Mexico 2003: G20 Work Program

A) Themes for the 2003 agenda ::

Crisis prevention and resolution.- This is one of the ongoing subjects that has become central in the G-20 agenda and it will be maintained as such during the 2003 works as it is the most relevant issue within the current debate on giving international finance an adequate architecture. Although there is a widespread consensus on the framework for crisis prevention (i.e. sound policies, transparency, codes and standards), a deep analysis of its effectiveness is still pending. It is clear that those countries that have implemented internationally agreed codes and standards have used them to improve domestic policy and have been benefited from assessments and advise within. However, it is yet unclear the extent to which these actions have been recognized and thus rewarded by markets. A practical way to put it: Have ROSCs and FSAPs increased a country's appeal for investment?

The current discussion on crisis resolution has focused on proposals to facilitate debt restructuring. Although the contractual and statutory approaches (Collective Action Clauses and Sovereign Debt Restructuring Mechanism, respectively) have been at the center of this debate, additional proposals such as a voluntary code of conduct and cross-cut lessons based on stylized facts have recently emerged. These proposals are rapidly evolving as they take into consideration various perspectives and it is therefore why our agenda should be flexible enough to take stock of this evolution. This flexibility will allow us to make a valuable contribution to the debate and advance in the pending areas.

Taking advantage of G-20's added value as a forum that brings together the most systemically relevant developed and emerging countries, we will engage in a constructive discussion on the real effects the current framework for crisis prevention has had on emerging markets, and on the debt restructuring proposals. A discussion would be encouraged based on a factual/experience-sharing approach where countries would be expected to share their views on the way market perceptions have changed as a result of improvements in economic, financial and monetary policy supported by the implementation of codes and standards, as well as on the lessons that result from the crisis management schemes that have been followed in practice in different latitudes.

This subject will be part of the agenda of the first and second Deputies' Meetings and the Ministers/Governors discussions. The Institute for International Economics, the Institut Français des Relations Internationals (IFRI), in close collaboration with the French Ministry of Economics, Finance and Industry and the G-20 Secretariat, are organizing a one-day conference in Paris to discuss the current proposals for improving the international debt workout mechanism. In addition, a G-20 Seminar on Debt Restructuring will be held in México City.

Preventing abuses of the International Financial System: promoting transparency and information exchange. In order to help ensure that financial institutions are not used for illicit purposes, the G-20 could help promote increased cooperation to improve transparency and the exchange of relevant information as a complement of ongoing work in this area by the OECD, the FATF, the IMF and the Financial Stability Forum on money laundering, offshore centers, tax havens and the financing of terrorism.

Considering that the central role of the G-20 is the promotion of financial stability and growth, and acknowledging that the robustness of financial systems will largely depend on the avoidance of illicit transactions, the Group provides an ideal setting for a fruitful discussion on the ways to enhance international cooperation and information sharing to avoid the misuse of financial systems.

If illicit funds are to be eliminated and if the basis of a sound global financial competition is to be preserved, we should tighten international pressure for lax regulation systems and tax havens to comply with increased transparency, information disclosure, internationally agreed supervision and regulation frameworks, and enforceable financial laws. This will allow to both combat the perverse incentive for the attraction and triangulation of capital flows and to prevent its use by terrorists and launderers as an alternative to the tightened measures in those well regulated and effectively supervised environments. It is important to underline that strengthened information sharing schemes should consider not only revealing data on the flows but also on the stocks of assets.

Not only terrorist financing and money laundering, but also the smuggling of goods can be prevented by enhancing information exchange between national customs as a complement of an effective information exchange between tax authorities. Customs' actions serve as a key information source for financial investigation units, thus, information exchange on imports-exports, merchandise value and origin, financial payments and passengers is instrumental. While a large portion of customs information can and should be disclosed, new technologies offer the possibility of data comparison for transaction matching without disclosing the content of data itself in those cases where the confidentiality of information needs to be preserved.

A dialogue on this subject will take place as part of the first Deputies' meeting and its results will be presented to Ministers/Governors to introduce their discussions in October.

Combating Terrorist Financing. When Finance Ministers last met in Delhi in November 2002, it was agreed to continue implementation of the G-20 Action Plan on Terrorist Financing adopted in Ottawa, Canada, in November 2001, including the freezing of terrorist assets, implementation of international standards, exchange of information, provision of technical assistance, and reporting on our actions. While there has been impressive progress in these areas, considerable work remains to be done. We should continue to explore how to best implement FATF's international standards on terrorist financing in cooperation with International Financial Institutions and look forward to implementation of the pilot program to assess AML/CFT regimes using the comprehensive methodology based on the FATF recommendation. Further work on how other countries are implementing standards on non-profit organizations and hawalas to prevent their abuse would be useful. Finally, we should strive to increase information sharing among G-20 members to make designations more effective. Enhanced information sharing and notification prior to public designations increases the prospect for simultaneous action to freeze terrorist assets. Exchanging information on frozen accounts identified after designation can lead to further targeting and law enforcement action.

This subject will be part of the first and second Deputies Meeting that will take place in September and a report will be delivered to Ministers/Governors in October.

Globalization: economic growth and the role of institution building in the financial sector.- Departing from the recognition that globalization has brought substantial benefits but has also posed a number of challenges to both policy makers and economic agents, the G-20 has been engaged in the complex task of developing a comprehensive analysis of the experiences its members have had with the globalization process. In this context, a seminar was organized by Australia in 2002 on "Globalization, living standards and inequality: recent progress and continuing challenges". The G-20 is also in the process of publishing case studies on globalization episodes of its members and the World Bank will be in charge of presenting the concluding document that resulted from these case studies to Ministers/Governors in October.

In general, globalization has proven to be a valuable driving force behind institutional change and sound economic policies in many countries worldwide. Recent events have proven that in order to fully profit from globalization, governments must undertake sound economic policies, implement appropriate supervision and regulation frameworks and consolidate robust institutions, including the development of social safety nets to protect the most vulnerable segments of society.

In order to advance and further focus this project, we would analyze the specific role of globalization in economic growth and on institution building in the financial sector.

Globalization and economic growth.- Two different approaches are considered under this sub-theme: challenges resulting from the sources of world economic growth and economic trends in some emerging market economies.

a. Challenges Resulting from the Sources of World Economic Growth

The United States has been the main engine of world economic growth during the current cycle. Other countries and regions such as Australia, Canada and emerging economies in Asia have also contributed to sustain growth, although to a much lesser extent. The situation of economic activity in much of the rest of the world is worrisome. In particular, the Euro area growth is still weak and the prospects for a rebound are still uncertain. The Japanese economy seems to be facing an even more difficult outlook in the face of frail consumer demand, a fragile financial and corporate sector, and a complicated external environment.

In the context of the current recovery, the world economy has been resilient to several adverse shocks. However, a heavy dependence on growth in the United States has given rise to a number of risks. A crucial question in this respect is if the impact of an economic slowdown in the U.S. could be offset by stronger growth in the rest of the world, especially in Europe and Japan. This does not seem to be an easy endeavor. The current institutional arrangements in the Euro zone limit the margins of maneuver for the implementation of counter cyclical fiscal or monetary policies in the area. In Japan, the efforts to move out of a deflationary situation are constrained by already high levels of the fiscal deficit and the public debt, and by the limitations that monetary policy is facing to stimulate domestic demand. Furthermore, both Europe and Japan confront major structural problems that restrict their growth potential.

Under this situation, a discussion of the risks that emerge from the current sources of world growth, and of the policies needed to foster a more balanced situation, is relevant at this juncture.

b. Economic Trends in some Emerging Market Economies

As a result of a combination of factors, investor sentiment toward emerging market economies has deteriorated sharply since last year. Against this background, the external financing conditions for these countries have been adverse. Thus far, many emerging market economies have been able to weather the challenges resulting from this situation and maintain access to capital markets, mainly through the steadfast implementation of sound economic policies. Nevertheless, to the extent that the adverse external financing environment persists, the risks for this group of countries and for world economic growth will remain high.

Moreover, while contagion among emerging markets has thus far remain limited, the possibility of a more widespread effect cannot be discarded if the difficulties observed in some of the key economies intensify. Indeed, the risks would be much higher if such a situation were to be accompanied by a prolonged period of weak growth or stagnation in the industrial world, a further tightening of credit conditions in international financial markets, and/or additional shocks to the world economy.

Discussion would thus be promoted on the difficulties faced by some of the major emerging economies undergoing a difficult economic situation, with special emphasis on the implications of potential contagion and the accompanying risks for world economic growth.

The role of institution building in the financial sector.- In many of the G-20 economies, economic convergence with their main trading partners has been the result of far-reaching economic reforms. Moreover, the increased capital flows and trade that globalization brings about, has resulted in a tandem convergence of financial systems. It would be therefore relevant at this stage to analyze the main features of the integration of financial services that has resulted from a deeper globalization process and explore the institutional elements that have allowed this financial integration to take place in a more orderly and efficient fashion.

We would thus have to look at issues such as the regulation and supervision frameworks, debt and capital market development, the role of central bank independence, the legal framework for the financial sector, mechanisms for the provision of information and the efficiency of the financial safety net, among others. Also, the institutions needed for the development of internal debt markets would be looked into in more detail, as this constitutes a key step for the consolidation of internationally competitive domestic financial systems.

Those countries that are members of the European Union have a vast array of experiences that were driven from the integration process leading to the Monetary Union. In this context, it will be particularly relevant the EU´s experience on fostering regulatory cooperation and mutual recognition of regulatory frameworks rather than promoting the harmonization of financial sector regulations. Also, North American economies have different stories to tell about the financial integration that has taken place as a result of macroeconomic convergence and institutional and policy reform. These lessons together with those from other contexts can enrich experience sharing within our group on the different ways and depths globalization has promoted financial sector integration.

Globalization will constitute one of the guiding themes for the agendas of the first and second Deputies meeting, where emphasis will be given to the role of institution building in the financial sector and economic growth, respectively. Ministers and Governors' meeting will also capture discussions on each of the two sub-themes.

Financing for Development

The UN conference on Financing for Development in Monterrey in March, 2002, marked an important milestone for the international community. The Monterrey Consensus defined improved partnerships between developed and developing countries essential in order to make progress in achieving the Millennium Development Goals. These goals, including a halving of poverty and the achievement of universal primary education, will not be reached without increased development assistance. Although significant progress was made at Monterrey, there is still a need to provide more financing for development and to make aid more effective. The unique nature of the G-20 offers an important opportunity to draw on the diverse experiences of our members and identify how this can be achieved.

Some of the areas we need to consider are, in the case of developing countries: macroeconomic stability, policies and strategies for growth and poverty reduction, anti-corruption efforts and further progress to achieve international standards in public financial management. As in donor countries: increased efforts to improve the effectiveness of their assistance –through aligning support behind country strategies instead of donor priorities, longer-term and more predictable aid, further harmonization of aid policies and further untying of aid. As suggested in Delhi, we could also explore the lessons that our members –at various stages of development- could share with each other, in order to address the following questions: Are Multilateral Development Banks following the right strategy? Are new financial instruments required? How effective is AID? What should be the role of recipient countries and donors?

Deputies will discuss these issues at their first and second meetings. The results will be presented to Ministers/Governors in Morelia.

:: B) Meetings schedule::

3 - 4 MARCH (Cancún, México)	
Monday 3	**Tuesday 4**
Deputies Meeting Deputies Working Dinner	Deputies Meeting (morning)

Deputies' Agenda (March 3rd and 4th)
1) Crisis prevention and resolution 2) Preventing abuses of the International Financial System: promoting transparency and information exchange 3) Globalization: the role of institution building in the financial sector 4) Financing for development

5) Combating the financing of terrorism

9 MARCH (Paris, France)
Conference to discuss the current proposals for improving the international debt workout mechanism.

MAY 26 (México City,México)
Monday 26
G-20 Seminar on Sovereign Debt Restructuring

24 - 25 SEPTEMBER (UK)	
Wednesday 24	Thursday 25
Deputies Working Dinner	Deputies Meeting

Deputies' Agenda (September 24 25)
1) Debt Restructuring 2) Financing for Development 3) Combating terrorist financing 4) Globalization: economic growth

26 - 27 OCTOBER (Morelia, México)	
Sunday 26	Monday 27
Ministers and Governors Meeting Ministers and Governors Working Dinner	Ministers and Governors Meeting (morning)

MINISTERS/GOVERNORS AGENDA (October, 26 - 27)	
Main issues for discussion	Other issues
1) Crisis prevention and resolution	1) Report on Financing for development by Deputies

2) Preventing abuses of the International Financial System: promoting transparency and information exchange 3) Globalization: economic growth and the role of institution building in the financial sector 4) Globalization: the role of institution building in the financial sector	2) Report on Combating Terrorist Financing 3) Presentation by the Bank of Mexico of the compilation of the case studies on globalization 4) The future and effectiveness of the G-20 5) Formal adoption of the decision on the future G-20 Chair (will be reflected in the Morelia Communique)

:: C) Background material for the meetings ::

México will prepare discussion papers for the subjects of: crisis prevention and resolution; preventing abuses of the international financial system: promoting transparency and information exchange; and globalization: economic growth and the role of institution building in the financial sector. The UK would contribute with the discussion paper for the subject of financing for development, while the U.S. will prepare background material for combating the financing of terrorism.