its connection with development, issues that will be present in future Charter negotiations.

These two aspects, the scope of the reform and the importance given to development, are the main challenges faced by the G-20, if it seriously intends to encourage sustainability of the economic activity in the medium and long run.

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