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Reviving global cooperation in challenging times

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1. A world in crisis

The world is currently facing two crises of potentially immense proportions: COVID-19 and climate change. The response to both must be global, urgent and on great scale. Each crisis taken separately is of unprecedented severity. The climate crisis, which is potentially existential for hundreds of millions or billions of people, is of even greater magnitude and more long-lasting than COVID-19, itself deeply damaging.

Some of the causes overlap. The responses to the two can, and must be, coherent and coordinated. That means investing strongly now to overcome unemployment, manage and protect global health and education, and build a sustainable recovery that lays the foundation for, and drives towards sustainable, zero-carbon, inclusive and resilient growth. If our response to the twin crises is timely, global and strong, then we could both recover strongly from COVID-19 and create a much more attractive, lasting and equitable form of growth than we have seen in the past.

If we fail to act swiftly, effectively and on the scale necessary, then this and future generations will be put at grave risk. In Europe in the 1930s the world saw how dangerous prolonged unemployment could be to the political and social fabric of nations and to the international cooperation that is vital for a vibrant global economy. The loss of life and damage to health and education from the pandemic are already very large and could be much larger still if the international and national responses are mishandled. Meanwhile, the potential enormity of the risks from unmanaged climate change should now be well understood and the scientific evidence of those threats is ever more worrying, particularly as we approach potential tipping points for both climate and biodiversity.

The COVID-19 crisis has five interlocking strands: health, education, employment, financial flows and debt. The health consequences are clearly severe with many millions of lives at risk, and severe damage to the health of many survivors. Health services have been squeezed in relation to other illnesses. A large fraction of the world's children is, or has been, out of school, with lasting damage to their education and life chances. Extended unemployment, particularly for young people, will leave scars to job prospects long into the future. Unemployment itself is profoundly damaging to individuals and corrosive, and potentially destabilising, to the social and political fabric.

All countries have suffered from the pandemic and its health and economic effects. The transmission mechanisms have been truly global, even more so than during the global financial crisis of 2008–10, which was, in large measure, a crisis arising from mismanagement of the financial sector of advanced countries, which had powerful knock-on effects around the world. The COVID-19 crisis is everywhere, but it is particularly intense for the economies of developing and emerging market countries. They have suffered from severe capital flight, many have seen sharp declines in the commodity prices on which they depend, and many have experienced a collapse in revenues from tourism.

These effects are pushing many developing countries into a severe debt crisis that threatens to emerge in full force in 2021. Developing countries are unable, distinct from most rich countries, to borrow internationally in their own currency. This upcoming debt crisis[1] has not yet had an international response that is anywhere near adequate to deal with the dimensions of the problem. Developing countries will be asked to pay US$865 billion in debt service on medium and long-term debt in 2021 (of which US$346 billion is owed or is guaranteed by governments), alongside their mounting fiscal challenges in response to the COVID-19 crisis and the need to deal with short-term liquidity issues of shrinking trade credit lines and losses in export revenues and remittances.

The origins of these crises lie in the nature of development since the Second World War. That development has brought huge benefits in terms of a tripling of life expectancy, very large rises in material living standards (a rise in output per head by a factor of around four), and dramatic falls in world poverty. But it has also created great risk from climate change and damaged biodiversity, and an increase in the likelihood of pandemics. These risks arise mostly from the huge expansions in the human footprint associated with an increase in world output of around a factor of 12, using energy largely from

[1] The total external debt stocks of the 120 low- and middle-income countries rose to US$8.1 trillion in 2019 (World Bank Database, 2020).

fossil fuels. Habitat loss, deforestation and land degradation have been drivers of both biodiversity loss and climate change, in addition to the direct greenhouse gases from burning fossil fuels.

Further, these great changes have transformed interactions between and among wild animals, domestic animals and humans, creating increased probabilities of new viruses, some of which will be contagious and dangerous (Johnson et al., 2020). And the much greater national and international mobility that has developed during this period has accelerated the rate of spread of new viruses.

The difficulties ge

nerated by the pattern of growth and development over the last seven decades, and its associated energy use, are not confined to the environment. The world has also seen within many countries increases in inequality and in social tensions. The combination of social stress and environmental damage has led many, including ourselves, to argue that the world needs a recasting of economic and social structures, which some have referred to as a 'great reset'. This would enable and foster a new era of very different development in which social and environmental stresses are much less severe, sometimes expressed as sustainable, inclusive and resilient growth.

Such a recasting would include a "new social contract" (Shafik, 2021) around health, education and skills, social mobility and protection, and sustainability. That would involve substantial changes in public policy and institutions but should also embody empowerment of civil society and changing the behaviour of firms. Some, for example Professor Colin Mayer, have argued that we need a redefinition of the purpose of the firm: "to provide profitable solutions to problems of the people and the planet" (Mayer, 2019), contrasting with the very narrow definition of profit maximisation offered by Milton Friedman.

In this paper we outline the key role that a sustainable recovery, designed to drive towards transformative growth, could play in creating a new form of development. For the reasons we have described, action is needed urgently. How we as a world handle these two crises of COVID-19 and climate change in the next few years will profoundly shape our future.

In the next section we set out the central elements of a response in terms of the necessary investment in physical, human and natural capital, and the policies and institutions that could realise these investments. We recognise that this process must be both multinational and national and our focus in this paper is on the multinational side. These two crises are, par excellence, global and cannot be tackled effectively – separately or together – without international cooperation. Further, the changes that are necessary to the world economy to avoid crises of similar intensity in the future and to realise a new form of growth and development must have multilateral action at their core.

What is needed is something like a global Marshall Plan, in which the USA helped Europe recover after the Second World War, to raise investment across the world and make it sustainable. The magnitude of the investment, the necessary reconstruction and transformation we need now, and the multinationalism are all similar in nature to those elements of the Marshall Plan. But the world is fundamentally different today: it is multi-polar; the private sector is the key driver of much of investment; we will need investment in human and natural capital as well as physical; we have a transformed technology; and the world is much more integrated. The recovery and reconstruction programmes must reflect these elements.

China is a major player in this new world on all the relevant dimensions. It has a key role in a sustainable recovery and transforming growth. The G20, covering 80 per cent of world output, must take a lead. Within the G20, China will be a leader through its national actions, its work with its partners, including in the Belt and Road Initiative, and through its involvements in international groups and institutions. China's potential role and contributions are discussed in the last section of the paper.

2. The urgent need and agenda for multilateral cooperation

The case for multilateralism, in this context but also more generally, rests on two simple propositions: (i) that the impact of any policy response is stronger when all countries follow the same rules of the game, and (ii) that the stewardship of the global commons requires commitments and execution from all parties.

In the current context, there is an urgent need for multilateral cooperation in tackling the ongoing pandemic, in framing the size and direction of the economic recovery from the current recession, and tackling the urgent issues of climate change and the degradation of the natural environment, including biodiversity, that threaten future well-being.

This is a moment to be seized. During 2021, big decisions will be made. The world must deal forcefully to contain and manage the COVID-19 pandemic that continues to afflict all parts of the world. Governments, primarily in rich countries, have already mobilised some US$12.5 trillion in fiscal and financial packages to stabilise economies and begin to foster recovery. They will need to decide on how much additional stimulus is needed and on how to best direct the resources already made available. Discussions at the G7, G20 and International Monetary Fund (IMF)/World Bank meetings provide an opportunity for a globally concerted approach.

Governments will also have an opportunity during four global summits in 2021 to take decisions on the future of the global commons – the drylands, deserts and desertification conference in March, COP15 on biodiversity in May, the world food systems summit in September/October, and COP26 on climate change in November. In each instance, the level of ambition that is reached in setting standards and norms that move towards the strategic goal of sustainability, and finance for implementation, will determine how well we can integrate sustainable management of global commons into every country's recovery programme to help achieve sustainable and inclusive growth and prosperity.

The most immediate decision to be taken is on a fair system for vaccine development and roll-out to developing countries. The ACT-Accelerator provides a basic multilateral frame to provide 2 billion doses of vaccines, 245 million courses of treatment, and 500 million diagnostic tests to low- and middle-income countries in 2021 (see ACT-Accelerator, 2020). A missing piece is financing – a gap of some US$35 billion to scale up activities to reach these goals.

A second important agenda for global cooperation is coordinated action to stimulate a strong and sustainable economic recovery. Coordinated actions across governments (especially through the G20) and between the public and private sectors, including a coherent sense of purpose, are essential and will come from a shared recognition that a sustainable recovery is a strong recovery. Three elements will be crucial: concerted fiscal support; design and implementation of recovery packages including policy measures to promote sustainability and inclusion; and tackling debt and the financing constraints of emerging markets and developing countries.

A key decision is around the size and nature of additional fiscal support next year that major economies should provide. Inevitably there will be some fiscal consolidation as a consequence of economic recovery: the automatic stabilisers built into many countries will act to reduce deficits in 2021. But several countries, including Brazil, Spain, the United States, the United Kingdom, Canada, Italy, Japan and Saudi Arabia, appear to be considering or planning large discretionary reductions in their fiscal stance, despite employment losses that will not have recovered in most cases. China stands out as proposing a neutral fiscal response next year, but it will be affected, nevertheless, by the negative spillover onto global growth if fiscal austerity elsewhere kicks in too soon. The IMF has encouraged countries to keep spending, but wisely. It argues that investments in decarbonisation can create jobs in the short run and bolster sustainability in the longer term (Celasun et al., 2020).

To maximise the impact and ensure the sustainability of fiscal expenditures, governments need to design and implement comprehensive stimulus packages to promote a strong recovery and 'build back better' in a way that tackles underlying weaknesses in the global economy, sets a course for the next decade and fosters the long-term transformation to a new form of growth and development. The recovery has to be green, but much more than green. In particular, inclusion and sustainability can and must go hand in hand, if a sustainable recovery and future sustainable development are to be achieved. There will need to be a strong focus on employment, especially for the young generation, to respond to the immediate shock and longer-term structural challenges. Stimulus packages that aim to grow the denominator of debt/GDP through productive and sustainable investment are also the most attractive route to debt sustainability; a path of austerity that leads to a great depression would be particularly damaging – socially, economically and environmentally.

A sustainable recovery can improve productivity, new forms of employment and support the transition to a zero-carbon and climate-resilient economy. It can boost employment in areas that need it most, helping to avoid extended and severe unemployment, which can destabilise politics and society. And it can generate strong multipliers for economic recovery and growth along with powerful co-benefits including reduced congestion and pollution. This imperative has been recognised by the Coalition of Finance Ministers for Climate Action. Their recent paper sets out how finance ministers have a unique opportunity to design and implement comprehensive stimulus packages that can drive a strong recovery and build a better future (The Coalition of Finance Ministers for Climate Action, 2020).

Governments should strengthen the supporting policies to bring forward the necessary investments and finance. Falling fossil fuel prices provide an opportunity for carbon pricing and the reform of damaging and inefficient subsidies, which can provide a source of much needed revenues, and can be part of wider fiscal reforms to restore fiscal sustainability.[2] Complementary and supportive regulations and competition policies can provide clear signals, greater policy certainty and induce innovation in growth sectors, lowering the level of public stimulus expenditures required to bring an economy back to full activity. Bailouts with conditions can save jobs and accelerate low-carbon restructuring in 'brown' firms/industries, and help create secure jobs for the future. All policies will need to carefully consider distributional consequences to ensure a just transition for workers and communities, as the structure of the economy and relative prices change. These are all areas where global cooperation can instil common purpose and direction.

Concerted action and cooperation will be needed to tackle the debt and financing constraints faced by developing countries, to enable them to overcome the immediate crisis and embark on sustained recovery and transformation (Kharas and Dooley, 2020). Many countries outside the G20 do not have the fiscal space to be able to respond to COVID-19 and have been downgraded by major credit rating agencies. Governments and businesses in these countries face sharply higher interest rates and limited access to new liquidity. In fact, no sub-Saharan African country has accessed global bond markets since February 2020. The G20's Debt Service Suspension Initiative has been a good step forward in buying time to think through debt resolutions, but its scale has been disappointing, affecting only some US$5 billion in payments due in 2020 (World Bank, 2020c). Meanwhile, financial institutions and businesses in the developing world have been struggling to cope with the higher interest rate burdens they are carrying through into 2021.

The situation could deteriorate rather than improve next year unless there is concerted action. Rich countries have been reluctant to force private-sector creditors in their jurisdictions to make concessions, and voluntary appeals are not working. It seems likely that debt restructuring and resolution, with messy and potentially costly and time-consuming negotiations, will become a last-resort instrument (G30 Working Group on Sovereign Debt and COVID-19, 2020). Larger commitments from multilateral institutions, through a new Special Drawing Rights (SDR) allocation and ambitious replenishment of the capital of the Multilateral Development Banks (MDBs), could provide support for a growth-oriented recovery and sustained transformation in developing countries. This must be a priority for global cooperation.

Organising support for affordable financing to be made available to developing countries, to underpin sustainable infrastructure as a solution to the COVID-19 recession and to climate change, is a paramount goal for 2021. Absent this, given the experiences of Latin America's 'lost decade' in the 1990s, there is a

[2] Carbon pricing programmes globally generated more than US$45 billion in government revenues in 2019, with the potential to unlock much larger revenues (World Bank, 2020a).

risk of multi-year development distress in countries across large parts of Africa, Latin America, and many other vulnerable countries.

The ambition for each country regarding climate change mitigation and adaptation must be framed in the context of a global agreement. The climate crisis had been deepening before the COVID-19 pandemic. The time the world has to address climate change and to adapt to its impact is shrinking, while the costs are mounting, along with the risks associated with inaction.[3] We are also seeing an alarming rise in the loss of biodiversity and the degradation of ecosystems. Strong climate action offers the prospect of a better and more sustainable future – one that escapes a 20th century growth model based on fossil-fuel dependence and the degradation of natural capital and ecosystem services, and that can deliver a net-zero carbon economy by 2050, consistent with limiting global warming to well below 2°C and giving a good chance of holding it to 1.5°C, as per the Paris Agreement goals.

The world needs to and can tackle the COVID-19 and climate crises simultaneously through a better recovery and sustained transformation. There has been positive momentum towards a global target of net-zero by 2050 that can raise climate ambition and provide a benchmark for climate action. Stabilising temperature means stabilising concentrations of greenhouse gases, which requires net-zero emissions. The earlier net-zero is achieved, the lower the stabilised temperature. 120 countries have joined the Climate Ambition Alliance, together covering 992 businesses, 449 cities, 21 regions, 505 universities and 38 of the biggest investors – creating the largest ever alliance committed to achieving net-zero carbon emissions or 'carbon neutrality' by 2050 at the latest (Climate Ambition Alliance, 2020). But sustained political support for these commitments depends on growth and prosperity, which in turn depend on resolving the financial and debt problems affecting so many countries.

If affordable and adequate recovery financing is put in place, many developing countries could well be more ambitious in their recovery packages and commitments to managing the global commons within their own jurisdictions, covering much of the world's forests, oceans and land mass. Sustained, multi-year financing that is additional to the IMF's and the multilateral development banks' historically unprecedented emergency support would enable these countries to go beyond immediate health and social assistance programmes and embark on a green, inclusive and resilient recovery and sustained transformation. A new commitment to multilateralism and investment in multilateral institutions can pave the way for a new 'global Marshall Plan' that can propel a better recovery and transformation of the global economy towards a sustainable future for the people and planet.

In the pursuit of this agenda, it would be naive to ignore geopolitical rivalries in achieving fully-fledged multilateral collaboration across the G20. While there is a broad desire for a multilateralism that permits greater policy space, policy diversity and experimentation, this is qualified by a concern to keep down cross-border spillovers. General concepts – to leave no one behind, build resilience, provide voice in rulemaking to those who are expected to abide by rules – can, it seems, be agreed upon as goals for multilateral agencies, and these do help create a sense of direction. But in some areas, notably in managing the global commons, stronger multilateral cooperation is needed, along with mechanisms for monitoring and review.

This new type of multilateralism must be deepened and strengthened if we are to manage the severe global challenges we face. But this will only take shape through discussion among the major economies of the world. The G20 is well suited to take up the agenda of what is to be expected from multilateral cooperation and multilateral agencies, perhaps by establishing a Working Group to map out next steps. International agencies are being stretched to the limit by the need to respond to COVID-19. But they will soon run out of firepower and be forced to retrench unless shareholders provide more space to take risks by altering fiduciary guidelines or by providing additional capital. The world, as it struggles to achieve sustainable development, would benefit from a Bretton Woods 2.0 conference to upgrade multilaterals to become fit for purpose in a post-COVID, pre-climate change world.

[3] For example, 54 million people worldwide faced weather-related disasters in 2020 while dealing with the effects of the COVID-19 pandemic (Frank, 2020).

3. China's leadership in the global context

This is a critical moment in world history. Without coordinated action across countries and a strategic long-term vision that supports the commitment of building back better, the world may risk reverting towards the old dirty technologies of the 20th century and lock in decades of polluting, high-carbon and less productive development. This will be a crucial test of internationalism for the world and for China.

China's role in the world is now of a magnitude that makes its actions in the immediate future critical to how the world goes forward, both in the short term and over this century. As the world's second-largest economy, China could play an important role in global recovery, helping to lift the global economy out of recession through its consumption and investment demand. During the financial crisis of 2008–10, China's soaring demand boosted growth worldwide and drove the global economic recovery. In contrast to recovery from previous crises, this time China will likely increase demand through a balanced combination of consumption and investment, rather than a focus centred strongly and narrowly on infrastructure.[4]

As an important creditor, China has played a major and constructive role in investment across the world. China's outstanding debt claims on the rest of the world, including developed countries, are estimated to be over US$5.5 trillion in 2019, more than 6 per cent of global GDP (Oluwashina, 2020). In the current global context that many developing countries are in very deep trouble with debt as a result of the COVID-19 crisis, China could act positively, together with other countries, to provide global leadership in a multilateral response that provides liquidity through new flows or actions to reduce or defer debt service outflows. This would have a substantial and positive effect on China's standing in the world. In particular, it would strengthen cooperation with African countries, which is of great significance to China's long-run development agenda and the Belt and Road Initiative, as well as for progress in the world on the Sustainable Development Goals (SDGs).

As of early November 2020, the pandemic continues to spread across the world, with many countries facing new rounds of lockdowns as they experience second waves. Most countries are in either the rescue phase or moving from rescue to recovery, and only China among the G20 economies is likely to register positive growth in 2020 (International Monetary Fund, 2020). As China continues to lead the world out of the crisis, it needs to consider its vision and strategy for investments and policies to drive a strong and sustainable recovery.

To limit the social and economic impact caused by the pandemic, China has adopted sequential social protection and labour policies to support people on low income and promote employment. Public spending for these policy measures is estimated to reach 1.65 per cent of its GDP in 2019 (World Bank, 2020b). While the rescue phase has been focused on protecting as many jobs as possible, policymaking for the recovery should seize this opportunity to build back better and create high quality employment opportunities and the jobs of the future. That will offer much more security than pursuing the jobs of the past. As China formulates its 14th Five-Year Plan, for the years 2021–25, its actions in the aftermath of the pandemic are critical to how the world moves forward (Stern and Xie, 2020).

The 2020s will be a decade of fundamental importance for the world, especially for the climate, environment and biodiversity. As China leads the global economic recovery, it has a great opportunity. China can show how recovery measures can also accelerate the transition to the vitally important low-carbon economy. If China goes back towards old polluting and wasteful practices of the past, it will send a very harmful signal to the rest of the world. Both China and the rest of the world would be deeply damaged with lasting and potentially irreversible impacts.

The commitment of the world to tackling climate change will depend on what China does in the coming months and years. This influence is even greater than is implied by China's size: it comes also from its technologies, strategies and leadership in coming out of the COVID-19 crisis. China is already at the forefront of the development of new low-carbon technologies and the country has a great deal to gain by being in the vanguard of the new global growth story driven by higher investment in renewables and

[4] A recent study of ours set out key areas where investments are necessary, in physical, human, natural and social capital – see Stern et al., 2020.

energy efficiency. A recent study by Varro and Fengquan (2020) suggested that the job-creation rate of renewable generation (including wind power and solar PV industries) is between 1.5 and three times that of traditional energy industries.

President Xi's commitment to achieving carbon neutrality by 2060 is a key element for shaping the future of China's socioeconomic development and showing the direction for China's own modernisation and its relations with international community. The 14th Five-Year Plan will be a crucial period for China to achieve this 2060 neutrality target. If China can reach a carbon peak by the end of the 14th Plan (i.e. by 2025) at around 10 gigatonnes (Gt) of CO_2, it would be much better positioned to reach its neutrality target by 2060 (Myllyvirta, 2020). A recent study by Tsinghua University suggests China would need to transform its energy mix dramatically by boosting its share of non-fossil fuel energy to 84 per cent by 2060 to achieve this carbon neutrality goal, with coal-fired plants completely phased-out (Bloomberg News, 2020). This calls into question the dozens of power plants currently under construction or planned, which will either lock in decades of pollution and high emissions or will result in stranded assets.

Tong et al. (2019) estimated that as of 2018, the world's existing CO_2-emitting energy infrastructure has grown to US $22 trillion in economic value, and when operated and retired under a business-as-usual scenario, it will cumulatively emit 658 Gt of CO_2, with more than half of those emissions coming from the power sector; that amounts to 19 times the global CO_2 emissions in 2019. They also concluded that the power and industry sectors in China represent especially prime targets for unlocking future emissions, as 46 per cent of these sectors' global committed emissions are associated with Chinese infrastructure. This has highlighted the urgent need for China to step up to lead in the climate change crisis, stop building more coal-fired plants and redirect investment into low-carbon and resilient infrastructure and technologies to promote an energy transition towards more renewables and build more productive, more attractive and healthier cities.

China is not alone in striving towards strong growth with sustainability at the heart of the post-COVID recovery. On 11 December 2019, not long before the outbreak of the COVID-19 pandemic, the European Commission revealed the European Green Deal, providing a roadmap with actions for making the EU's economy sustainable and reaching climate neutrality by 2050. This ambitious plan remains the core EU economic and political project, even with growing focus on responding to the pandemic. To achieve a Chinese version of eco-civilisation, high-quality development and strong, sustainable, resilient and inclusive growth, it is crucial that the 14th Plan embodies a Green New Deal, and tackles issues of public health, climate change, biodiversity and ecosystems, while also reinvigorating economic growth through technology, infrastructure, new urbanisation, and fiscal sustainability. It can establish China's leadership in the world economy and set an example to the world on sustainable recovery and transformational growth following the COVID-19 crisis.

This coming decade, 2020–2030, is of fundamental importance to human history. If we lock in dirty and high-carbon capital, we will head for profound and irreversible damage to our climate. China's 14th and 15th Five-Year Plans will shape the future of the world.

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