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FOR INTERNATIONAL POLICY

THINK20 PAPERS 2014

POLICY RECOMMENDATIONS FOR THE BRISBANE G20 SUMMIT

G20 STUDIES CENTRE

T20 AUSTRALIA 2014

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The Lowy Institute for International Policy is an independent policy think tank. Its mandate ranges across all the dimensions of international policy debate in Australia – economic, political and strategic – and it is not limited to a particular geographic region. Its two core tasks are to:

- produce distinctive research and fresh policy options for Australia's international policy and to contribute to the wider international debate.
- promote discussion of Australia's role in the world by providing an accessible and high quality forum for discussion of Australian international relations through debates, seminars, lectures, dialogues and conferences.

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The views expressed in this publication are entirely the authors' own and not those of the Lowy Institute for International Policy or of the G20 Studies Centre.

Abbreviations

3G	Global Governance Group
AAF	Accountability Assessment Framework
ABF2	Asian Bond Fund 2
ABMI	Asian Bond Market Initiatives
AfDB	African Development Bank
AIF	ASEAN Infrastructure Fund
AMIS	Agricultural Market Information System
AOSIS	Alliance of Small Island States
APEC	Asia–Pacific Economic Cooperation
APFF	Asia Pacific Financial Forum
APIP	Asia–Pacific Infrastructure Partnership
AR5	IPCC Fifth Assessment Report
ASEAN	Association of Southeast Asian Nations
AU	African Union
BRICS	Brazil, Russia, India, China and South Africa
CGIF	Credit Guarantee and Investment Facility
DDA	Doha Development Agenda
DDR	Doha development round
DSB	Dispute Settlement Body
DSM	Dispute Settlement Mechanism
DWG	Development Working Group
EPA	Economic Partnership Agreement
FDI	foreign direct investment
FSB	Financial Stability Board
FSF	Financial Stability Forum
FSSBG	framework of strong, sustainable and balanced growth
FTAAP	Free Trade Area of the Asia-Pacific
FTAs	free trade agreements
FWG	Framework Working Group
GATT	General Agreement on Tariffs and Trade
GEPF	Government Employees Pension Fund

GFA	Global Framework Agreement
GFSR	Global Financial Stability Report
GIIPS	Greece, Italy, Ireland, Portugal and Spain
GPA	Government Procurement Agreement
GPFI	Global Partnership for Financial Inclusion
GPGs	global public goods
GVCs	global value chains
ICT	information and communications technology
IDC	Industrial Development Corporation
IIRSA	Initiative for the Integration of the Regional Infrastructure in South America
IMF	International Monetary Fund
IMFC	International Monetary and Finance Committee
ISA	International Services Agreement
ITA	Information Technology Agreement
LCBM	local currency bond market
LDCs	least-developed countries
LIC	low-income country
LSCI	Liner Shipping Connectivity Index
LTIF	long-term investment fund
MACS	Meetings of Agricultural Chief Scientists
MAP	Mutual Assessment Process
MC8	8th WTO Ministerial Conference
MDBs	Multilateral Development Banks
MDGs	Millennium Development Goals
MFN	most-favoured-nation
MIA	multilateral investment agreement
MPAC	Master Plan for ASEAN Connectivity
MYAP	Multi-Year Action Plan on Development
NAFTA	North American Free Trade Agreement
NEPAD	New Partnership for Africa's Development
NMT	non-motorised transport
OECD	Organisation for Economic Co-operation and Development

Abbreviations

OTC	over-the-counter
PAP	Priority Action Plan
PIDA	Programme for Infrastructure Development in Africa
PIF	Pacific Islands Forum
PPF	project preparation facility
PPPs	public–private partnerships
PTAs	preferential trade agreements
QE	quantitative easing
RCEP	Regional Comprehensive Economic Partnership
RFAs	regional financial arrangements
SDC	Seoul Development Consensus
SDRs	Special Drawing Rights
SIDS	Small Island Developing States
SIFIs	systemically important financial institutions
SMEs	small and medium enterprises
SOEs	state-owned enterprises
SSA	Sub-Saharan Africa
SSBG	strong, sustainable and balanced growth
SWFs	sovereign wealth funds
TPP	Trans-Pacific Partnership
TRIMs	trade-related investment measures
TTIP	Trans-Atlantic Trade and Investment Partnership
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
UNFCCC	United Nations Framework Convention on Climate Change
WEF	World Economic Forum
WEO	World Economic Outlook
WTO	World Trade Organization

Overview

Policy proposals for the Brisbane G20 Summit

Mike Callaghan[1]

The ‘Think20’ involves think tanks and academics from G20 countries. The first Think20 meeting was held in Mexico in February 2012, under the Mexican presidency. Russia continued the process when it assumed the G20 presidency for 2013, with a Think20 meeting in Moscow in December 2012.

Australia believes that the Think20 is a valuable aspect of the G20 and that it can provide an important analytical input into the process. As such, Australia is continuing with the Think20, as well as strengthening the concept over the course of 2014.

The first Think20 meeting under the Australian G20 Chair will be held in Sydney on 11 December 2013. The list of participants is outlined in Appendix A.

Participants in the Think20 2014 were asked to provide, in advance of the meeting on 11 December 2013, a short paper on at least one of four broad G20 themes. The themes were:

- the G20 economic/finance process
- trade liberalisation
- financing for investment/infrastructure
- development.

Think20 Papers

Each participant was asked to identify what the G20 should seek to achieve in 2014 in the area they have chosen, and what they consider could be an achievable outcome from the Brisbane summit. In particular, participants were asked to identify specific actions they consider should be taken by the G20. The specific policy proposals are to be discussed at the Think20 meeting on 11 December 2013.

The papers submitted by participants in the Think20 meeting are attached. Following is a summary of some of the challenges and policy proposals identified in the papers. The outcome from the Think20 meeting will be submitted to Sherpas.

Think20 participants will also maintain a dialogue on these issues during the course of 2014.

Session 1: The G20 economic/finance process

Challenges

- Five years after the crisis, it is clear that the global recovery will be arduous and protracted.
- The IMF stated in its recent WEO that 'global growth is still weak, its underlying dynamics are changing, and the risks to the forecasts remain to the downside. As a result, new policy challenges are arising and policy spillovers may pose greater concerns.'
- The global risks include financial imbalances and excessive levels of government debt, and increased volatility of capital flows and exchange rates, as well as rapid growth in some asset prices.
- The phasing down of quantitative easing and the rise in interest rates will pose major challenges to the global economy.
- Economic growth has been declining for the last forty years in developed countries, and a weak growth situation could well persist or even worsen.
- Income inequality is rising.

- The G20 has struggled to deliver a clear, consistent and coordinated message as to how members are cooperating to restore growth and create jobs. It has not lived up to the high ideals of the Framework.
- Pressures toward fiscal austerity in many places are impeding the global recovery, and are leading to countries acting in a non-cooperative manner by seeking to expand demand through export growth, propelled by currency depreciation.
- International cooperation and coordination have a crucial role to play, but policies are ultimately set according to national circumstances.
- It is outside the remit of the G20 presidency to force member states to commit to national rebalancing and growth measures that are domestically unpopular or unfeasible. Nor is the G20 presidency in a position to make member states agree on a common vision for the global economy when they diverge in outlook and economic philosophy.
- The MAP may be meaningful in enhancing member states' commitments, but it has had minimal impact in binding their hands.
- There is not an institutional setting for a fully integrated evaluation of global rebalancing, regulatory reform and financial risk assessments. The current disjointed arrangements could result in governance 'voids'.

Possible policy options

- Give priority to the request by leaders at St Petersburg for Finance Ministers to develop comprehensive growth strategies for presentation at the Brisbane summit. Emphasis should be on developing 'coordinated' growth strategies. This would be an opportunity to place the Framework at the centre of the G20's activities. A 'coordinated G20 growth strategy' could be released at the Brisbane summit, with each country submitting its specific growth strategy, including recognition of spillovers.

- Introduce a G20 early warning system to detect and monitor potential threats, including possible spillovers.
- Invite a wider array of parties to participate in MAP discussions, including members of international labour advocacy groups, business groups and women's rights groups, to ensure that the concerns of these groups are integrated into the global policy discourse.
- Intensify the work on strengthening financial safety nets (firewalls), including the operation of the IMF and cooperation between the IMF and regional financing arrangements (RFAs).
- Strengthen the MAP process by: obtaining specific and timely commitments from G20 members, with a focus on spillovers; expanding discussions based on an 'explain and justify' approach; introducing clear timetables and a bilateral monitoring process, not only for assessing the proposed commitments, but also for reviewing implementation; and streamlining the publication of final MAP results into one coherent G20 document.
- Recognise that most Finance Ministers do not have domestic responsibility for structural reforms, and open up the Finance Ministers' process so that other ministers directly responsible for the reforms being discussed can attend on an 'as needed' basis.
- Improve ministerial oversight of international financial regulation by having the G20 Finance Ministers meeting that takes place at the time of the spring and annual IMF meetings focus on financial regulation. This would remove the current duplication associated with back-to-back meetings with the IMFC.
- Incorporate into the agenda for the summit a specific session where leaders reflect on the future challenges for economic

management from likely corporate and technological developments and the further integration of economies.

- Encourage countries to increase public investment in infrastructure and to facilitate increased private financing of infrastructure.

Session 2: Trade liberalisation

Challenges

- International trade negotiations are at a crucial stage. Multilateral negotiations, led by the WTO, are in crisis, with regional and sub-regional trade negotiations filling the vacuum.
- The Bali Ministerial conference that will take place a few days before the Think20 meeting is the last opportunity for the WTO to salvage at least part of the Doha round.
- Making progress towards concluding the Doha round is essential for the credibility of the entire G20 process, as this issue has been on the agenda for several summits without any significant progress having been made.
- It is nearly impossible to obtain consensus in a 159-member club (the WTO), where members have such different levels of development and integration into the world economy.
- G20 Trade Ministers' interactions are infrequent and brief. These are also the same ministers who have presided over the Doha impasse.
- Underneath the Doha impasse are several intractable structural and geopolitical dynamics that block progress. Removing these blockages requires strong political will, leadership and collective sacrifice – qualities so far absent.
- Because of the lack of progress at the multilateral level, a trend to prefer regional trade agreements (RTAs) over multilateral negotiations is inevitable.

- Mega-regional trade arrangements carry the dangers that the parties will be substantially distracted from multilateral approaches to liberalisation, while further alienating key developing countries not included in the processes. At the same time, they may also contribute to strengthening trade liberalisation.
- Although G20 member states have recognised the significance of fighting protectionism since 2008, protectionist measures are still prevalent, particularly 'murky protectionism'. Of the total number of trade-restrictive measures implemented since October 2008, only 19 per cent have been eliminated.

Possible policy options

- The G20 should encourage members to share information regarding RTA negotiations that they are participating in with other G20 countries.
- The inter-agency work program evaluating protectionist measures by G20 members should be continued and widely publicised.
- A peer review process should be established within the G20 to monitor adherence to the standstill commitment, which will provide an additional incentive for leaders to abide by the commitment.
- G20 leaders should take steps (to be verified in the inter-agency reporting process) to give effect to the commitment to roll back existing protectionist measures.
- One way or another, the Doha round should be 'concluded' in 2014. If there is no agreement at the WTO Ministerial meeting in December 2013, the G20 will need to seize the initiative regarding the future of the multilateral trading system.
- The G20 should extract from what is left of Doha a basket of issues amenable to intra-G20 compromises and, where

possible, that contains broader appeal to the rest of the WTO membership.

- The discussion of the future of the WTO should be deepened, anchored by the governance of global value chains (GVCs) and their implications for international trade negotiations. This conversation should include: the identification of negotiating issues, incorporating both rules and liberalisation; the work of the World Economic Forum and World Bank on a 'GVCs plurilateral'; and the needs of the poorest countries in relation to plugging into and upgrading within GVCs.
- Discussions should be held about the resort to plurilateral negotiations as a key mechanism to sustain the WTO's position at the apex of the global trading system.
- Serious efforts should be made to make the RTAs congruent with building multilateralism.
- Concrete mechanisms for reviewing RTAs in the WTO should be defined.
- Serious conversations should begin on the future of multilateral investment governance under the auspices of the WTO.
- Agriculture should be included in mega-regional trade deals. Any reduction in distortions can ultimately be expected to benefit developing countries as well.
- Support should be given to developing countries to enable them to gain the required expertise to deal with the WTO Dispute Settlement Mechanism.
- A G20 working group on international trade should be established.
- An independent standard body, linked to the WTO, should be established to develop model clauses, treaties and practices for trade and investment agreements.

Session 3: Financing for investment/infrastructure

Challenges

- Despite widespread accord regarding the economic benefits of infrastructure investment, there remains a substantial deficit in new infrastructure globally.
- The problem may be shared by countries, but the reasons differ. For some, limitations might lie in an inefficient financial sector (for example, interest rate controls and limited market access); for others, the government may be the bottleneck; while for others, the incentive structure may not favour long-term investment.
- Any new model of infrastructure financing must directly address current concerns surrounding the level of public debt around the world.
- An important headwind facing the development of new paths for infrastructure is that bank finance may be limited as a result of changes in global bank regulation and the direct issuance of bonds will be vital in the current investment climate.
- Many developing countries do not have deep financial markets.
- Financing regional or cross-border infrastructure projects is a particular problem for developing countries.
- Public–private partnerships (PPPs) are highly complex and require advanced capacity within the public sector to both negotiate and manage. This is a problem for developing countries.
- A challenge facing East Asia is that of recycling countries' excess saving from foreign exchange reserves within the region into more productive investment.
- While there is a focus on accessing pension funds as a source of infrastructure financing, private sector investors face numerous risks when evaluating a new investment proposition. Pension funds are conservative and largely focus on low-risk investments – they are reluctant to finance new infrastructure investment.

- Infrastructure investment is not a global public good. The immediate effects that it generates are localised or, at most, regional. It therefore requires a regional approach and the G20 may not be the best place for dealing with specific infrastructure projects.
- Connectivity – expanding transportation networks, energy routes and telecommunications infrastructure – has the potential to improve the inclusion of different countries within the global economy.

Possible policy options

- Sovereign governments' budgetary positions should be divided into two distinct parts: an operations account and a capital account. The assets and liabilities of current and future infrastructure projects would be reported in the capital account. The issuance of infrastructure bonds (a liability in the capital account) would finance individual infrastructure projects (an asset in the capital account).
- The issuance of infrastructure bonds that are directly linked to each project would create a mechanism by which market discipline is forced upon each infrastructure project, due to the signal sent by the indicative pricing of each series of bonds.
- Infrastructure bonds could be issued directly by governments or by dedicated infrastructure financing authorities set up for this purpose.
- The G20 should translate the G20/OECD High-level Principles of Long-term Investment Financing by Institutional Investors into action through promoting the exchange of experiences, best practices and lessons so that countries can find tailored solutions for their circumstances.
- The G20's work on promoting sound and efficient financial markets should pay more attention to the challenges facing emerging markets.

- An international infrastructure forum should be organised to bring together policy-makers, financiers (particularly pension funds and fund managers) and implementers (project sponsors, PPP centres and advisors) to discuss respective needs and requirements regarding long-term infrastructure financing.
- The G20 should draw on the experiences of the ASEAN Infrastructure Fund (AIF) in the quest to advance infrastructure investment.
- The development of the regional bond market in Asia, including the ASEAN+3 Asian Bond Markets Initiative, could support the reduction of global imbalances by recycling Asia's excess saving within the region, through more investment in the region.
- The G20 should highlight best practices in the area of local currency bond markets such as the Asian Bond Fund 2 (ABF2), and support dedicated information campaigns.
- As a cross-cutting issue, the impact of other G20 initiatives on the long-term investment financing environment should be considered.
- The G20, along with international organisations, should play a role in the development, evaluation and prioritisation of infrastructure projects.
- The G20 should support the coordination of regional development funds, including supporting the Africa50 Fund.
- The development of a cross-border PPP framework would help sovereign states cope with financing issues, and increase harmonisation.

Session 4: Development

Challenges

- Some of the descriptions of the G20 development agenda include 'invertebrate, flabby and toothless', 'diffuse, lacking a coherent narrative and disconnected from the central concerns of G20 leaders and finance ministers', and 'it is not always clear what G20 is doing on the development front, what concrete steps and decisions have been taken, what particular results it has helped to achieve'.
- Development ministers do not control the necessary policy instruments: trade, infrastructure, agricultural development, tax, policies on commodity and food price volatility, and anti-corruption are all handled by other ministers.
- Much remains to be done if the Millennium Development Goals (MDGs) are to be met by 2015, and to shape the post-2015 agenda. The imminent arrival of the 2015 deadline for the MDGs provides an immediate need for Brisbane to produce development initiatives that support this key priority.
- The process currently underway for developing Post-2015 Development Goals is likely to result in a valueless, overloaded agenda.
- The real problem with the performance of the G20 regarding development is the lack of resource commitments. This leads the G20 to task international organisations with conducting research and coming up with policy recommendations on various topics, without substantive follow-up action.
- G20 members are reluctant to make resource commitments to strengthen the role of the multilateral development banks (MDBs).
- The *St Petersburg Accountability Report on G20 Development Commitments* does not take into account G20 members' individual performances, and presents only the results of the

implementation of the Seoul summit decisions, omitting those of previous leaders' meetings.
- The UNFCCC negotiations in Paris in 2015 are intended to produce a new Global Framework Agreement (GFA) on climate change from 2020.
- Climate change has been referenced at every G20 summit since 2008, yet despite the fact that the biggest greenhouse gas emitters are all members of the forum, the G20 has done little, if anything, to help break the climate change stalemate in the UNFCCC.

Possible policy options

- Development should be returned to the Framework and MAP, including its accountability processes, to help inform a new G20 growth strategy and narrative.
- The cross-cutting nature of development needs to be reflected in the G20's development agenda and policy approach. Joining the Finance and Sherpa tracks may be conducive to achieving a more consistent G20 development policy.
- Joint meetings with the G20's Finance and Development Ministers may better integrate the financing aspect of development policy.
- On infrastructure, the G20 should focus on strengthening the financial and technical role of the multilateral development banks, as they can raise capital more cheaply and negotiate more effectively with governments than private investors.
- The G20 should prepare a narrative for the post-2015 agenda, combining vision and principles, together with options for a few concrete and time-bound commitments.
- The G20 should assist in shaping content across the three processes – UN-development, UN-environment, and UNFCCC climate change – through a 'G20 2015 Strategic Convergence

Group', which would maintain an overview of key political issues which cut across and connect these agendas.

- Momentum on climate change negotiations needs to be built through G20 leaders committing to attend the UNFCCC COP21 in Paris in 2015 and starting a conversation on how best to mobilise the funding needed to finance climate change mitigation and adaptation, including consideration of where the money could be spent.
- Leaders could be commissioned to prepare reports on specific topics for discussion at the Brisbane summit, for example food security, financial inclusion, infrastructure and domestic resource mobilisation.
- Development and trade should be better integrated in the G20 agenda. The G20 should build on its previous commitments to boost agricultural growth, with special attention to smallholders, especially women and young farmers.
- The G20 should implement their intention to assist developing countries in capacity building in the area of tax administration.
- The G20 should facilitate the production of an extended 'Accountability Assessment for Impacts on Development and Growth' report. The report would identify all development commitments from the St Petersburg summit, rank them for likely development impact, and monitor implementation, starting with the highest-ranking commitments. This monitoring would be undertaken by independent experts.
- Outreach activities, in particular with developing countries, need to be leader-driven to ensure that the outreach process is effective.

Note

1. Director, G20 Studies Centre, Lowy Institute for International Policy.

The G20 economic/ finance process

1

Sustainable growth and the stability of oil prices – the Kingdom of Saudi Arabia's objectives

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The Kingdom of Saudi Arabia's importance within the Group of Twenty (G20) lies in its being the world's largest oil producer and exporter, and the only OPEC member in the group. This gives it a rather special position. Additionally, Saudi Arabia is the largest economy in the Middle East and the only state from this vital region that is a member of the G20. Besides which, the Kingdom holds the position of the leading state in the Arab and Islamic world.

Unlike many other G20 members, it is only recently, as a result of accumulated revenues from its significant oil exports, that international financial markets have become relevant for Saudi Arabia. High oil prices have added considerably to the Kingdom's revenues, so much so that during the past few years the Kingdom has smoothly transitioned from being a net debtor to a creditor state. At the same time, the effects of globalisation have brought the realisation that the Kingdom cannot be aloof from, or remain unaffected by, economic and political developments in other parts of the world. These developments outside the Kingdom's borders have an impact on the country's policies, but are beyond its control. In the interconnected world of today, the country's financial system is inevitably linked to the global financial markets and, therefore, is exposed to global market forces. For these reasons, the Kingdom's membership in the G20 was seen as important in securing stability for the Saudi economy and contributing to the stability and development of the world economy.

In recent years, Saudi Arabia has been one of the best performing economies in the G20. According to an International Monetary Fund (IMF) report, the Kingdom, in the year 2012, topped the ranking in terms of economic performance among the leading G20 nations and has played a stabilising role in the global oil market. The IMF said the Saudi economy grew by 5.1 per cent in 2012, benefitting from high oil prices and output, which had led to large fiscal and current account surpluses and rising international reserves. However, according to current forecasts, in 2013 the Kingdom's growth could slow to 4 per cent.

At the same time, the Saudi economy has grown beyond oil and is expanding and diversifying at a rapid rate. As part of its efforts to incorporate G20 commitments, the Kingdom has embarked on reform of its financial and banking system, promoting financial regulations that reduce risks and could help to prevent future financial crises, and modernising national financial architecture. The Global Competitiveness Index of the World Economic Forum (WEF) now ranks Saudi Arabia as the 20th most competitive economy in the world.[2]

The Kingdom's leadership places emphasis on a 'reasonable oil price'

The Kingdom's leadership is fully conscious of the responsibilities inherent in being a superpower in the world oil market. They understand the direct impact of high and volatile oil prices on world economic growth. The high price of oil is not, of course, the only issue troubling the world economy and hindering growth, but it constitutes one of the primary factors that contribute to instability in the world economy. Thus, as a member of the G20, facilitating healthy growth of the world economy constitutes the cornerstone of Saudi Arabia's oil policy.

It has become a customary practice for Saudi policy-makers to indicate from time to time the mark or a specific range for what they consider 'a reasonable or fair price' for a barrel of crude oil. The Saudi practice is not unusual, as oil prices have long been manipulated for specific policy objectives. Price is a function of supply and demand. The responsibility of Saudi Arabia, the world's pre-eminent oil power and swing producer, is to maintain the supply–demand balance. The role of swing producer has given the Kingdom considerable influence in the oil market. In fact, oil price stability and the maintenance of reasonable prices lie at the heart of Saudi Arabia's oil policy. The Kingdom's leadership recognises that rising crude prices could derail global economic recovery and lead the way to steep decline, and that short-run gain from high oil prices may be offset by reduced sales in the future.

Saudi Arabia produced 13.3 per cent of global oil in 2012, and at present has an average production capacity of 10 million barrels per day. With its presumed 2 million plus barrels per day of spare capacity (out of a presumed 6 million barrels per day of OPEC total spare capacity), it is determined to retain its role as the world's swing producer and the political and market influence that this confers.

Over the last two and a half decades, oil prices have fluctuated considerably. These fluctuations have been more pronounced than at any other time in history and consequently the definition of reasonable or fair prices has also varied. In March 2013, Saudi Oil Minister Ali Al-Naimi assured the world that his country's concern is about maintaining global economic growth, not about maintaining oil prices at any specific level, and promised that Saudi Arabia will work hard to maintain 'reasonable' oil prices. But he also clearly expressed his thoughts regarding the limitation associated with such terminology as 'reasonable or fair prices', saying:

> My first speech in Asia as minister was in Singapore in 1996. Oil was just over $20 a barrel and I told the audience that the price, at the time, seemed reasonable. Four years later, the price was

> about $27, and was still seen as reasonable. Today, it's up around $100 and it seems reasonable.[3]

The Kingdom's leadership also showed some concern about the effect of high oil prices on future oil consumption and the possibility that high oil prices could lead to 'demand destruction'. This could, in turn, result in a permanent shift on the demand curve in the direction of lower demand, leaving the major oil-producing countries, especially Saudi Arabia, with considerable 'idle excess capacity'. Extremely low oil prices, on the other hand, affect the growth potential of the producing countries and the flow of investment to the industry, which would ultimately undermine oil supply security, with detrimental impact on the interests of both producing and consuming countries. Several officials of the Kingdom have argued that $100 a barrel would be a 'fair' price for crude. Indeed, Saudi price targets, which lie in a band around $100 per barrel, are not out of line with the interests of many industrial countries.

The impact of rising oil prices on food prices is well-documented. Saudi Arabia is gradually moving towards becoming a net food importer. Given the unsustainable exploitation of the scarce water resources of the Kingdom, the Saudi government recently decided to phase out local food production.[4] By 2020, food imports are expected to increase by 35 per cent, according to a report issued by the Foodex Saudi Expo.[5] In recent years, Saudi Arabia has made various attempts to invest in food production abroad and has launched the King Abdullah Initiative for Saudi Agriculture Investment Abroad, with an investment fund of 3 billion Saudi riyals. Thirty-five countries have been targeted for agro-investments,[6] but this is an exercise fraught with political sensitivity and the Kingdom has been accused of embarking on a 'neocolonial investment strategy' targeting the poor and developing countries. Volatility of oil and food commodity markets does not serve the Kingdom's national interests.

How oil prices might be managed in the long run is subject to several challenges and to the impact of speculative forces that lie outside the reach of the Kingdom's influence, and even outside the global oil markets. Thus, the G20 could be the right venue to assist the Kingdom in influencing medium- and long-term oil price expectations and in helping make these markets less volatile.

Notes

1. Senior Advisor and Director of the Security and Defence Studies Department at the Gulf Research Center (GRC), Kingdom of Saudi Arabia
2. See Jasim Ali, 'Saudi Arabia's Economy Basks in Oil Price High', *Gulf News*, 19 October 2013, http://gulfnews.com/business/markets/saudi-arabia-s-economy-basks-in-oil-price-high-1.1244623.
3. Wael Mahdi, 'Naimi Says $100 Crude Oil Is Reasonable Price', *Bloomberg*, 18 March 2013, www.bloomberg.com/news/2013-03-18/saudi-arabia-s-naimi-says-100-crude-oil-is-reasonable-price.html; see also 'Saudi Economic Growth to Hit 4.7pc', *Al Bawaba Business*, 11 April 2012, www.albawaba.com/business/saudi-economic-growth-420624 and Tamsin Carlisle, 'Slower Oil Price Rises Are in Saudi Interests', *The National*, 27 January 2011, www.thenational.ae/business/industry-insights/energy/slower-oil-price-rises-are-in-saudi-interests.
4. Once a wheat exporter, Saudi Arabia is phasing out its wheat production and will completely terminate it by 2016: see 'GIEWS Country Briefs, Saudi Arabia', 23 August 2013, www.fao.org/giews/countrybrief/country.jsp?code=SAU.
5. See 'KSA's Food Imports to Rise 35% by 2020,' *Arab News*, 22 September 2013, www.arabnews.com/news/465464.
6. See 'Saudi Arabia to Target Agro-investments Abroad,' *Arab News*, 11 November 2013, www.arabnews.com/news/475651.

2

Global rebalancing, financial risk assessment and the G20

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The current account and international investment position

A review of global imbalances suggests that a narrow focus on the current account, driven by the savings-investment perspective, is increasingly misguided under financial globalisation. Even if the savings-investment gap is large, it can be sustained if the imbalance in the financial and capital account is equally large in the opposite direction. As long as capital flows are channelled into productive uses for which the return on investment covers the opportunity cost of capital on a sustainable basis, a large current account deficit by itself does not lead to a crisis. A capital-poor country with good growth prospects provides a prime example where a current account deficit actually represents a win-win situation for borrowers and lenders alike. By contrast, even if the imbalance in the current account is not large, a sudden change in capital flows may precipitate a crisis. For example, even a country with solid growth fundamentals can get into serious trouble if it does not have enough liquidity to deal with abrupt capital outflows.

Hence, an exclusive focus on achieving zero imbalances through policies that affect the savings-investment gap is misguided. Instead, policy prescriptions should also cover financial resource allocation and micro- and macroprudential issues, as well as financial safety nets to deal with capital flow reversals.

Before the advent of financial globalisation, the current account balance could be employed as a measure of external sustainability, and a separate set of capital and liquidity ratios could be used to assess financial stability. With financial globalisation, however, the intersection between external sustainability and financial stability has increased dramatically. As domestic and foreign financial institutions are increasingly interconnected, the question of external sustainability cannot be separated from that of financial stability, which should take into account the currency and maturity mismatches of leveraged economic agents and their exposures to risk relative to their capital buffers. It cannot be ascertained by looking at the savings-investment gap alone. In practice, this means that, in addition to the current account balance, some measures of reserve-currency liquidity (for example, foreign exchange reserves relative to short-term foreign debt) and soundness of investment (for example, credit growth, loan-to-deposit ratio, nonperforming loans ratio, interest coverage ratio) should be employed[2] in assessing the external sustainability of the country as a whole and its systemically important financial institutions.

G20 global rebalancing and assessing systemic risk

At the time that the framework of strong, sustainable and balanced growth (FSSBG) was launched, in September 2009 at the Pittsburg G20 summit, it was genuinely felt that the concentration of global imbalances in the United States deficits and the Chinese surpluses was potentially destabilising, unhelpful for other countries, and a threat to global stability. At that time, the focus on 'rebalancing' real economy deficits and surpluses, internal and external, was justified. One could successfully argue that these imbalances still matter. But one way to understand the origins of the FSSBG against this background is that there was a sense of the vulnerability of the global economy to the continuation of these imbalances, and even to their correction. The focus then on global real economy imbalances was fundamentally a focus on systemic risk.

As shown above, those imbalances have attenuated somewhat. Now that the euro crisis has occurred and the potential for financial risk not only continues but possibly has increased with the use of unconventional monetary policies, it would seem that an FSSBG focus on systemic risk would now have to include a focus on threats to financial instability, large and small. Recall that bank runs in Cyprus had global implications. Integrating financial risk assessment into the G20 Mutual Assessment Process (MAP) would seem consistent with the original focus of the MAP on systemic risk.

Furthermore, the FSSBG would be the appropriate locus for focusing policy-makers' attention on the explicit ways in which financial stability can contribute to growth. The traditional way of viewing financial stability and growth was to see them as trade-offs. Even today, a major concern advanced by some is that financial regulation could dampen growth rather than facilitate it. But, as Mike Callaghan has pointed out, 'the [October 2012] GFSR [Global Financial Stability Report] posed a fundamental question … whether the structural changes occurring in the financial system are not only making it safer but are doing so in a way that is promoting better economic outcomes.'[3]

The October 2012 GFSR puts it this way: 'The global regulatory reform agenda aims for a safer financial system so that financial intermediation can help produce stable and sustainable economic growth.'[4] From this perspective, including financial stability in the FSSBG would help highlight these linkages to growth and enhance them.

Therefore, it would seem wise to consider refocusing the FSSBG by integrating the analysis of financial imbalances with real economy policy divergences, in order to better understand potential threats to the global economy – as was the original intent of the MAP – while at the same time enlarging the focus on the contributions that financial stability can make to economic growth. Financial stability could be viewed as vital to the 'sustainable' element of the FSSBG.

The capital account also matters; the MAP, and the real economy rebalancing that is the primary goal of it, focuses primarily on the current account. Integrating the analysis of capital flows through the capital account, identifying gross capital flows and their balance sheet effects, would provide a window into financial sector variables that might operate independently of, but impact on, the real economy variables reflected in the current account.

Maurice Obstfeld, in an extensive and nuanced analysis, has made these points extremely clear. While not putting aside a focus on the current account, Obstfeld writes, in conclusion:

> The same factors that dictate careful attention to global imbalances also imply that data on gross international financial flows and positions are central to any assessment of financial stability risks. The balance sheet mismatches of leveraged entities provide the most direct indicators of potential instability, much more so than global imbalances … A minimally effective financial 'architecture' would … imply a higher level of global economic government than currently exists. The political obstacles are daunting. But in light of the recent financial turmoil, one must ask how far we can safely push globalized markets beyond the perimeter of globalized governance.[5]

Furthermore, such a refocus could respond to one of the most important conclusions of the IMF's Independent Evaluation Office's report on lessons learned from the current crisis, which is 'to better integrate financial sector issues into macroeconomic assessments'.[6] The IEO starkly concluded that 'the IMF [in the run-up to this crisis] appropriately stressed the urgency of addressing the persistent and growing current account imbalances, but it did not look at how these imbalances were linked to the systemic risks that were building up in financial systems.'[7]

The three dimensions of systemic risk assessment

At this point, it is useful to clarify three different dimensions of systemic risk assessment. First, real economy imbalances, if not addressed, can become unsustainable and generate their own global economic disruptions. Second, financial sector analyses to assess domestic and global sources of systemic financial risk, in the aftermath of the financial crisis of 2007–08, are the new imperative for managing the global economy. And third, financial regulatory reform to provide new institutional capacity, new sources of data and new policy instruments (for example, macroprudential policies) for exercising oversight, supervision and regulation of financial markets and institutions is the cutting edge of institutional innovation with regards to managing the global economy.

The G20 MAP, as of now, is designed to address only the real economy imbalances; the IMF, with support from the FSB, has the lead in evaluating global financial risk and providing an early warning system for signalling vulnerabilities; and the FSB has the lead in financial regulatory reform efforts by major economies.

The G20 Working Group on the Framework for Strong, Sustainable and Balanced Growth reports regularly to G20 summits on global rebalancing; the IMF conveys the contents of its various assessments of financial risk to the IMF Board of Executive Directors, the IMF Board of Governors of 188 IMF member countries and the IMF ministerial-level International Monetary and Finance Committee (IMFC), composed of fifteen G20 members and nine other IMF member countries; and the FSB reports regularly on progress in financial regulatory reform to G20 leaders-level summits.

What this means is that even though fifteen G20 countries are represented at the IMFC, the G20 does not itself serve as a channel for IMF financial sector analyses, nor as a policy-level group responsible for reviewing systemic risk vulnerabilities. These analyses are done by the IMF for IMF governing bodies. Except for describing assessment processes underway, IMF documents prepared for the G20 do not generally analyse systemic financial risk.

With IMF work on global rebalancing and the FSB's regulatory reform reports both going to the G20, but with the financial risk assessment work being contained largely within IMF structures and governing bodies, there is not an institutional setting for high-level policy-makers to make a fully integrated evaluation of these three elements taken together, to ascertain systemic risk. In a global economy in need of steerage, this disjointed arrangement could create voids in the perception of risk, and questions about who is in charge of the global economy.[8]

Notes

1. Nonresident Senior Fellow of The Brookings Institution and of the Centre for International Governance Innovation (CIGI)
2. 'The Capital-Freeze Index', *The Economist,* 9 September 2013.
3. Mike Callaghan, 'Financial Regulation and the G20: is there a gap in the governance structure?', paper presented to the Asia Regional THINK20 Seminar, Sydney, , 22–24 May 2013.
4. IMF, 'Global Financial Stability Report: restoring confidence and progressing on reforms', chapter 3, October 2012.
5. Maurice Obstfeld, 'Does the Current Account Still Matter?', *American Economic Review: Papers and Proceedings*, 2012, 102(3), pp. 19–20.
6. IEO, 'IMF Performance in the Run-up to the Financial and Economic Crisis: IMF surveillance in 2004-2007', 2011.
7. Ibid, p. 7.
8. Source for this paper: Colin I. Bradford and Wonhyuk Lim, 'Global Rebalancing, Systemic Risk Assessment and the IMF and the G20', *The G20 at Five* (Brookings–Australian National University Roundtable, Canberra, 14 November 2013).

3

The Brisbane Summit needs to deliver a G20 coordinated growth strategy

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Lowy Institute for International Policy

At the Pittsburgh G20 summit, leaders said: 'Today we agreed to launch a framework that lays out the policies and the way we act together to generate strong, sustainable and balanced growth. We need a durable recovery that creates the good jobs our people need'.[2] The world is still waiting for the durable recovery.

Five years after the crisis, the IMF commenced its October 2013 World Economic Outlook by stating 'Global growth is still weak, its underlying dynamics are changing, and the risks to the forecasts remain to the downside. As a result, new policy challenges are arising and policy spillovers may pose greater concern.'[3]

Global growth remains below potential. It averaged only 2½ per cent during the first half of 2013 – about the same pace as the second half of 2012. In the years prior to the crisis, world growth averaged 4 per cent per year. Unemployment is high, particularly among the young, public debt is at worrying levels, financial fragmentation is growing, monetary policy is in uncharted waters and capital flows are volatile. There is also reason to be concerned about the sustainability of current growth rates, given the slowdown in emerging economies and the vulnerabilities confronting many economies. In addition, inequality is growing within most countries.

Notwithstanding the action plans released at each successive summit, the G20 has failed to deliver on its basic commitment to restore strong and sustainable balanced growth.

Moreover, the G20 has struggled to deliver a clear, consistent and coordinated message as to how members are cooperating to restore growth and create jobs. It has not lived up to the high ideals of the Framework. The focus has been more on areas of disagreement than on those of agreement, as illustrated by the debate over 'growth versus austerity', or the concerns many members have regarding the use of quantitative easing by some major developed economies, with resulting concerns over 'currency wars'. As Pierre Siklos has observed, 'the G20 has given the appearance of not being able to convincingly sing from the same song sheet.'[4]

The leaders' declaration and action plan released at the St Petersburg summit acknowledged the risks to the global economy. Leaders said that 'despite our actions, the recovery is too weak, and risks remain tilted to the downside.' They went on to state: 'To address these challenges and to place the global economy on a stronger, more sustainable and balanced growth path, we have built on our previous actions with new measures set out in the St Petersburg Action Plan.' But the 'action' consisted largely of a listing of policies already announced, or already being implemented by members.[5] There was little mention of the need to cooperate, and little evidence that G20 countries have a coherent strategy and are actually cooperating in their policy settings, recognising that by acting together they can achieve outcomes that exceed those they can achieve by acting alone.

G20 members have to get back on the same page and demonstrate that the G20 truly is an effective forum for dealing with international economic issues and fostering cooperation. In particular, the G20 must develop a clearer, more consistent narrative about how members are cooperating to strengthen global economic growth and create jobs. But it also needs to acknowledge more clearly the challenges confronting policy-makers. Olivier Blanchard has emphasised that the crisis has required a rethinking of macroeconomic policy.[6] This is perhaps no more evident than in the use of unconventional monetary policy by a number of advanced economies.

G20 coordinated growth strategy

The world is in the midst of an economic experiment at a time when, in the words of the IMF Managing Director, it is 'hyperconnected'. All countries are impacted and cooperation is vital. The G20 has to go beyond rhetoric. It must demonstrate that it is backing its words about cooperation with deeds.

In the St. Petersburg declaration, leaders requested their finance ministers to 'develop further comprehensive growth strategies for presentation to the Brisbane summit'. This should be a top priority for the G20 in 2014, with the addition that the focus should be on developing 'coordinated' growth strategies. It is an opportunity to place the Framework for Strong, Sustainable and Balanced Growth at the centre of the G20 activities and demonstrate that all of the G20's work is part of the growth strategy. The G20's activities cannot be considered in silos. Steps should be taken to revitalise both the Mutual Assessment Process and the action plans that are released after each summit. As noted, these plans have hitherto been a list of already announced commitments by countries, and receive little attention. The question has to be asked whether these action plans are influencing the policies of G20 members. The concept of countries listing specific policy measures in their action plans and the idea of some form of peer review was well-intentioned, but is it working? Is the approach too detailed, even taking into account the latest request for members to identify their top three structural reform measures? Should countries be focusing more on their overall growth strategy, including in particular identification of spillovers? It is important that the action plans reflect how countries are cooperating.

The development of a G20 coordinated growth strategy for the Brisbane summit should not be left to officials. It should not be just another attachment to a voluminous set of supporting documentation released at the Brisbane summit. Finance ministers and central bank governors must be directly involved, and it should be a key component of the leaders' summit in November 2014.

The preparation of a G20 coordinated growth strategy is an opportunity to refocus the meetings of finance ministers and central bank governors. These meetings should not be excessively procedural or burdened with a fixed agenda. Finance ministers and governors must be responsive to the challenges that can quickly arise in a volatile global economy, but they must also be focused on the longer-term policy measures needed to restore growth. The challenge confronting ministers and governors in 2014 will continue to be dealing with weak global demand at a time when the limits of accommodative fiscal and monetary policies have largely been reached. Ministers and governors will have to prepare and communicate in 2014 an economic policy mix that provides for the orderly consolidation of fiscal positions, the gradual exit from the various extraordinary monetary policy settings and the capacity to deal with potentially very volatile capital flows, along with measures to boost private demand.

Critical to boosting private demand will be an accelerated program of structural reforms. While the importance of more decisive action on structural reforms was recognised at St Petersburg, one of the constraints of the current G20 arrangements is that most finance ministers do not have responsibility in their jurisdictions for the required structural measures. Attempts to deal with this have included one-off joint G20 meetings, such as the meeting of G20 finance ministers and labour ministers in 2013, or separate one-off meetings of G20 ministers of labour or trade, for example. An initiative that should be introduced in 2014 is to open up the finance ministers' process so that other ministers directly responsible for the structural reforms being considered can attend on an 'as needed' basis. Which ministers should go to a meeting would depend on the topics being discussed and the domestic division of responsibilities. Each country would have two seats at the table at each meeting, but who occupied the seats would depend on the topic being discussed.

With respect to the finance stream in 2014, there should be a focus on improving the oversight of international efforts to strengthen financial regulation. This is meant to be a core priority of the forum, but the G20 has largely become a rubber stamp for the technical work of the Financial Stability Board. The issue of financial regulation requires more dedicated ministerial oversight than it is currently receiving, as the finance sector will be the source of future crises, just as it has been in the past. The

G20 should not be caught up in the details of financial regulation, but should focus on the bigger picture, such as assessing overall progress on achieving a stable and efficient financial sector that meets the needs of the real economy. One way that this could be achieved would be for the G20 finance ministers' meetings that take place at the time of the spring meetings of the IMF to focus on financial regulation. This would help remove the current duplication associated with back-to-back meetings of G20 finance ministers and the IMF's International Monetary and Finance Committee (IMFC). These meetings currently have similar agendas and there is an overlap of members.

Notes

1. Director, G20 Studies Centre. Lowy Institute for International Policy
2. G20, *Leaders' Statement: The Pittsburgh Summit* (25 September 2009), www.g20.utoronto.ca/2009/2009communique0925.html.
3. IMF, *World Economic Outlook* (Washington, DC: IMF, October 2013), www.imf.org/external/pubs/ft/weo/2013/02/.
4. Pierre Siklos, 'The Great Fragmentation: The Makings of Another Crisis or Opportunity for Progress?' (CIGI, 24 July 2013), www.cigionline.org/publications/2013/7/great-fragmentation-makings-of-another-crisis-or-opportunity-progress.
5. G20, *St. Petersburg Action Plan* (6 September 2013), www.g20.utoronto.ca/2013/2013-0906-plan.html.
6. Olivier Blanchard, 'Rethinking Macro Policy II: First Steps and Early Lessons' (Washington, DC: IMF, April 2013), www.imf.org/external/np/seminars/eng/2013/macro2/.

4

Introducing a forward-looking component to the G20 leaders' agenda

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The G20 leaders' process should involve learning from the experiences of the past, dealing with the demands of today and anticipating the challenges of the future. If the G20 is to be the premier forum for international economic cooperation, it needs to focus more on likely future developments and the challenges from a rapidly changing global marketplace.

One lesson from the crisis is the close interconnectedness between financial markets. As Janet Yellen has pointed out in reflecting on the events of 2008, losses arising from leveraged investments caused a few important, but perhaps not essential, financial institutions to fail.[2] She goes on to note, 'At first, the damage appeared to be contained, but the resulting stresses revealed extensive interconnections among traditional banks, investment houses, and the rapidly growing and less regulated shadow banking sector.' Of course, that interconnectedness operated globally and the events in US financial markets had worldwide ramifications.

Tax and trade are two high-profile issues on the G20 agenda. Like finance, they have a common driver: namely, the challenge policy faces in keeping up with an increasingly global and interconnected business landscape. More and more businesses operate globally.

Trade policy has to adapt to the reality that value chains are increasingly driving international trade. Goods are 'made in the world' rather than in one country. In such a world, the mercantilist view that exports are good and imports are bad, and the traditional trade negotiating stance that market access can only be granted as a concession for access to another country's market, are out of date and counterproductive.

A challenge facing the G20 on tax is dealing with 'base erosion and profit shifting' – the ability of globally operating companies to exploit loopholes, particularly in double tax agreements, to make profits disappear for tax purposes, or shift profits to jurisdictions with little or no taxation.

The rise of global value chains has been facilitated by technological developments, particularly the digital age. The same forces have been driving financial innovation and the interconnectedness of financial markets, along with transforming the traditional approach to corporate taxation. Goods are no longer produced in a single location in a single country, but are widely dispersed across jurisdictions. In such an environment it is increasingly difficult to determine in which jurisdiction value-adding occurs and where tax can be applied. This is even more challenging with goods and services delivered over the internet, including the challenge of imposing value-added taxes on such cross-border transactions.

Moreover, multinational companies do not organise their operations as discrete entities in specific countries who engage in arm's-length transactions – they adopt a global approach. In such a world it is very difficult for a jurisdiction to identify where its taxing rights exist, and very easy for corporations to ensure that profits are only declared in low-tax centres.

Technological change will not stop. Financial innovation will not stop. More and more goods and services will be delivered over the internet. The advent of the 3D printer will further diffuse production and value-adding activities across many jurisdictions.

These developments will further increase integration between countries. The result will be that individual nation states will find it increasingly difficult to set laws covering globally operating businesses. Effective international cooperation will become more and more important. This is, of course, the reason for the existence of the G20, and it emphasises the necessity of ensuring that there are effective forums for international economic cooperation.

So rather than looking at such issues as financial regulation, trade and tax as discrete issues, the agenda for the Brisbane G20 Summit should incorporate a specific session where leaders reflect on the future challenges of economic management from the perspective of likely corporate and technological developments. In short, G20 leaders should engage in ‘the vision thing’.

Notes

1. Director, G20 Studies Centre, Lowy Institute for International Policy.
2. Janet L. Yellen, ‘Interconnectedness and Systemic Risk: Lessons from the Financial Crisis and Policy Implications’ (speech, San Diego, 4 January 2013), www.federalreserve.gov/newsevents/speech/yellen20130104a.htm.

5

Post-growth societies for the 21st century

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Background: an inaudible discourse on growth

Since the 1970s, growth rates in the wealthiest European countries have been sluggish, if not in decline, and Europe is not the only region affected. For the generations born after the 1970s, in the wake of the thirty-year post-war boom, the political discourse on the return to growth is becoming increasingly outdated.

Some leaders are hoping for a return to the thriving post-war decades or the onset of a new industrial revolution, while others would be quite content with an annual 2 per cent growth rate once the crisis has passed.[2] Moreover, for the vast majority of politicians, growth is synonymous with prosperity: more growth is needed to create more jobs, reduce inequalities, maintain the quality of the welfare states and, ultimately, make people happy.

These political discourses on growth are thus doubly dissatisfying. Unfortunately, authors who are developing alternative ways of thinking about growth fail to address this dissatisfaction. First, because the demonstration that the end of economic growth is inevitable given the finite nature of the world seems to us far from robust, just like the hopes for a new wave of growth buoyed up by green technologies. Second, the literature on growth indicators that could replace GDP indeed addresses the paramount social and environmental objectives, but often says too little about the role played by GDP growth in reaching these objectives, whether in the area of employment or income equality or access to essential services such as healthcare and education.

To respond to this dissatisfaction with the political and media discourse on growth, the IDDRI report entitled 'A Post-Growth Society for the XXIst century' attempts to answer, as far as possible, the two following questions:

1. Can we have any certainty about the future of growth?
2. Assuming that the coming decades will be a period of weak growth, fluctuating between an annual 1 per cent growth and a stagnant GDP, can we still prosper?

To answer these questions, we have studied the economic literature, organised seminars bringing together practitioners, policy-makers and experts, and carried out a modelling exercise to investigate the links between the energy–climate nexus and the economy.

Is there a future for economic growth in the developed world?

Growth rates exceeding 1 per cent a year are a recent phenomenon in the history of humanity and those seen in the post–World War II years in Europe are something of an exception. Growth is the result of complex mechanisms that can be linked up with factors such as the composition of the economy (tertiarisation), the diffusion of new technologies with a strong transformative potential, energy and the nature of a state's social compromise. However, economists are clearly quite unable to establish robust forecasts covering several decades.

Economic growth has been declining for the last forty years in the rich countries, and a weak-growth situation could well persist, or even worsen. In fact, it is not inconceivable that today's new technologies may prove to be less radical than those that drove the industrial revolution, or that the tertiarisation of the economy underway in industrial countries is resulting in slower productivity gains, particularly in those countries that have opted for development models based on education, healthcare, caring for the elderly and, more generally, on 'personal' services.

On top of this, there are challenges involving energy resource scarcity and global greenhouse gas emissions. Here, too, we find a great deal of controversy. While some consider economic 'degrowth' to be inevitable, others believe that these environmental challenges present a fantastic opportunity to return to growth and start a new industrial revolution. As we have seen, the current state of natural resources is sometimes worrisome. Yet, to understand the possible macroeconomic impact of energy resource scarcity or emission reduction, it is necessary to call on an economy–energy–climate model such as the CIRED (International Conference on Electricity Distribution) model used by IDDRI. Our findings show that while the most pessimistic scenarios are confirmed (for energy resources, trends in the cost of low-carbon technologies and lifestyles), the macroeconomic impact may be several tenths of a percentage point of annual growth and may be even stronger during the transition period, spanning the next twenty years. Moreover, if growth is already weak, this represents a substantial drop.

There is thus 'radical' uncertainty about the future of economic growth. Our future policy choices and the technologies that we invent in the coming years are uncertain. This opens up a large range of possible economic pathways, with an equivalent number of growth outcomes. And the eventuality of low growth rates – floundering around 1 per cent, stagnation or worse – is not to be excluded.

Can we prosper without growth?

In political discourses, growth and prosperity are often synonymous. Yet it would appear from this report that adapting to very low growth rates does not mean abandoning the objectives pursued by public authorities to reduce inequalities in wealth, social protection and life satisfaction.

The links between growth and prosperity are much weaker than is generally imagined. There is, in fact, no correlation between happiness and long-term growth in the richest countries, any more than between employment and long-term growth. Employment and growth appear to be strongly correlated in the short term, but many economists contend that it is not so much growth that drives employment as employment that helps restore growth; that there is no need for growth in order to create employment, but rather a tautological need for 'employment policies' (labour market, industrial strategy, wage policy, public-sector employment, etc.). Likewise, although happiness and growth are strongly correlated in the short term, this is primarily due to employment: what people need to feel happy is not so much growth as jobs. In political discourse, the detour via growth is very often unnecessary.

On the other hand, the links between growth, long-term inequality and social protection are much more tenuous. Weaker growth deepens income inequality over the long term, but equality seems to be crucial for self-reported happiness and the efficiency of healthcare systems. A low-growth society thus needs to redouble its efforts as far as redistribution is concerned.

Similarly, we observe that weak growth complicates decisions on the trade-offs required to secure the financing of pay-as-you-go pension systems: without growth, there is more reason to step up contributions and/or work longer and/or decrease pensions relatively. The same holds for the health sector: with rising demand for health in a low-growth context, the need arises to increase contributions and/or cut expenditures and/or radically reform the system. Ultimately, without a 'bubble of oxygen' from growth, we need more reforms, more political action.

Unfortunately, a weak-growth context puts a powerful brake on policy, whether the goal is to reduce inequalities or reform the social protection system. Since the pie is not growing as fast as it used to, it is more difficult to modify the distribution of wealth between workers and rentiers, active and inactive workers, or arbitrate collectively between public and private health services. A weaker growth regime thus imposes more arbitrations and renders them even more politically sensitive.

By way of conclusion, a brief reminder of what we have outlined above: the analysis shows it is not so much society's economic growth that matters, but rather the individual and collective choices that we make: whether or not to adopt a development model based on 'personal' services, or to achieve our climate objectives. These choices will lead to different levels of prosperity and economic growth. The level and growth rate of GDP are above all the outcome of our choices of development paths, and do not determine the prosperity of the industrialised countries. This conclusion may appear trivial to some, but it is nonetheless fundamental. The 'detour' via GDP growth to reach the destination of prosperity, which is operative in many political discourses, seems in many respects pointless and – after decades of weak growth – outdated.

It is now time for policy-makers to take a fresh look at growth, accept the radical uncertainty surrounding its future, and construct, first of all, a positive narrative for the future with no reference to growth and, then, a society that is able to concretely free itself of the shackles of growth: a post-growth society. We hope that we have given them some food for thought, so that policy makers will make themselves heard once again by the generations born after the post-war boom. We also hope that we have been able to encourage researchers to deepen the questions that have been left open – post-growth macroeconomics still remains to be built.

Notes

1. Research Fellow Growth and Prosperity, Institute for Sustainable Development and International Relations (IDDRI).
2. Do policies have an optimistic leaning as far as growth is concerned? We consider that this is often the case for medium-term and long-term growth, as evidenced by the hopes for a new wave of growth, and also for short-term growth (take, for example, the French Government's growth forecasts over the last ten years, which have overestimated the growth rate for each following year by nearly one percentage point – which is to say, by as much as the average growth rate over the same period). Obviously, in the short term, we have the example of the public deficits that have worsened in recent decades. But is overestimating long-term growth of grave concern? The answer is no – as long as today's policy actions do not make it imperative to achieve high growth rates.

Strengthening the peer review of the G20 Mutual Assessment Process

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As the global upturn continues to bear risks, the issue of economic growth is still a central element of the G20 agenda. The item is connected to macroeconomic imbalances, which rose dramatically before the financial crisis and which are considered a major risk to the stability of the global economic and financial system. As a consequence, the G20 adopted the Framework for Strong, Sustainable and Balanced Growth in 2009, with the objective of reducing macroeconomic imbalances and promoting sustainable growth. In the context of the Framework, the Mutual Assessment Process (MAP) was established to analyse national economic policies and their spillover effects on other countries and on global growth, with the goal of formulating individual adjustment commitments. Since then, the issue has been addressed by the G20 at the highest political level; the success of the Framework and the MAP are closely connected to the success of the G20 as a whole.

Apart from independent and transparent analytical input that helps to identify the imbalances and distortions correctly and in a timely manner, our previous research[2] identifies two key criteria that are essential for governing the G20 surveillance process, MAP, successfully. First, a high level of ownership when formulating the targets and reform measures increases political will to commit to a meaningful international surveillance procedure. Second, an effective monitoring and enforcement system helps to maintain commitment and avoid a return to non-cooperative behaviour.

In the spirit of the MAP being a country-led surveillance process, we recommend that the Australian G20 presidency focus on strengthening the peer review capacity of MAP by way of the following four measures: It should (1) ensure specific and timely commitments of the individual G20 members, with a clear focus on spillovers; (2) expand candid discussions based on an ‘explain and justify’ approach to Article 4–type consultations at the G20; (3) introduce clear timetables and a bilateral monitoring process; and (4) streamline the publication of final MAP results into one coherent G20 document.

Improving the peer process of formulating MAP commitments

Compared to the IMF’s surveillance procedure (so-called Article 4 consultations), MAP is very strong on ownership, as the entire process is led and directed by the G20 member states. The basic work of MAP surveillance is done in the Framework Working Group (FWG), which meets several times a year and consists of mid- to high-ranking officials from finance ministries and central banks of the G20 countries. In the meetings, countries usually present their national reform plans, and this is followed by open and candid discussion. The final decisions on Framework commitments are taken by consensus.

These regular exchanges at which representatives from all G20 member states talk openly about their economic policy plans and the international consistency thereof are one of the key added values of the G20 MAP surveillance. Through such regular and candid discussions behind closed doors, trust and understanding can develop among sometimes very different member countries – different both in their level of economic development and their approaches to economic policy-making. The informal and member-driven character of the FWG facilitates the development of common basic understandings, but also sheds light on the views and political constraints of individual states, as a first step toward international cooperation and long-term international policy adjustment.[3] Examples of such gradual policy rapprochement in the context of the MAP are China's gradual changes in its exchange rate policy, and Japan's VAT increase. Yet this process of formulating individual commitments can be improved.

Recommendation 1

The commitments that are presented by the individual countries must be timely and up to date to form a real basis for discussion. In the context of the 2012 Los Cabos Accountability Assessment Framework (AAF), it was decided that policy commitments should be 'concrete, using quantitative measures where possible to help focus the discussion and assess progress'.[4] The Australian presidency should encourage member states even more explicitly to propose MAP commitments that are as specific as possible in nature and that spell out the potential international spillover effects more clearly.

Recommendation 2

The discussions on adjustment expectations and deliverables in the context of the surveillance exercise should be frank, specific and issue-driven. The Australian presidency should reinforce the 'explain and justify' approach for discussing individual commitments in the FWG: countries should explain their suggested reform plans with regard to the anticipated spillovers and effects on global growth. Moreover, member states should stand ready to take comments and criticism from their peers and take account of what kind of deliverables are expected. Explaining and justifying takes place before the final commitments are announced at the yearly G20 summits of the heads of state and governments. For the first time in 2013, each member state was assigned to assess the economic policy plans of another G20 country in the FWG, taking IMF and World Bank reports into consideration. For example, Brazil analysed the German commitments, while Germany reviewed China's proposals. This is a step in the right direction. In order to make this bilateral assessment a worthwhile exercise, it should be ensured that there is enough room for discussion of individual countries in the future. The Australian presidency should continue and enhance the bilateral peer review in the FWG so as to develop it into an Article 4–type consultation at the G20 – yet one among peers, and on a more informal and flexible basis than at the IMF.

Strengthening the monitoring mechanism for implementing MAP commitments

In contrast to international organisations, the G20 is an informal forum. Because of this, a formal mechanism was not established to monitor and enforce national commitments made in the context of the MAP. It was only under the 2012 Mexican presidency that the G20 started to tackle the issue of non-compliance. In the AAF, the G20 agreed on principles to guide the monitoring and enforcement of its decisions in the future.

The MAP approach to monitoring and enforcement can be described as 'trust but verify': the process does not involve any sanctions. Pressure to fulfil the MAP objectives and to change policies is indirect and exerted through a mix of self-assessment, peer review and assessment through international organisations like the IMF. Yet in spite of recent efforts at Los Cabos to enhance monitoring and enforcement of implementation of MAP commitments, the process could be improved through a strengthening of the peer review element of the process.

We acknowledge that peer review bears the inherent danger that the participating countries are the accused, judge and jury at once, which threatens the implementation of politically painful policy adjustments. However, if monitoring mechanisms were equipped with more 'teeth', or enforcement was conducted through an outside actor, there would be a dramatic decrease in ownership of the MAP – and thus in the political will to commit to a meaningful international surveillance initiative in the first place.

Recommendation 3

In order to enhance the review capacity of the peers, there must be a clear timetable for the review process. It should follow a yearly cycle, with the presentation of policy commitments at each summit meeting as the starting/end point of the annual review process. National commitments should cover the range of short-, medium-, and long-term goals, and they should all have a clear timetable for implementation and a road map to achieve them that can be easily verified by the peers. In this context, it could be useful for the Australian presidency to expand the process of pairing countries, not only for the formulation stage but also for the monitoring stage of MAP surveillance. Each country would then be responsible not only for assessing the proposed commitments of another member, but also for reviewing the implementation of the policy plans of its partner country in the FWG.

Recommendation 4

The Australian presidency should work towards streamlining the publication of the MAP results. In addition to the individual commitments listed in the action plans, the framework commitments feature in the leaders' and ministers' declarations as well as in other G20 work streams – all of which have their own public documents and reports. To improve the visibility and accountability of the MAP commitments it is necessary to put all issues connected to the Framework and MAP together into one single document. This would improve transparency, as the commitments could then be more easily assessed, compared and verified, by both G20 member states and external actors. Moreover, streamlining the documentation of the MAP results would help to focus the activities of the G20 and counter the problem of 'agenda creep'.

G20 surveillance in the context of the MAP is informal and peer-driven – and consciously so. It is therefore outside of the Australian presidency's remit to force member states to commit to national rebalancing and growth measures that are domestically unpopular or unfeasible. Nor is the G20 presidency in a position to make member states agree on a common vision for the global economy, when in fact they diverge in outlook and economic philosophy. However, during its 2014 presidency, the Australian government can work towards improving the governance of the MAP surveillance by strengthening the discussion, formulation and monitoring of national rebalancing and growth commitments in a peer-review process.

Notes

1. Katharina Gnath, Fellow, Stiftung Neue Verantwortung, Berliner Freiheit 2, 10785 Berlin, Germany, email: kgnath@stiftung-nv.de (correspondence author); Dr Claudia Schmucker, Head of Globalization and World Economy Program, German Council on Foreign Relations (DGAP), Rauchstraße 17/18, 10787 Berlin, Germany, email: schmucker@dgap.org. This policy contribution represents the personal views of the authors.
2. Katharina Gnath and Claudia Schmucker (forthcoming), 'Governing Macroeconomic Surveillance in the G20 and the EU: A First Assessment of MAP and MIP'.
3. See also Claudia Schmucker and Katharina Gnath, 'The G20 Five Years On: Focus on the Core Tasks!', 2013, DGAPanalysis 5/2013, German Council on Foreign Relations, Berlin, https://dgap.org/en/think-tank/publications/dgapanalyse-compact/g-20-five-years-focus-core-tasks.
4. G20, Los Cabos Growth and Jobs Action Plan, www.g20.utoronto.ca/2012/2012-0619-loscabos-actionplan.html.

G20 economic priorities for 2014: reforming the MAP

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The G20 was elevated to a leaders-level forum in November 2008. It had initial successes in coordinating an international response to the economic and financial crisis, and there were high hopes that it could evolve from a crisis committee to a central forum for steering the world economy in more normal times – the 'premier forum for international economic cooperation'.

Since those early days the G20 has struggled to emulate those achievements, both on its core economic and financial issues, and across the broader range of issues that successive summits have added to the agenda.

This paper argues that the G20 currently faces a number of structural problems, both specifically related to its core economic mandate and more generally. It also argues that unless these can be addressed, the G20 will find it increasingly difficult to maintain its current relevance, let alone realise its full potential as a central forum for active international economic cooperation. The next couple of years will be key in determining whether the G20 has a long-term future, or whether countries will increasingly turn to other organisations and fora to achieve the level of cooperation they desire in an increasingly integrated global economy.

Former successes and current failings

The G20's early achievements in helping to deal with the global financial and economic crisis have been well-documented, including: the provision of coordinated liquidity, and international resources for crisis countries; well-orchestrated fiscal stimulus measures; and an action plan to address failures in financial regulation.

The Pittsburgh summit also put in place a G20 structure to address economic imbalances and spillovers between countries. The Mutual Assessment Process (MAP), which underpins the G20's Framework for Strong, Sustainable and Balanced Growth, was intended to be a forum for mutual assessment, evaluation, discussion and coordination of national economic policies in order to deliver better global outcomes.

In the subsequent summits, communiqués continued to refer to progress on these core economic issues. But, in addition, greater attention was paid to wider issues, including development; trade; climate change; energy security and commodity markets; corruption, tax havens, money laundering and terrorist financing; the marine environment; and financing for investment.

The G20 also has a mixed record in implementing leaders' agreements. The G20 Research Group published a comprehensive study of the implementation of G20 summit commitments in December 2012, which concluded that overall implementation was partial.[2]

Implementation has generally been more successful where an existing technical body has been tasked by the G20, and empowered to drive through reforms agreed by the G20 leaders at a political level. Financial sector reform is one example of this, where the Financial Stability Board (FSB) was strengthened to effectively become an instrument of the G20, formulating detailed plans to action political agreements, and overseeing implementation. National implementation of some financial reforms has been patchy, but overall progress on the financial reform agenda since 2009 has been impressive. Major reforms have been put in place: capital buffers and leverage ratios; oversight of systemically important financial institutions (SIFIs); recovery and resolution planning; over-the-counter (OTC) derivatives; shadow banking; and so on.

There are a number of 'environmental' reasons for this decline in the G20's performance: the overriding sense of urgency has fallen away as the crisis has abated; some of the problems facing the G20 are now more national or regional, rather than truly international; and as the 'quick wins' were banked, the issues have become harder to solve.

Structural flaws

But there are other factors connected to the structure of the G20 that have hampered its effectiveness as a decision-making body. The need for consensus tends to result in 'lowest common denominator' agreements. Also the 'rotating presidency' format, while it encourages ownership, works against effective leadership and strategic direction. The reluctance to drop issues from its agenda has led to a lack of focus. And implementation of joint decisions has been hampered by an unwillingness to sanction members that fail to comply.

These issues apply to the full range of the G20 agenda. But they are particularly relevant in the core economic sphere, which was the original *raison d'être* for the G20.

The MAP itself has evolved over time, and the issues it focused on have changed. At the outset, the MAP was intended to help countries shift the balance of demand, both internally and externally,[3] so that deficit and surplus countries could adjust imbalances relatively smoothly and avoid a 'hole in demand' globally. But as the crisis abated, the priority shifted to managing medium-term fiscal consolidation weakened by the crisis without jeopardising economic recovery. The euro area crisis flared up in 2011, but the MAP did not adequately address this. Instead, subsequent summits have focused on longer-term structural reforms.[4]

Given the changing nature of the economic problems facing the global economy over the last five years, it was appropriate that the MAP responded to new issues as they became more prominent. But, in common with the wider G20 agenda, the MAP has found it difficult to reprioritise, instead adding new issues without deprioritising others. As a result, the MAP agenda has grown, so that it now covers the entire range of fiscal, monetary, financial and structural policies.[5]

To some extent, the G20 economic agenda has also been hijacked by wider presidency priorities. For example, the Cannes summit was dominated by the euro area crisis. But the Los Cabos summit shifted the main focus onto development issues. And the St Petersburg summit was overshadowed by the Syrian crisis.

The overriding need for consensus has also been a feature of the MAP from the outset. For instance, as the list of MAP indicators was being developed, there was great reluctance by emerging markets to include the current account position of countries in the list, for fear that it would be used to attack the build-up of large surpluses.

The MAP has, of course, had its strengths. Compared to previous attempts at international policy coordination, the MAP has been:

- 'owned' by the G20 countries, since they primarily drive the process
- able to access high-quality inputs and technical expertise, in particular from the IMF, the OECD and the World Bank
- involving the finance ministries and central banks of all the major economic players, and
- fully transparent on both inputs to and outputs from the process.

It also has the potential to become a more effective process by which countries can critique each others' policies and catalyse efforts to minimise negative spillovers between countries.

But this will not happen without changes. The MAP has no enforcement mechanism, other than public embarrassment. And the need for consensus has resulted in relatively modest policy commitments by countries, in many cases going no further than previously announced policies. Also, it is not clear that it is possible to have detailed and comprehensive negotiations with 40-plus institutions represented in the room.

Generic suggestions for G20 processes

Some of the ways in which the G20 can address these flaws and improve its processes are:

- setting strict time limits and sunset clauses for issues, and limiting the presidency's discretion for adding new issues
- allowing subsets of G20 countries to move ahead on issues that are particularly important to them (while avoiding this opening up rifts with other G20 members)
- establishing more common ownership of each year's agenda by reducing the discretion of the presidency (through a permanent secretariat, or improved 'troika' processes, for example)
- setting out clear timelines and accountabilities for implementation of decisions, preferably tasking relevant institutions with taking them forward, and requiring regular progress reports.

Some modest MAP-specific proposals

But changes also need to be made to the MAP, to make it more relevant in the future and establish it as a key component of international economic policy cooperation. A change in mindset and approach by countries is required, but changes to its structure and processes can also help.

Three areas for improvement are particularly important:

- focusing on the right issues
- developing better processes to deal with difficult issues
- maximising buy-in at the highest political levels.

Given the proliferation of the MAP agenda, it is important to find ways to bring emerging issues to the table, but also to prioritise issues. Two specific suggestions are that:

- the G20 should adopt a work program for the coming year, based on the highest priority issues raised in the latest IMF World Economic Outlook (WEO). (So, for example, the IMF's October 2013 WEO and Managing Director's priority agenda highlight three main issues: the speed of fiscal adjustment; completing the process of repairing financial institutions' balance sheets; and managing the volatility of capital flows.)[6]
- Finance Ministers and Governors should be tasked with presenting to leaders at the summit a set of concrete proposals for actions to address each of these priority issues.

The MAP is already in some ways over-engineered, and because of this, it is less likely that contentious issues will be dealt with. It will obviously be less comfortable for countries to be forced to confront difficult issues; and if ministers and governors (supported by the work of their officials) are required to present proposals to leaders, this will highlight where agreement in advance of the summit is impossible. But continuing to avoid these issues simply ensures that they remain unresolved. Possible ways to correct this bias are to:

- publish at the start of each presidency the MAP program and its priorities for the coming year

- invite contributions from external experts on these issues (or set up an advisory panel), and ensure that their views are discussed by the MAP working groups and the meetings of ministers and governors.

Finally, the issue of ownership remains the most difficult one. It besets all forms of surveillance, and countries will always tend to try to avoid public criticism of their established policies and positions. But the G20 needs to have the ability to apply peer pressure, instead of peer protection.

The G20 is perhaps uniquely placed to use the MAP to apply this peer pressure because the process is controlled, and to a large extent implemented, by the member countries. So countries cannot dismiss the MAP conclusions as simply the views of an external body (such as the IMF or the OECD). But the MAP is not currently realising this potential for influence. To do so will require a change of mindset. This would have to be sanctioned by leaders, who face a clear choice: either to determine that summits should discuss the most important economic issues of the day, even when this could present them with uncomfortable choices; or to continue to discuss only 'lowest common denominator' issues, where agreement can be reached before they are brought to the summit.

If leaders are prepared to go down this route, ways to embed it would be for them to:

- explicitly endorse the MAP work program and task their ministers, governors and officials with bringing specific proposals to the summit, and
- sanction publication of the MAP reports in advance of the summit, so that they can be externally reviewed before leaders discuss them.

An agenda for 2014

The flaws in the current MAP cannot be eliminated in one year, or under a single presidency. But a start can and should be made next year, on Australia's watch.

Specific actions that Australia could adopt are to:

1. incorporate the priority issues identified in the October 2013 WEO into the agenda for its presidency
2. set up an advisory panel of external economic experts to advise on these issues, and
3. ensure that these priority issues are on the agenda for each meeting of ministers and governors under its presidency.

Also, the Australian presidency should start the longer-term process of change, and initiate discussion of the more difficult issues by:

4. commissioning a report at the Brisbane summit (along the lines of the 'Cameron report' for the Cannes summit) into how the G20 can fulfil its role as 'the premier forum for international economic cooperation'.

Notes

1. Senior Research Fellow, Chatham House.
2. The study concluded that some countries were significantly better than others at implementing commitments – Canada was best, and Argentina worst. And some areas saw better implementation than others: the G20 did reasonably well on international financial institution (IFI) reform and fiscal consolidation, but less well on structural reforms and protectionism.
3. The Pittsburgh, Toronto and Seoul summits all focused on current account imbalances.

4. The Cannes summit added social security and unemployment issues to the MAP agenda. Los Cabos put more attention on strengthening global demand. And St Petersburg launched an action plan on growth and jobs, which mainly consisted of policy commitments previously made by G20 members.
5. For example, the St Petersburg action plan lists eight ‘main challenges’ to the global economy: weak growth and high unemployment; financial fragmentation; slow emerging market economy (EME) growth; insufficient private investment; high public debt; volatile capital flows; unbalanced global demand; and fiscal policy uncertainties.
6. Including those arising as the United States and other advanced economies exit from unconventional monetary policies.

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A more inclusive G20 economic policy coordination mechanism is possible

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As the global economy continues to recover from the worst and most widespread economic crisis in recent decades, governments around the world face numerous challenges, of the most significant of which is unemployment. According to the World Bank's *World Development Report 2013*,[2] 22 million jobs have been lost globally since the beginning of the crisis. The same report notes that 600 million jobs need to be created over the next fifteen years to sustain current employment rates.

These developments have coincided with major structural transformations in the global economy, including a shift in the centre of economic gravity to the East or 'the South'. Today, emerging markets and other developing countries constitute over half of global output and export trade. The rise of the markets of the South has been driven by their increased interconnectedness with the global economy vis-à-vis the emergence of global value chains (GVCs) operated by multinational companies of G7 countries. In this context, jobs and growth will remain at the centre of national policy debates for years to come, while intensified interdependency in global production relationships inevitably implies greater mutual policy dependency. Thus, international policy coordination within the G20 framework is of utmost importance in setting the direction of national policy debates and managing global interdependencies.

Previously, austerity measures were considered to be the main policy tool for coping with crises. Rewinding a few years, the 1997 Asian and 2001 Turkish crises were dealt with through policies involving massive structural transformation and austerity measures, on the premise that countries deemed safe and sound by investors would be able to attract financial flows. Thus, the growth model adopted by many emerging economies was based on reforming internally and receiving financial capital flows in turn. The global financial crisis has reignited the debate about austerity economics, and whether it is always the best policy option. For instance, the US response to the crisis, involving extraordinary amounts of quantitative easing, has proven to be largely successful, with most indicators pointing to a decent recovery.

Elsewhere, painful austerity measures, often disproportionately shouldered by lower- and middle-income groups in economically troubled countries, have led to a loss of confidence of voters on the national level, posing a serious threat if democracy is to be secured in conjunction with the globalisation process. Dani Rodrik drew attention to a so-called political trilemma of the global economy, whereby the nation state system, democratic politics and full economic integration are mutually incompatible.[3] Conforming to Rodrik's thesis are developments in Greece and elsewhere in Europe, including political fragmentation and the rise of the radical right-wing parties in response to tight austerity measures.

In order to avoid the rising risk of protectionism – often resulting from policy debates on the national level that overshadow global economic imperatives – the G20 platform needs to outline an agenda for a more inclusive growth. In this respect, empowering small to medium sized actors, whose participation in the globalisation process has so far been limited, is an important step. While data suggests that small and medium enterprises (SMEs) generate more than 60 per cent of the global workforce, limited attention has been paid to these institutions with respect to inclusive growth and global supply chains.

Furthermore, the exclusion of these actors from the global policy discourse increases the risk of them assuming a larger role in national debates that are often protectionist. The G20 forum is an important opportunity to promote inclusion of national actors into the globalisation process vis-à-vis empowering SMEs. Lastly, today ICT technology and the internet provide a unique opportunity for SMEs to operate internationally. SME internationalisation is important for a more inclusive jobs and growth agenda.

The G20 and the Mutual Assessment Process

Since 2008, the G20 has emerged as the key multilateral forum. The Pittsburgh summit in September 2009 was marked by the G20 leaders' declaration that henceforth the G20 would serve as the primary forum for international economic co-operation. The G20 leaders agreed on various macroeconomic and structural objectives under a new Framework for Strong, Sustainable and Balanced Growth to ensure sustainable and strong recovery from the 2008 financial crisis and medium-term growth. To measure the consistency of policies in individual countries with the objectives of the Framework, the leaders launched the Mutual Assessment Process (MAP).

Emphasising common objectives and global interdependencies, the MAP is an attempt to bring structure to the consultative process in a complex and integrated global economy. The process aims to measure to what degree policies of individual countries are collectively consistent with the objectives of the G20 Framework; to determine the type of action that will improve progress towards these objectives; and to assess how evenly benefits of collective policy action are distributed among G20 countries. The MAP also intends to address some of the issues that hindered the efficacy of the IMF surveillance mechanism, including by improving the clarity of objectives and gaining a deeper understanding of global interdependencies and their impacts.

An important departure from the IMF's 'multilateral consultation' process is that the MAP is a peer review process, rather than surveillance. As a country-led peer review mechanism, the MAP attempts to tackle the previous credibility and accountability issues associated with processes such as the IMF's 'multilateral consultation' in various ways.

The G20 MAP covers over 90 per cent of global gross domestic product (GDP), 80 per cent of international trade, and two-thirds of the world's population. It also encompasses a wide range of policies: fiscal, monetary, structural and trade. Moreover, while encouraging countries to pursue policies that are in the interest of the global economy, the MAP is designed to enhance country ownership of the consultation process, in an effort to make it more outcome-oriented.

The MAP is also an attempt to reduce the IMF's role as the main driver of global economic and financial policy. In the case of the MAP, the IMF provides the forum with technical expertise and support, upon the request of the G20. For instance, IMF staff have been called on to assist member countries in developing indicative guidelines to be used in the identification and evaluation of imbalances among members every two years. Furthermore, inputs of the IMF are published in a transparent fashion. Similarly, the outputs of G20 discussion are made available to the public, albeit discussions being held in private.

What has been done? What is the MAP capable of? What needs to be done?

The MAP is essentially an attempt to strengthen the G20 system and thereby democratise global economic governance. With its membership reaching beyond the traditional G7, the G20 has a cross-regional reach, which makes it a more effective and inclusive economic policy forum. The forum is recognition of the need to govern the global economy in new ways that reflect the rise of emerging markets as major players and the shift towards a multipolar world.

More specifically, the MAP, which is driven by the G20 leaders themselves, has the potential to be an effective governance framework given impetus by transparent information exchange and with accountability resting at the highest level.

The current MAP framework is in its infancy and needs to be further developed. In addition to monitoring progress, the work of the forum should be extended to include policy dialogue and formulation mechanisms. Furthermore, a wider array of actors should be invited to participate in discussions, including members of international labour advocacy groups, business advocacy groups (SME advocacy groups, in particular), women's rights groups, and so forth, to ensure that policy debate extends beyond specific national concerns and that the interests and concerns of these groups are integrated into global policy discourse.

Notes

1. Managing Director, Economic Policy Research Foundation of Turkey (TEPAV).
2. World Bank, 'World Development Report 2013: Jobs', 2013.
3. Dani Rodrik, 'The Inescapable trilemma of the world economy', 27 June 2007, see http://rodrik.typepad.com/dani_rodriks_weblog/2007/06/the-inescapable.html

The threats of transition, and the need to speed up the building of a robust market infrastructure

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New strains have arisen as the big G7 countries recover at different speeds, and their supportive national policies are expected to change accordingly. (You may add China's soft landing to the list.) The global scenario has been shaped by such policies, especially those providing extraordinary monetary stimulus after the crisis. Their expected transition to normalcy requires both careful handling and a resilient financial background so as not to cause collateral damage, hurt (and delay) the recovery path, or even backfire.

Adverse reactions tend to follow (or anticipate) key reversals in monetary policy towards restraint when the currency affected is also a source of global liquidity. Initial repercussions are frequently non-linear and, as a by-product of increased risk aversion and differing risk perceptions, carry strong distributional effects among countries.

Robust market infrastructure is a must if the risks of fallout from a crisis are to be avoided when extraordinary expansionary policies are reversed. Stress can be short-lived and manageable if financial and market infrastructure weathers the storm, or perversely feed itself if serious flaws are exposed. If this is the case, stress can easily turn into real economic damage. Slow motion is advised for policy-makers, but it is not enough that authorities drive with caution – and communicate clearly – as long-term effects might be discounted by forward-looking markets, thus triggering dangerous non-continuous phenomena like asset liquidations, sudden stops or overshooting jumps. (This is why infrastructure is so important.) Ex ante confidence in each country's own resilience and in the strength of the international architecture can help deter contagion and diminish uncertainty, so it is optimal that the proper wiring is put in place well in advance (and, if possible, periodically stress-tested).

International cooperation and coordination do play a crucial role in the transition to normalcy, but they will not govern the process. At the end of the day, policies are set according to national circumstances, criteria and interests. International repercussions enter the equation, but they carry less weight than local factors. So accommodation should be the name of the global game. It requires the anticipation of inflection points, the assessment of their likely consequences, and the design and installation of well-thought-out shock absorbers. Final outcomes will depend not only on local decisions, but on global linkages and the functionality of the international architecture. Some bargaining space – nowadays lacking – would also be needed. As a world forum that covers all levels of dialogue and discussion – from the most technical to the political top – the G20 is the best-equipped to shoulder many of these responsibilities .

Even if it were not all encompassing, policy-makers and economic agents would benefit if a guide map could drawn up in advance of the next crisis, covering information on authorities' forward guidance, economic projections, exit routes, infrastructure reports, and market positioning and sensitivities, as well as their expected interactions.

The lessons of 2013

On 4 April 2013, the Bank of Japan launched its 'quantitative and qualitative easing' by announcing its intention to double the monetary base by year-end 2014, through purchases of bonds and other long-term financial assets. For a country one-third the size of the United States economy, the quantity of transactions involved – almost 70 per cent of the monthly Federal Reserve's QE3 program, at current exchange rates – was a huge endeavour. International spillovers were quick and visible: a steep fall in global interest rates followed across the board. Investors rushed to buy fixed-income assets and other risky instruments in 'the search for yields' – a race to anticipate the reinvestment needs of Japanese institutions as they gradually sell their assets to the Bank of Japan (and, given the limits of their local market, might have to channel some of their funds abroad).

Only days later, on 16 April, one high-ranking Fed official, Janet Yellen, warned of the risks of excessive leverage and risk-taking. By mid-May, when Ben Bernanke, the chairman of the Fed, picked up the same argument, everybody noticed. His comment on the possibility of a QE3 tapering was a huge shock. All of a sudden, yield hunters began to be haunted by rising yields. The April bonanza completely unravelled and turned into a nightmare for a wide spectrum of financial assets (with a strong bias against emerging markets).

This situation cannot be simply explained as a case of conflicting national policies or of coordination failure. Central banks' bond purchases (paid by monetary base issuance) always add to liquidity supply. A tentative switch to buying fewer bonds means liquidity is still being injected, albeit at a decreasing pace. So there was no direct conflict between the Bank of Japan and the Fed initiatives. Both institutions were planning to increase their home liquidity pool (though one was increasing its efforts while the other was considering a possible weakening, subject to economic conditions). Recent market volatility is thus not attributable to liquidity unwinding, as this is still yet to officially happen. More to the point: the zero interest rate policy followed by the Fed is independent of the QE3 program. Fed officials were crystal clear that short-term rates would remain unchanged. According to their projections, the Fed funds rate will not increase before 2015. But the market was unfazed by this logic. While short-term rates did not move, (risk-free) long-term rates skyrocketed. The mere mentioning of 'tapering', unaccompanied by actual policy action, was sufficient to trigger a huge reversal in financial conditions and deliver an undesired and unexpected effective tightening.

It was a reminder that monetary policy outcomes depend not only on central bank decisions but also on their interplay with investors and other economic agents. In fact, private sector portfolio shifts prevailed. Their selling pressure drove yields way up as they reallocated their exposure to interest rate risk (by adjusting duration, credit and even geographical exposure). Was it a sign of communication failure? Not essentially. Messages coming from Fed officials were contradictory, and their forecast of a short-term pick up in GDP growth was a mistake (corrected in their September meeting), but that was not the key issue. Monetary accommodation will not last forever: when it ends, a front-loaded response – and as a consequence, an overshooting of long-term rates – might be the rational behaviour of the private sector, as each individual agent tries to stay one step ahead of the pack and avoid taking capital losses. Private sector anticipation is the sensitive matter.

Certainly, monetary accommodation is not ending yet (and will not for years to come). According to Fed, monetary accommodation might be peaking soon (or getting closer to a peak), conditional to economic performance. But effective financial accommodation – the net outcome of the whole interactive process – could have its best days behind it if the private sector does not backtrack. Investors that sold long-term Treasuries in May sit on comfortable gains. Unless the economy tanks again, they earned a huge reward for their anticipation. On the other hand, nominal and real long-term rates are now higher than they need to be. Growth and inflation have remained subdued, and both could suffer. The October US Government shutdown did not help either. So there's a negative feedback process occurring. Paradoxically, the attempt to engage with the exit road from QE3 led to an unexpected tightening. The economy might weaken. Politics could have made the situation worse. You need a strong financial environment to digest such unforeseen (but, in retrospect, unavoidable) setbacks. If it proves vulnerable, the exit road from QE3 might even lead to a QE4 (as occurred with the two previous QE programs). So financial robustness must be in place when expansionary policies are cancelled, or you might be forced to stay with those policies (and, eventually, their net costs) for far longer than otherwise would be advisable. In a nutshell, policy would lose its natural economic conditionality and remain captive to financial stability uncertainties.

International reverberations from the talk of tapering were even more powerful than in the United States. Consider emerging market economies: capital inflows turned into sharp outflows without notice. Currencies and all types of financial assets were severely hurt as risk aversion erupted and global liquidity dried up. As commodity prices sank, second-round effects punished those countries heavily dependent on their export revenue. Not only long-term rates shot up; short-term rates escalated too. In order to stabilise financial conditions and expectations, despite the deteriorating economic prospects, some local central banks were forced to tighten up. Current account deficits provide easy targets for attack as they are considered a sign of vulnerability per se. In 'sudden stop' scenarios, deficits are bad, surpluses are good. End of story.

Not only monetary policy shifts will matter in the future. The pending G7 agenda of fiscal consolidation – in the United States, in Europe and in Japan – stands out as another source of likely tensions on the international economic horizon. And more so if Europe needs to restructure sovereign debts or to purge its undercapitalised banking sector.

Stronger infrastructure and early warning system needed

The path advanced economies' must take in returning to normalcy will be a multi-stage, multi-year process. Success at one stage will involve opening the door to new risks at the next level, as stimulus and support policies are gradually scaled down. Their removal might prove to be premature, poorly conducted, reveal hidden collateral damage, or trigger adverse side-effects (which might be unexpected, or the combination of a positive effect at national level with a negative spillover abroad). A resilient economy and market infrastructure – capable of resisting sudden shocks and tail events – should be a priority. Financial system strength is at the core of the transmission process when shocks occur, so it must be given preferential treatment. Issues to be addressed include speeding up the pace of installation of the basic bank regulatory framework, dealing with the risk imposed by systemically important financial institutions (SIFIs) – that is, attacking the 'too big to fail' problem – and curbing risks from shadow banking. Regulation is not enough for success; nothing replaces the role of effective oversight.

To address this, we recommend installing an early warning information system at the G20, to detect potential threats in advance and monitor them (along with their cross-connections), and, as far as is possible, to enable the drawing-up of a 'spillover map'. A better understanding of the private sector's reaction functions and its expectation building process is needed.

The choices for emerging markets

Unwinding unconventional monetary policies will not be an easy task. These are unchartered waters. But disengaging from conventional policies was never easy either. Remember 1994, when Alan Greenspan's Fed tightened, triggering the Tequila Effect in Mexico and sending shockwaves throughout Latin America? Nowadays, self-insurance – mainly through foreign reserves accumulation, as a by-product of flexible exchange rates cum intervention – is the true line of defence of emerging markets. That means tying up national resources that could be more useful elsewhere, and creating a distortion in the balance of worldwide growth. A stronger international safety net could be a useful alternative for infrastructure building purposes if able to provide access to elastic external financing under conditions of stress (either through expanding IMF lending capacity, bilateral swap lines, etc.). Otherwise, less financial integration could work as a 'second-best' buffer.

Bear in mind that G7 extraordinary policies favour local currency appreciation, rising asset prices and faster credit growth, such that a sudden reversal is a recipe for trauma. If external financing dries up, emerging market countries will better absorb adverse shocks if they avoid current account deficits and carry a strong forex position in reserve. Due to well-known asymmetries in the international monetary system, macroprudential national policy could prefer an unbalanced approach (that is, a current account surplus rule) as a more sustainable growth strategy – more so if volatile times are perceived to lie ahead.

Note

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The macroeconomic development of, and prospects for, the G20 countries

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Five years after the first signs of the global financial and economic crisis, it is clear that the post-crisis global economic recovery will be arduous and protracted. Historically speaking, the recovery after the 2009 recession has been the longest: global production has still not reached the pre-crisis level. However, it should be stated that while certain progress has been made, business is definitely recovering very slowly. Moreover, it is necessary to take into account that economic growth in the developing countries, which used to be a driving force of the global economy, on the contrary continues to slow, while the developed countries clearly show positive trends of growing consumer and investment demand. Yet, given the existing macroeconomic imbalances, it would be too early to state that the developed countries have overcome the crisis. The current risks are related to the high public and, in some cases, private debt, and high unemployment that greatly exceeds the pre-crisis level. In this regard, as admitted by the G20 leaders, the long-term stability of the global economy is not possible without a set of measures designed to ensure balanced growth in the countries that form 'the pole of savings' and 'the pole of consumption'.

Modern macroeconomic trends reflect the persisting global economic risks associated with fiscal imbalances and excessive levels of government debt, increased volatility of financial flows and exchange rates, and too rapid growth of the stock market and real estate market. Despite the measures that have been implemented for several years now, including the budget cuts and fiscal consolidation, the average public debt in the developed countries by the end of 2012 was estimated at 108 per cent of GDP, which is 35 percentage points higher than the pre-crisis levels in 2007 (73 per cent of GDP). Yet this problem cannot be addressed quickly, as it is important to ensure that achieving fiscal balance does not impede stable economic recovery.

Fiscal consolidation can only be successful if positive economic growth rates are maintained. With that said, the St Petersburg Action Plan not only assesses the economic situation, but also contains a set of measures that could help each G20 country achieve quantitative benchmarks in terms of GDP dynamics, the level of budget deficit and public debt.

The problem of fiscal imbalances becomes rather important for developing countries as well. During the pre-crisis years, in the exceptionally favourable external economic environment, growing export revenues and foreign loans allowed developing countries to mitigate structural weakness of the financial sector and the national economy as a whole. When the external situation changed dramatically, many developing countries faced lack of stability of both the budget and balance of payments. Despite relatively high commodity prices, the weak external demand and lower availability of external borrowings caused a significant economic slowdown in developing countries, which in the end requires structural reforms aimed at changing the growth model. However, to maintain fiscal stability in developing countries it is crucial to raise the efficiency of public expenditure and to search for alternative sources of income.

Major anti-crisis measures taken by both monetary and fiscal authorities made a positive impact on the current parameters of development, but only temporarily smoothed out the urgent problems. Moreover, concerns have been raised about the effects of the inevitable increase in key interest rates of the central banks and the phasing-down of the quantitative easing programs that have been implemented by the monetary authorities of many developed countries that entailed massive injections of cash liquidity. The rapid monetary expansion has led to fast growth in both world stock markets and real estate prices, with both now having reached pre-crisis levels. Any reduction of money supply is thus fraught with the potential for a collapse of the bubble forming in the stock market and real estate market, which resembles the pre-crisis trend of 2007–08. Beyond that, tighter monetary policy in developed countries and a corresponding increase in interest rates can cause a large-scale outflow of funds from the emerging markets, leading to a rapid depreciation of their national currencies. To maintain stability of such economies it is critical to further increase the flexibility of the exchange rate of the national currencies of developing countries, which helps mitigate external shocks.

As for the quantitative effects of tighter monetary policy in developed countries, investors' concerns about a possible reduction of quantitative easing programs have caused massive depreciation of national currencies in the G20 developing countries for the past five years. The Indian rupee, the Indonesian rupiah and the Turkish lira have devalued the most. However, despite the fact that the relative volume of the external debt of the G20 developing countries is rather small, being in the range of 9–40 per cent of GDP (with the minimum in China, 9 per cent of GDP, and the maximum in Turkey, 41 per cent of GDP), its largest part is denominated in foreign currency. Moreover, external borrowings continue to increase. At the same time, depreciation of national currencies increases the risk of inflation. Consumer goods become more expensive at a faster pace in Indonesia, Argentina, Brazil, India, China and South Africa.

In these circumstances, central banks of the developing countries, seeking to limit the outflow of capital, growing inflation and debt burden, repeatedly raised key interest rates, which will also inhibit economic growth. Given the emerging risks, the G20 leaders supported consistent measures by monetary authorities to reduce the quantitative easing programs, that provide for transparency of the applied mechanisms, and that provide support for the most vulnerable economic agents.

Another challenge faced by the G20 countries is an extremely high level of unemployment in many G20 countries, and in particular in the most developed ones. In the pre-crisis year of 2007, the relative number of unemployed in developed countries was 5.5 per cent, while in 2012 it exceeded 8 per cent. In such an environment, G20 leaders at the St Petersburg summit once again confirmed that lowering the unemployment rate is still one of the priorities of their respective governments. New jobs and employment of young people are critical for achieving stable and balanced growth of economies at the present stage, and in the medium term.

Eventually, problems relevant to both developed and developing countries determine the prospects of development of the G20 countries, which account for about 90 per cent of the world GDP. The macroeconomic risks that persist in developed countries and growth in developing countries formed the basis for updated assessments of the prospects of global economic growth prepared by the IMF in October. In 2013 the GDP of the developed countries will grow just by 1.2 per cent; in 2014, by 2 per cent, which corresponds to the July assessment. These estimates are based on the assumption that US budgetary problems will be successfully resolved through a quick compromise on the financial plan for the next fiscal year and the level of public debt.

The growth prospects of the Eurozone economy were improved. Previously, it was expected that the GDP of the Eurozone in 2013 would fall by 0.5 per cent; but given the positive trends in the economy, the forecast was improved by 0.1 percentage points: the decline will not exceed 0.4 per cent. We should note that despite the positive data on the GDP dynamics of the Eurozone, indicating the resumption of its growth (0.3 per cent year-over-year), in the second quarter of 2013, after 1.5 years of decline, the current macroeconomic indicators continue to cause concern.

Yet, the substantial threats that prompted the IMF to once again lower the assessment of the prospects of global economic growth are related to the dynamics of developing countries. The GDP growth rate of developing countries in 2013 was reduced by 0.5 percentage points to 4.5 per cent; in 2014, by 0.4 percentage points to 5.1 per cent. But these growth rates are still much higher than in developed countries. In this regard, the issue of redistribution of quotas and votes in the IMF in favour of emerging economies is still rather urgent, since such redistribution will make it possible to reflect the structure of the global economy more accurately, thus raising the effectiveness of the international regulator. Therefore, at the G20 St Petersburg summit, and later at the meeting of G20 Finance Ministers in Washington, DC (11 October 2013), it was decided to complete by January 2014 the revision of quotas and the corresponding redistribution of votes in the IMF, taking into account the growing role of developing countries in the global economy.

In general, the goal of G20 leaders should be to eliminate the macroeconomic imbalances between major world economies that have the potential to cause global financial crises, as well as to revive the business activity, and increase the fiscal and financial stability, of individual countries and the world economy as a whole.

Note

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The G20 MAP, fiscal austerity and financing for investment

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The G20 leaders' declaration at St Petersburg called for policies that would increase the momentum of the global recovery, while avoiding policies that could promote growth at the expense of other countries, and at the same time ensuring fiscal sustainability. This paper suggests that fiscal austerity is at present inadvertently leading to policies which promote growth at the expense of other countries. It suggests that the G20 Mutual Assessment Process (MAP) might encourage increased finance for infrastructural investment – partly through public investment and partly through public–private partnerships (PPPs) – in a way which encourages global demand and reduces the macroeconomic pressures created by policies of fiscal austerity. It also suggests that there is an opportunity here to connect the objectives of the G20 economic/finance process with the G20 objective of increasing financing for investment.

The current global macroeconomic position

The Great Moderation came to an abrupt end in 2008, with financial collapse and subsequent deleveraging, and the most rapid decline in economic activity in advanced countries since the Great Depression. Since then, recovery has been slow in the United States, in Europe (both within the euro zone and outside it, including in the United Kingdom), and, until recently, in Japan.

The initial policy response in advanced countries in 2009 was one of fiscal and monetary expansion. But since 2010, fiscal austerity has replaced fiscal expansion. And monetary policy has become unable to respond to the recession, and to the fiscal contraction, as a result of a zero bound. As a result, policy response has turned to quantitative easing (QE).

QE is temporary in its effects – like all monetary policy. But in the interim, QE has led to increased risk-taking of the kind observed at the time of the Greenspan Put, not just as a result of lower short-term interest rates but also because of the lower long-term interest rates which QE has been able to sustain. Economies are vulnerable to the unwinding of these low interest rates, as concerns about tapering in the United States have shown. Of course, if a sufficiently large private sector recovery were to rapidly emerge, so that a tapering of QE becomes possible without reducing the demand for credit, then a good outcome might be possible. But there is the real possibility that this will not happen. In the absence of such a private sector recovery, an additional source of stimulus appears necessary to prevent a long-lasting period of slow growth.

Spillovers and policy conflict

The policy responses which have been adopted since 2010 – fiscal contraction accompanied by QE – were undertaken in the belief that outcomes would be better than they have been. It appears that a failure to predict outcomes occurred partly because of a neglect of international interactions, and, in particular, through a failure to realise that these policies had the effect of promoting growth at the expense of other countries.

Fiscal consolidation was undertaken in the belief that increased private sector expenditure would substitute for lower public expenditure, but without a clear understanding that such a private sector response would be unlikely unless interest rates were lower (which was not possible with the zero bound) or the currency depreciated, leading to a crowding in of exports and a reduction of imports. In the United States, it was not made clear enough that a moderation of the negative effects of fiscal consolidation would depend on a depreciation of the dollar. Within Europe, the fiscal contraction both in the GIIPS countries of the European periphery (Greece, Italy, Ireland, Portugal and Spain) and in Germany was undertaken without a clear understanding that contraction in the periphery would lead to severe depression unless accompanied by fiscal expansion in Germany, and that if consolidation happened in both parts of Europe at the same time, a depression would result unless the euro depreciated. In the United Kingdom, fiscal consolidation was undertaken in the belief that the currency would depreciate and so enable exports to grow to replace a reduced level of domestic demand. In Japan, Abenomics has led to an initial fiscal expansion, but this is to be followed, after one year, by fiscal consolidation; it is hoped that domestic demand will be replaced by demand coming from net exports, as a result of currency depreciation.

QE has augmented these spillovers and policy conflicts. A significant part of the workings of QE – like the effects of ordinary monetary expansion – comes from the effects of a depreciated exchange rate in diverting demand from other countries. Such a 'beggar thy neighbour' policy is appropriate for an individual country after it suffers from an individual financial crisis, if the rest of the world is growing – a policy of currency depreciation enabled Thailand and Korea to recover rapidly after the Asian financial crisis. But this cannot happen – in the United States or in other countries and regions – if other countries are pursuing QE at the same time. That is, the expansionary effects of QE, if it is implemented in many countries at the same time, are much less strong than if QE is implemented by only one country, as happened with Japan in the early 2000s.

Difficulties in Europe

Within Europe, austerity is imposing a recession of a kind which threatens the survival of the monetary union. The GIPPS countries of the European periphery have been forced into a severe fiscal consolidation, which, in the absence of an ability to depreciate their exchange rate, has led to massive unemployment. The level of costs and competitiveness in these countries needs to adjust after the ten years of excessive inflation in the periphery in the run-up to the financial crisis.

But this adjustment to the level which is required is happening slowly – in contrast to what could happen with a regime of floating exchange rates. Such adjustment is being hindered by the fact that inflation in Germany is low, and further hindered by the additional fiscal consolidation on which Germany is now embarking. The recent move by the European Central Bank to lower short-term interest rates is designed to help offset such negative pressures on demand, and will do so partly by creating downward pressure on the euro. In addition, it seems likely that Europe will embark on some version of QE, creating further downward pressure on the euro. Again, in Europe, fiscal austerity is generating pressures towards currency depreciation and a reliance on an externally led recovery.

Difficulties in emerging markets

QE has also created spillovers and policy conflict between advanced countries and emerging market economies. Until recently, QE led to an inflow of funds to these economies, particularly those economies which have been pegged to the US dollar. It is clear that exchange rate appreciation will be necessary for emerging market economies, as they become more competitive and increasingly able to produce a range of manufactured goods and services which were previously produced only in advanced economies.

But many of these emerging-market economies have resisted appreciation in their exchange rates and have used capital controls – in a variety of forms – to enable them to run tighter monetary policy, so as restrain domestic demand, without this causing currency appreciation. Such capital controls, and the associated tight monetary policies, are limiting the extent to which these economies can increase imports and run increased current account deficits, and are therefore hindering the growth in the demand for exports which is being sought by the United States, Japan and Europe.

What is needed for advanced countries, until the recovery becomes sustained, is a moderation of the effects of fiscal austerity, so as to expand demand globally, and a reduction in the reliance on QE.

Expanding global demand by promoting infrastructural investment

In sum, pressures towards fiscal austerity in many countries are impeding the global recovery, and are leading these countries to act in a non-cooperative manner by seeking to expand demand through export growth, propelled by currency depreciation. International cooperation is necessary, of the kind which the G20 MAP was designed to ensure, to encourage the development of policies which expand global demand.

But restraints to fiscal austerity – that is, increases in fiscal stimulus as compared with the current position – would lead to increases in public debt. Any such changes must, of necessity, be matched by a longer-term commitment to fiscal discipline, including a commitment to a future gradual reduction in public debt, when the recovery strengthens. There is a risk in the United States that the bipartisan agreement necessary for this will not be obtainable; in these circumstances, many believe that tight fiscal policy in the United States in the short term is a necessary part of the process by which such longer-term consolidation can be achieved. In Europe, there is a concern about the levels of peripheral public debt which will become a burden on Germany and so a reluctance to carry out the necessary fiscal expansion in Germany – indeed, as described above, significant fiscal consolidation is taking place in Germany. In the United Kingdom there is a belief that consolidation is necessary simply because the current public sector deficit is so large that public debt will continue to expand, even in the presence of such consolidation. In Japan, there is a similar worry about the level of public debt.

How to increase global expenditures and demand at a time of worry about the growing size of public debt?

The St Petersburg Declaration of the G20 argued for the importance of long-term investment as a means of creating sustainable growth, and advocated the creation of conditions that could promote long-term financing for investment, including investment in infrastructure. Such infrastructural investment would increase the levels of global demand, partly offsetting the effects of fiscal austerity. The more such investment increased in any country, the less need there would be for accommodative monetary policy in the form of QE, and the fewer pressures towards currency depreciation. Action of this kind would thus moderate the international policy tensions described above.

Infrastructural investment would clearly also increase the supply-side capability of the economy, enhancing the prospects for longer-term growth at the same time that it increased global demand. There is a very significant need for improved infrastructure in many advanced economies. The G20 has established a Study Group on Financing for Investment to examine how such investment could be financed.

One way of financing such investment in infrastructure would be through the issue of public debt. Acceptance of increased public debt may be viewed as possible if this debt is backed by assets owned by the public sector. An alternative means of financing such investment would be through PPPs, through, for example, partly privately funded toll roads, railways, ports and airports. Recent experience has shown a need for careful risk-sharing, since there is a risk in such partnerships that the upside accrues disproportionately to the private sector, while the public sector bears the risk of the downside. But such issues can be dealt with, and will presumably be examined by the G20 Study Group examining this subject.

Connecting the objectives of the G20 MAP with the financing of investment

There is an opportunity here to connect the agenda of the G20 economic/finance process with the objective of increasing the financing of investment. The G20 MAP is designed to strengthen international cooperation in the making of macroeconomic policies, by encouraging countries to pursue objectives which have positive spillovers. It appears that, in present circumstances, the MAP could encourage countries both to increase public investment in infrastructure, and to make possible an increased private financing of infrastructure. This would help increase global demand and lessen the tensions which are at present being created by the policies of fiscal austerity.

Note

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G20’s three steps towards strong, sustainable and balanced growth of the world economy

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First and foremost, I would like to endorse the proposal by Mike Callaghan, the Program Director of the G20 Studies Centre of the Lowy Institute, earlier this year[2] that strong, sustainable and balanced growth (SSBG) should become the overall narrative guiding the whole G20 process, so as to make it easier for the forum to communicate and act. By elevating the SSBG narrative, different hosts would not need to seek different ‘key words’ for their years in the Troika, though the yearly emphasis could evolve in step with the development of the world economic situation. As a way of increasing transparency and simplicity, the G20 members should also consider improving the forum’s website, or establish a virtual secretariat (for example, the BRICS summit has recently launched an online initiative). Up until now, the G20 website has been established and maintained by the host every year, and much of its content has been lost between the transition from one president to the next. A more sustainable model would allow the G20’s online presence to be more like APEC, with one logo and one well-organised website, if not a secretariat.

This paper aims to describe how the SSBG mandate of the G20 should play out in three main areas – namely, crisis prevention, crisis management and long-term growth. The paper concludes with 'some fuel for thought' for future G20 hosts.

Financial regulation has being strengthened post 2008; this, however, is not a guarantee of a crisis-free world economy in the future. Since the advent of the G20 leaders' summits, the G20's most prominent achievement has been in the strengthening of financial regulation – for example, institutionally, the Financial Stability Forum (FSF) was relaunched as the Financial Stability Board, a fully-fledged international organisation replete with its own bureaucracy. In terms of regulatory standards, old rules (such as the Basel III rules on capital requirement) were discussed and updated, and new rules (such as those relating to OTC and shadow banking) were created or proposed so as to expand the coverage of regulation. Special attention has been paid to systemically important financial institutions (SIFIs), so as to solve the 'too big to fail' issue. The IMF also strengthened surveillance of the financial sectors of its member countries.

However, whether this 'revolution' can prevent the next crisis remains uncertain. First, the full implementation of these updated standards may be problematic. The emerging economies have been the most serious in implementing the Basel III accord, while the cross-Atlantic major powers, where the most recent financial crises originated, are lagging behind. Second, it is still not known whether these standards are fully appropriate, complete in scope, or substantively 'healthy' for real economies. Third, one of the major risks for the world economy in future decades will come from sovereign debts, while regulating governments will remain a kind of 'mission impossible'. The way in which major economies like the United States, the EU and Japan unfold their monetary policies will impact the dynamics of the international capital market tremendously. The Mutual Assessment Process (MAP) is meaningful in enhancing communication between these major economies, but minimal in binding their hands. For example, the dominant player, the United States, did not mention its monetary and exchange rate policy in its submission to the MAP framework outlined at St Petersburg.[3]

Building more reliable firewalls for the world economy is increasingly necessary for global economic governance. Capital is like a genie that was released from its magic bottle in the 1970s. Financial crisis is almost a *force majeure* that we are unable to overcome in this highly globalised but sovereign world. As people choose to buy more insurance products to prepare for increasing uncertainties, the world needs to reinforce the global financial firewalls. In a similar vein, when Jean Pisani-Ferry, former director of Bruegel, talked about the future direction of the euro area, he emphasised a monetary union with the protection of a financial safety net, rather than a more centralised fiscal union.[4]

The G20 has already done a lot of work in this area. The firepower of the IMF and World Bank have been tremendously enhanced through quota reform (though the reforms have not fully come into effect yet) and expanded lending arrangements. However, regional financial arrangements (RFAs), including bilateral currency swaps, are proliferating at a faster pace. How to combine the IMF's knowledge with RFA resources is a key issue in safeguarding the global economy. The 2010 Seoul G20 summit proposed the concept of a global financial safety net, which led to the G20 Principles for Cooperation between the IMF and RFAs, endorsed by the G20 Finance Ministers and Central Bank Governors in Oct 2011. A high-level seminar on the subject was held during the Russia presidency in 2013, based on an IMF stocktaking paper.

The six G20 principles and the IMF stocktaking were a useful starting point for coordination. However, more detailed follow-ups are needed. Among others: first, bilateral swaps should be included in the analysis, considering their size and increasing use. Second, priority should be given to those RFAs being established by emerging economies, such as the BRICS Contingent Reserve Arrangement (CRA), expected to be effective at the 2014 BRICS summit in Brazil, for the following reasons:

- with the expectation of a US withdrawal from quantitative easing, emerging economies (including Brazil, India and South Africa) will be most affected. Good design will be needed to make the CRA operational, taking into account the lessons of the Chiang Mai Initiative Multilateralization (CMIM), which has kept growing but has never been utilised.

- ex ante communication between IMF and CRA will make cooperation smoother, including co-financing and co-analysis. Assurances as to the breakdown of responsibilities between the IMF and CRA need to be well-prepared well in advance of any financing initiative.
- good coordination between the IMF and CRA will have wider implications as a showcase for mutual complementarity, instead of confrontation, between BRICS and existing institutions.

For long-term world economic development, the G20 needs to continue dealing with several outstanding issues.

Financing for investment

This is a core issue in job creation, innovation, long-term development and climate finance, among other things, as well as a fundamental way of preventing crisis. The isolation of virtual economy from real economy has gone too far everywhere, leading to the co-existence of 'money abundance' and 'money scarcity'. Like human beings, capital has the dual nature of devil and angel. What we need to do now is to transform the devil into an angel by channelling the flooding capital in the financial sector into the very dry real economy more effectively.

Sergei Storchak, the Deputy Finance Minister of the Russian Federation, commented that the most impressive result during the Russian presidency was that all G20 members agreed to start an active search for alternative sources of investment financing.[5] *G20/OECD High-level Principles of Long-term Investment Financing by Institutional Investors* was published and updated. In my opinion, this represents a real shift in the G20's role from a crisis management agency to a long-term growth steering committee.

Problems are common, but the reasons are very diverse. For some G20 members, limitations might lie in the inefficiency of their respective financial sector, for example, China's interest rate controls and its limited market access; for others, such as many developing countries, ineffective government might be the bottleneck; for some developed countries, incentives might need to be better regulated. What the G20 should do next is maintain the momentum of its discussions on these issues and translate the principles on paper into action, through encouraging ministers to share experiences, best practices and lessons from their countries, and finding tailored solutions for each.

Preserving the global open trade system

The world is experiencing a new round of regionalisation, with deeper penetration and a wider coverage of markets than the WTO. This has caused great concern about the fragmentation of the global trade system, such that it has been placed on to the G20 agenda. What should the G20 do? Certainly, it should stress the value of a multilateral system. The joint research by the OECD, WTO and others regarding global value chains (GVCs) presents a strong case for multilateralism. But this might not be the most important point. No major countries publicly deny the value of a global trade system – the finger always points to someone else when there is a failure of agreement. The United States thought its Trans-Pacific Partnership (TPP) and Trans-Atlantic Trade and Investment Partnership (TTIP) strategies would be a detour on the way to its destination of the top of the mountain.

Two other points are important. The first is the necessity of promoting healthy competition and synergy between regional initiatives, rather than stopping them. The G20 process could be a platform for trade ministers to exchange information and discuss possible approaches for synergies among the TPP, Regional Comprehensive Economic Partnership (RCEP), TTIP and others, in addition to renewing their commitment towards revitalising (or 'rescuing', in the words of Cheng Deming, the former Chinese Minister of Commerce) the WTO. One reassuring factor is that, historically, interactions between RTAs and the WTO have been positive in the end.

Point two is the most fundamental: to think beyond trade for trade, which means getting rid of, or reducing, domestic political obstacles and other bottlenecks (such as the shortage of infrastructure) that prevent greater trade flows. Trade liberalisation is very political, and often needs a bottom-up and beyond-trade agenda. President Xi Jinping proposed, in the 2013 APEC Leaders' summit, to better integrate social policy with economic policy. Like the Russian presidency initiated Joint Finance and Labour Ministers Meeting, Trade Ministers could also consider inviting Labour Ministers and others to join in, in the hope of achieving more comprehensive and reliable solutions.

Contributing to the post-2015 development agenda

Development is not only a matter for both the economy and society, but it also encompasses notions of security. However, the post-2015 development agenda is fundamentally about bridging two divides: one between growth and environment (in other words, capital and sustainability), and the other is between traditional and emerging powers (or the so-called South–South cooperation and South–North cooperation). Considering that it involves the highest leaders of the most important economies, the G20 should assist in coordinating and narrowing the gaps, but not repeat what the UN is doing in terms of the preparation of documents.

For the first gap, the post-2015 goal is to integrate three processes: UN-development, UN-environment and the United Nations Framework Convention on Climate Change (UNFCCC). The real challenge is to coordinate the UN process and the UNFCCC process. Traditional development financing is facing a challenge from the tremendous expectations that have grown around climate financing demands. The major economies within the G20 should stop separating these two tracks, and commence work on coordinating the two processes more effectively. Fundamentally, this goes back to the earlier discussion about widening the sources of financing for investment.

Regarding the second gap, the G20 is a perfect platform for emerging economies to hold dialogues with traditional donors at a ministerial level about basic issues such as how to deliver official development assistance (ODA) more effectively, in a cooperative way, and what the indicators should be. The OECD used to be the dominant player in setting rules for ODA, however the emerging economies within the G20 are reluctant to endorse a body of which they are not a member.

Notes

1. Research fellow and assistant director of the Institute for World Economic Studies, Shanghai Institutes for International Studies (SIIS).
2. Mike Callaghan, 'Strengthening the Core of the G20: Clearer Objectives, Better Communication, Greater Transparency and Accountability', Lowy Institute for International Policy, 10 April 2013.
3. The G20 Leaders' Declaration, St Petersburg, 2013, Action Plan, Annex 3: MAP Policy Templates for All G20 Countries.
4. Jean Pisani-Ferry, Francois Gianviti, Anne O. Krueger, Andre Sapir and Jurgen von Hagen, 'A European mechanism for sovereign debt crisis resolution: a proposal', Bruegel, 2010.
5. G20, 'Half-year of Russia's G20 Presidency: Main Outcomes' (10 June 2013).

Trade liberalisation

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The fear of fragmentation

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The multilateral trading and investment system

G20 leaders have acknowledged the critical role that trade and investment plays in a full recovery from the global economic crisis. As G20 leaders stated in the recent St Petersburg Declaration, '[w]e stress the crucial importance of [a] strong multilateral trading system'. They called on World Trade Organization (WTO) members to successfully conclude multilateral trade negotiations.

For the most part, however, these leaders have largely limited themselves to a standstill declaration that commits G20 countries to avoiding trade protectionist measures. At more recent leaders' summits, the leaders have committed to not only maintaining the standstill, but to rolling back trade protectionist measures that they had implemented as a result of the global financial crisis. But the question remains whether these declared commitments to refrain from protectionist measures, and the repeated calls to conclude the Doha development round (DDR) of multilateral trade negotiations at the WTO, are sufficient. Will the failure of the DDR at the WTO threaten global economic growth? Does the proliferation of preferential trade agreements (PTAs), especially the 'mega-PTAs' – the

Trans-Pacific Partnership (TPP), the Transatlantic Trade and Investment Partnership (TTIP) and the Regional Comprehensive Economic Partnership (RCEP) – challenge global trade, as many trade experts have warned? Does the continuing fragmentation of investment, as well as the growing fragmentation of trade arrangements, pose a threat to the multilateral trade regime? What might G20 leaders do to arrest these developments if they in fact threaten the growth of global trade and investment?

At the St Petersburg summit

Once again at the St Petersburg summit G20 leaders called for the oft-repeated trade standstill commitment:

> Free and rules-based trade fosters economic opportunities. We stress the crucial importance of [a] strong multilateral trading system and call on all the WTO members to show the necessary flexibility and reach a successful outcome in this year's multilateral trade negotiations. We extend our commitment to refrain from protectionist measures and aim at enhancing transparency in trade, including in regional trade agreements.

And this preambular statement was followed by paragraph 44 of the Declaration, in which the G20 leaders added:

> We recognize the risks of economic slowdown and trade weakening posed by protectionism. We extend until the end of 2016 our standstill commitment; being fully committed to further progress in removing barriers and impediments to global trade and investment, we reaffirm commitment to roll back new protectionist measures.

But success in the multilateral trade regime has not been defined only in terms of anti-protectionist declarations. The leaders, concerned over the stalled WTO negotiations, have urged that for the successful functioning of the multilateral trade system it is important to see a successful outcome to the WTO Ministerial in Bali. In the Declaration, the leaders stated that they were prepared 'to make significant contributions' to these negotiations. A success in Bali, it can be assumed, might mean that the WTO members could build momentum toward a successful conclusion to the DDR. And finally, leaders acknowledged the importance of the overall trading system of regional trade agreements (RTAs) – though, as is evident above, experts frequently refer to these arrangements slightly more pejoratively as preferential trade agreements, or PTAs. With respect to these agreements, the leaders declared (at paragraph 47 of the Declaration):

> Realising that enhancing transparency in RTAs and understanding of RTAs and their effects on the further development of multilateral rules are of systemic interest to all G20 members, we are committed to continue our work on RTAs in the WTO, and share our approach for Advancing Transparency in Regional Trade Agreements (Annex).

This statement builds on the WTO's efforts to enhance notification procedures, ensuring consistency of RTAs with WTO principles and rules, and transparency with respect to these RTAs under the WTO Transparency Mechanism for Regional Trade Agreements.

Separating the global trade and investment from the multilateral trade regime

Many conflate the multilateral trade regime, the WTO system, and especially the ongoing Doha round of trade negotiations, with global trade. Since the global financial crisis in 2008, experts have raised the spectre of protectionism as a continuing threat to the global trading system. The Global Trade Alert project, and its principal, Simon Evenett from St Gallen, has reported repeatedly (the project has published 14 reports) on the failure of the G20 countries to adhere to their own standstill pledge. In its most recent report, Evenett reported, 'What is striking is that, on all but one criteria, the performance of the G20 members is not markedly better than the next 10 mid-sized trading nations.'[2]

What identifiable consequences for global trade arise from the persistence of protectionist measures since the global financial crisis? Below is a table[3] that sets out world total value for imports (on the left) and exports (on the right) in US$ trillions, from the global financial crisis to 2012:

Figure 1: World total value for imports and exports, from the GFC to 2012 (US$ trillion)

2008 IM / EX	2009 IM / EX	2010 IM / EX	2011 IM / EX	2012 IM / EX
$16.2 / $16.0	$12.5 / $12.4	$15.2 / $15.1	$18.1 / $18.0	$18.1 / $18.5

While the data reveals that there was a clear contraction of global trade following the onset of the global financial crisis, that decline has been eliminated, and global growth, measured in terms of exports valued free on board (FOB) at the border, has increased significantly. There has been a significant increase in total trade, with 2012 showing an increase of 3 per cent compared to the previous year, and 2011 showing an increase of 19 per cent from 2010.

The growth of global trade is a clear success story – though the WTO negotiating regime might not be. And the two should not be confused. As identified by UNCTAD, global trade as a share of GDP has increased from 40 per cent in 1980 to 63 per cent in 2011.[4] HSBC forecasts that global trade should expand at about 5 per cent per annum through to 2030.[5] While protectionism and increasing fragmentation may yet distort and impede trade growth, this is not evident to date.

Fragmentation and coordination

Trade and investment experts have for some time raised the issue of ‘fragmentation’ in the global trade and investment regimes. Particularly in the case of major plurilateral trade negotiations – the TTP, TTIP and RCEP – there are concerns that the trade rules will become increasingly Balkanised and unequal through the growing list of PTAs. There will be confusing rules of origin, IPR protection, state-owned enterprise (SOE) disciplines, etc. The preferences offered by most-favoured-nation (MFN) status will be permitted to plurilateral members only. The failure of MFN status to be provided multilaterally will distort trade. One of the most severe critics of these PTAs, Jagdish Bhagwati of Columbia University in New York, has argued:

> Now, however, with the era of multilateral trade rounds and system-wide rules behind us, the PTAs are the only game in town, and the templates established by the hegemonic powers in unequal trade treaties with economically weaker countries will increasingly carry the day. In fact, such templates now extend beyond conventional trade issues (for example, agricultural protection) to vast numbers of areas unrelated to trade.[6]

It is evident that the G20 effort to advance transparency in RTAs is a measure to limit the possible damage to the multilateral trade regime. In the Annex to the Declaration Advancing Transparency in Regional Trade Agreements, the G20 leaders recommend that the WTO retain its central role in multilateral trade and that RTAs ‘remain complementary to, not a substitute for, the multilateral trading system’.

If there is a growing risk of damage to global trade through these PTAs, the global investment regime is, and remains, highly fragmented. There are currently thousands of international investment agreements – both bilateral and plurilateral. Many of the PTAs include investment protection clauses and dispute resolution protections. Efforts to develop a multilateral regime at the WTO – the agreement on trade-related investment measures, or TRIMs – and the earlier OECD effort to conclude a multilateral investment agreement (MIA), have proven to be ineffective.

One view is that the multiplicity of investment agreements has not undermined the protection of investment, but the contention over investment protection provisions in countries such as Argentina, South Africa and Australia suggest that investment protection needs to be addressed.

If, in fact, efforts should be made to address the growing fragmentation of trade and investment to ensure continued growth in global trade and investment, then what could G20 leaders usefully do?

While the G20 promotion of transparency is fine in principle, it fails to address possible conflicts between agreements. In that regard, G20 leaders could propose the following:

- Establish an organisation with separate panels for trade and investment that could represent the equivalent of the Financial Stability Board in finance. This organisation could be linked to the WTO, but remain independent. These independent standard body panels would be charged with the development of model clauses, treaties and practices for trade and investment agreements.
- Such model clauses and agreements could include the key trade and investment improving principles.
- The model agreements could reflect the different characteristics of members – both developed and developing.

These standards and models could provide a means to coordinate and harmonise agreements over time in a fragmented world of trade and investment. Progress would require G20 leaders to acknowledge the value of, and then commit to implementing, such standards in their bilateral and plurilateral agreements.

Notes

1. Director, Global Summitry Project, Munk School of Global Affairs, University of Toronto.
2. Simon Evenett, *What Restraint? Five Years of G20 Pledges on Trade: The 14th GTA Report* (Centre for Economic Policy Research, 3 September 2013), p. 6.
3. *International Trade Statistics Yearbook* (2012), Table A.
4. UNCTAD data, *Goods and services trade openness, annual 1980–2011*. Last updated 15 August 2012.
5. HSBC, *Global Connections Report*, https://globalconnections.hsbc.com/downloads/hsbc-trade-forecast-cn- february-2013.pdf.
6. Jagdish Bhagwati, 'The Broken Legs of Global Trade', *Project Syndicate*, www.project-syndicate.org/commentary/the-broken-legs-of-global-trade#frwFLKpyQQEMMZPy.99 May 29, 2012.

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Strengthening global trade liberalisation: enhancing the G20's role

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Why the G20 needs a trade and investment agenda

Trade, investment and finance are the pillars of the global economy. The Great Depression of the 1930s was characterised by breakdowns of all three, leading subsequently to the erection of the modern institutional architecture that governs the global economy. Until recently, the G20 heads of state concentrated their attention largely on the financial pillar, since the G20 has its origins there and the problems were compelling, requiring urgent action. Those problems are in the process of being addressed, albeit imperfectly, and continued vigilance is required.

Meanwhile the trading system, specifically the World Trade Organization (WTO), is in the midst of a systemic crisis characterised by the failure to conclude the Doha round, never mind a development package for the least-developed countries (LDCs). This package is highly unlikely to come together at the WTO's Bali ministerial meeting in December 2012 – although if it did, that would be extremely welcome. The WTO's membership is simply too divided, and inertia has assumed dangerous proportions. Leadership of the trading system is dispersed, and in precarious flux. Geopolitical trajectories, ever the motive force behind trade diplomacy, do not point in the right direction for the foreseeable future.

Finally, investment, the flip side of trade, is governed haphazardly at the multilateral level – a major lacuna in the global trading and investment system. The WTO is the logical home for a multilateral investment treaty, but the developments described here do not augur well for improving the status of global investment governance either.

The G20 brings together heads of state of the most systemically significant economies. They have a broad purview over their domestic political economies, and the power to set strategic directions. Their challenge is to forge the necessary compromises to re-establish the primacy of the WTO, setting it on a new course for the 21st century, while at the same time developing pathways to integrate investment more systematically into the overall architecture. The G20 has to move beyond rhetoric into meaningful dialogue and action.

Why forging a G20 trade agenda is difficult

There are several reasons why the G20 has struggled to develop a meaningful trade agenda, among them the following factors:

- Finance remains the core focus. Finance ministers and central bank governors in most member states do not have primary responsibility for trade policy.
- Heads of state are loaded with many other pressing issues and have little time to devote to the WTO.
- Because of this, trade ministers have to do the heavy lifting. While they have recently started to meet under the G20's auspices, their interactions are infrequent and brief. Furthermore, these are generally the same ministers that have presided over the Doha impasse (of course, many other actors contribute to that unhappy outcome).

- Underneath the Doha impasse are several intractable structural and geopolitical dynamics that block progress. Removing these blockages requires strong political will, leadership and collective sacrifice – qualities so far absent from the scene, particularly on the part of the systemically significant powers.
- Largely because these requirements are absent, some members, particularly developed countries, have recently resorted to 'mega-regional'[2] trade arrangements. Pessimists worry that these negotiations carry the twin dangers that the parties will be substantially distracted from the Doha round, while further alienating key developing countries not included in these processes, potentially imperilling global security. Optimists think that the mega-regionals will advance trade rules and trade liberalisation, generating a 'competitive liberalisation' dynamic that will lead developing countries, in particular, back to the WTO. Clearly, both could be true, although if the optimists are right they would have to admit that 'competitive liberalisation' relies on pressure tactics, which risks entrenching the negative backlash feared by the pessimists.
- These developments underscore the fact that the G20 members are a disparate group, not sharing common values, which makes forging compromises and associated sacrifices more difficult.

For these reasons, and more, the G20 has struggled to develop a coherent trade agenda. Adding investment to the mix, currently, would probably yield similar outcomes.

What should be retained from prior agreements?

It's not all gloomy, though – the G20 has generated some momentum behind the trade discussions that can be built on. Specifically:

- The standstill agreement on protectionism, while observed in the breach, is an important commitment that should be preserved and extended under the Australian presidency. Similarly, the inter-agency work program evaluating protectionist measures should be continued, and more widely publicised. And G20 leaders need to take demonstrable steps, to be verified in the inter-agency reporting process, to give effect to their St Petersburg commitment to roll back existing protectionist measures. Therefore, their trade ministers need to agree on broad guidelines regarding what measures would qualify as 'rollback' steps; otherwise, the commitment will remain 'best endeavour', and therefore toothless.
- At key points in the Doha round, the G20 has reportedly provided some momentum to the negotiations albeit that this was not sustained, and ultimately failed for some of the reasons cited above. Notwithstanding this lack of success, the G20 has to keep the Doha round on its agenda, with a view to extracting from its carcass a basket of issues amenable to intra-G20 compromises and, where possible, containing broader appeal to the rest of the WTO's membership. This 'Doha-lite' scenario should be the focus for the WTO's membership post-Bali, and it could profit from a push by G20 trade ministers.
- The G20 trade ministers have also started a discussion about the future of the WTO, which should continue and deepen. This discussion is substantially anchored on the governance of global value chains (GVCs), an important conversation that should be extended under the Australian presidency. This conversation needs to be anchored on two issues in particular. First, identifying negotiating issues, incorporating both rules and liberalisation, that relate directly to the operation of GVCs and require either modernisation or relaxation in the WTO context. The work of the World Economic Forum and World Bank on a 'GVCs plurilateral' should form the basis for this discussion.

And second, attention also needs to be devoted to the needs of the poorest countries in relation to both plugging into GVCs, but particularly upgrading within GVCs. This discussion would add a crucial development component to the G20 trade ministers' deliberations, thereby conferring legitimacy and broadening support for whatever concrete proposals emerge.

Additional elements of a future-oriented agenda

In addition to the issues that have some traction, G20 trade ministers and, beyond them, heads of state need to find pathways between concluding the Doha round in some form and the future of the WTO, taking account of the political momentum behind mega-regional negotiations. Three issues are particularly pertinent:

- G20 trade ministers need to have a series of meaningful conversations about the nature of – and possible resort to – plurilateral negotiations as a key mechanism to sustain the WTO's position at the apex of the global trading system. It is manifestly evident that the single undertaking has not worked in the Doha round, and that smaller group approaches are required. However, these approaches are highly controversial, and a group such as the G20, which constitutes the states most likely to negotiate such accords, has to afford discussion of them a primary place.
- Free trade agreements (FTAs) are one form that plurilaterals take. For reasons related to the mega-regional trade arrangements mentioned above, not all FTAs can be regarded as unambiguously complementary to the WTO, accepting for now that many are at least not stumbling blocks to multilateralism. Since there is some doubt about the systemic implications of mega-regionals, and because the primary movers behind them –

the major developed country trade powers – profess that these negotiations will be congruent with building multilateralism, serious effort needs to be made to ensure this is the case. Therefore, since plurilaterals are likely to predominantly reflect the interests of developed countries, and are not likely to voluntarily include agriculture, developed countries should incorporate the more egregious distortionary policies impacting on global agricultural trade into their mega-regionals, leading to 'mutual disarmament'. Clearly, this is a challenging proposition, but since it is the developed countries that are the primary culprits in distorting agricultural trade, mutual accords among them would go a long way towards mitigating this problem and building broader trust in the WTO.

- Finally, G20 trade ministers need to start a serious conversation on the future of multilateral investment governance under the auspices of the WTO. This should extend to the possible adaptation of the WTO's dispute settlement mechanism to investor–state arbitration, on an opt-in opt-out basis for member states.

Notes

1. Senior Research Fellow, South African Institute of International Affairs.
2. There is no definition of what constitutes a mega-regional. One definition that is currently evolving in the World Economic Forum's Global Agenda Council on the Global Trade and FDI system states that such FTAs must cover a substantial portion of world trade (perhaps 20 per cent or more) and be WTO-plus in terms of their coverage. Currently, only the Transatlantic Trade and Investment Partnership Agreement, and the Trans-Pacific Partnership Agreement, would meet these tests.

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Toward more open international trade: the G20's responsibility

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The current status of global trade and the rise of 'murky protectionism'

Today, no one questions the importance of promoting trade as a key driver for economic growth. However, there are controversies over *how* we should promote trade and *what* we expect the future of international trade to be. In this regard, global trade is facing a critical moment. Although the G20 member states have recognised the significance of fighting protectionism since the inception of the G20 summit in 2008, protectionist measures are still prevalent, the Doha round has been stalled, and the international community is still far from achieving trade liberalisation in a real sense.

Concerns about a rise in 'murky protectionism' certainly have a sound basis, and in this respect, a reviewing mechanism by the WTO has been playing a beneficial role. According to the WTO's *Report on G20 Trade Measures* (mid-October 2012 to mid-May 2013), more than a hundred trade-restrictive measures were implemented by G20 economies between mid-October 2012 and mid-May 2013, which cover around 0.5 per cent of G20 merchandise imports and are equivalent to 0.4 per cent of world merchandise imports.[2] At the same time, out of the total number of trade-restrictive measures implemented since October 2008, only around 19 per cent have so far been eliminated.[3] There are numerous cases of 'murky' protectionist measures, even among the G20 member countries, for example China's export restriction measures on rare earths, Brazil's tax breaks for local automobile makers, Argentina's import restriction measures on automobiles, automobile parts and home electrical appliances, and Russia's recycling fees on imported cars.

The expectations for the role of the WTO

Despite the stalled negotiations at the Doha round, the WTO continues to play a critical role in this regard, and the expectation that it will advance global trade liberalisation remains high. This is because an open, multilateral trade system centered on the WTO forms the basis of global trade.

The WTO has two main roles:

1. trade liberalisation and new rule-making through negotiations, and
2. implementation of rules through monitoring and dispute-resolution mechanisms.

Therefore, the significance of the WTO lies not only in its rules, but also in the system by which it ensures the implementation of these rules. However, the Doha Development Agenda (DDA) negotiations have faced an impasse since 2008. Against this background, it was agreed at the 8th WTO Ministerial Conference (MC8) that while the DDA negotiations will continue to take place, a new approach will be pursued. In order to maintain the WTO's credibility in multilateral trade systems, achieving concrete results at the 9th WTO Ministerial Conference (MC9) – which is to take place in Bali this coming December – is critical. The MC9 is aiming to reach an agreement on 'the Bali Package', in trade facilitation, some elements of agriculture, and development. Trade facilitation leads to the promotion of trade in both developed and developing/emerging countries; in agriculture, issues such as tariff quotas and export competition are being discussed; and in development, preferential treatment for least-developed countries (LDCs) is being discussed. This indicates that the WTO is focused on enhancing LDCs, to allow them to take part in the multilateral trade system.

With the appointment of Ambassador Roberto Azevêdo as the new Director- General of the WTO, general expectations of the WTO have certainly increased. In fact, negotiations toward achieving results at the MC9 have been activated since the assumption of office by Ambassador Azevêdo. Since he is the first Director-General from one of the major emerging countries, it is expected that he will play an active role in overcoming long-standing conflicts of interest between developed countries and developing/emerging countries in trade negotiations. He stated that we must ‘send a clear and unequivocal message to the world that the WTO can deliver multilateral trade deals’, which shows his determination to not only maintain the WTO as a relevant and central organisation in promoting multilateral trade, but also to bring about concrete results in trade deals.[4]

Multilateral trade negotiations and regional trade agreements: Japan’s case

A trend to prefer regional trade agreements over multilateral trade negotiations under the WTO framework is inevitable today. Two large movements that are driving regional trade agreements are the Trans-Pacific Partnership (TPP) and the Trans-Atlantic Trade and Investment Partnership (TTIP).

To give an example: Japan joined the TPP negotiations this year, but this does not indicate a change in Japan’s stance that multilateral trade systems should be the basis of global trade. In fact, Japan’s position is that bilateral/plurilateral and regional economic cooperation is essential not only for liberalisation of trade and investment, but also for building a foundation for multilateral trade and investment rules. The rules at a regional level – which apply to areas such as investment and intellectual property, and are advanced and of a high standard – should be a model for trade rules at a global level. The regional trade rules can contribute to improving the global trade rules. In this regard, Japan is making earnest efforts to promote regional trade agreements – not only the TPP, but also the Japan–EU Economic Partnership Agreement (EPA), free trade agreements between Japan, China and the Republic of Korea, the Regional Comprehensive Economic Partnership (RCEP), and the Free Trade Area of the Asia-Pacific (FTAAP), among others. These regional trade agreements must enhance transparency in regional trade deals and, in the end, be linked to promoting trade liberalisation and rule-making under the WTO framework. Multilateral trade systems under the WTO and regional trade agreements are not in a zero-sum relationship, but they should complement one another in order to actually achieve trade liberalisation.

The role of the G20

It is time for the G20 to take a new step forward.

First, the G20 can encourage its member countries to share information regarding regional trade agreement negotiations that they are participating in with other G20 countries. Such information sharing has not taken place so far, since each country tends to share information only with the relevant countries. Encouraging more active exchange of information will increase transparency in trade negotiations, and the G20 seems to be the only international forum that is capable of making such a proposal.

Second, the G20 has repeatedly expressed its determination to fight against protectionism, including at this year's G20 St Petersburg summit, where the G20 leaders agreed to 'extend until the end of 2016 [their] standstill commitment' and 'reaffirm[ed] commitment to roll back new protectionist measures'.[5] In order to maintain and ensure the G20's credibility, it is essential for the G20 to continue and further strengthen our efforts toward fighting protectionism and promoting further trade liberalisation. In order to ensure that the standstill commitment is kept by its members, the G20 should also establish a peer review process. Using this process, the G20 can monitor others' adherence to the standstill commitment, providing an additional incentive to abide by the commitment made by the leaders. It will also help ensure that the standstill commitment is appropriately followed up after the summit.

Lastly, the G20 should deepen the discussion on global value chains (GVCs). Although there have been studies done on GVCs, they are mainly an analysis of their current status. The G20 needs to take a further step and discuss how GVCs actually influence international trade negotiations.

Through taking such actions, the G20 can play a unique role in promoting global trade liberalisation and bring about results that no other international organisation or forum can achieve.

Notes

1. Senior Adjunct Fellow, The Japan Institute of International Affairs.
2. The WTO Report on G20 Trade Measures (Mid-October 2012 to mid-May 2013), www.wto.org/english/news_e/news13_e/igo_17jun13_e.htm
3. Ibid.
4. 'Roberto Azevêdo Urges WTO to Reach $1tn Global Trade Deal in Bali,' *Financial Times*, 9 September 2013.
5. G20, *Leaders' Declaration: St Petersburg Summit* (5–6 September 2013).

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The G20 trade agenda: proposals for the Australian presidency

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Trade openness is a pivotal principle for cooperation among the G20 economies. As expressed in several declarations of the group, keeping markets open to trade is seen an important driver for stronger, sustained and balanced economic growth, helping create jobs and foster productivity throughout the world. Furthermore, the G20 members support a rules-based multilateral trading system as the best choice for governing world trade. Trade issues have received growing attention in the G20 agenda since 2008, clearly seen in the number of references to them in the declarations and additional documents coming out of the G20 summits.

Although the standstill commitment on protectionism, in place since 2008, may be considered a relative success and the G20 members have recently addressed some new issues related to trade policy – for example, transparency for regional trade agreements – the G20 is being repeatedly challenged to bring trade to the centre of its economic growth and development agenda.

Given the importance of trade for its development, no other country could face these challenges and foster the G20 trade agenda better than Australia. Therefore, there is a clear window of opportunity to develop the debate on trade within the G20 during the Australian presidency in 2014.

This short paper aims to set forth some ideas (six main points) that may help address some of those challenges and give more substance to what the G20 can deliver when it comes to international trade.

Bringing the WTO and the G20 together

International trade should be placed at the centre of the G20 agenda on growth. The G20 summits should serve as high-level meetings that aim to solve pending issues in the multilateral trade negotiating agenda. In order to do so, the WTO Director-General should be invited to present those issues to, and intermediate negotiations among, G20 leaders (in small or large groups, depending on the occasion) during the summits. The G20 should be used as a privileged forum for advancing multilateral trade talks at the highest political level, delivering meaningful results by the end of its meetings. Coordination between the WTO and the G20 trade agendas is essential for world trade governance today. Additionally, a working group on international trade issues, including researchers from think tanks, officers from international organisations (OECD, UNCTAD, the World Bank and the WTO) and senior officials from the G20 countries, ought to debate the trade agenda during the year and have a say on the following issues/topics.

Protectionism

The G20 must reiterate its commitment to the standstill agreement on protectionism, now extended until 2016, by supporting the continued monitoring of the trade policy measures of its members, with a special focus on the non-tariff ones that may create impediments to international trade. Reinforcing the role of the triad – WTO, UNCTAD and OECD – in monitoring trade measures is important, but the G20 should go further and stimulate discussions and new projects regarding the methodology for monitoring and assessing trade policy measures. A working group on international trade could help to independently accomplish this kind of task. As well, the G20 should support transparency projects related to collecting, processing, harmonising and publicising data and information on new trade measures, particularly on non-tariff barriers.

Regional trade agreements

The proliferation of regional trade agreements exists alongside the implementation of multilateral agreements, deepening or creating rules that go beyond the existing regulation in the multilateral trading system. If concluded, mega-regional agreements such as the Trans-Pacific Partnership (TPP) and the Trans-Atlantic Trade and Investment Partnership (TTIP) will define the standards for negotiating trade in many important issues (especially rules) and, given the relevance of the players involved, thus harm the WTO's position in global trade governance. In order to confirm its commitment to having a stronger and rules-based multilateral trading system at the heart of world trade governance the G20 must work hard to bring more transparency to regional agreements, by implementing the actions outlined in the document 'Advancing Transparency in Regional Trade Agreements'. Moreover, the G20 should define concrete mechanisms for monitoring and reviewing regional trade agreements in the WTO (based on the model of the Trade Policy Review Mechanism). It should also help to create multilateral disciplines to establish rules for complex issues, for example rules of origin and technical and health standards, in which there is a high potential for discrimination against countries not involved in a regional agreement.

The Doha round, Bali and beyond

Concluding the Doha round of trade talks has been on the G20 agenda for some time now, but no real political action has come out of its commitments so far. In order to re-establish the credibility of the WTO as a viable negotiating forum, the G20 must be committed to concluding the Doha round, even if only with the meagre results the 9th WTO Ministerial Conference (MC9) in Bali might deliver. Implementing the first point presented in this paper – bringing trade to the core of the G20 growth and development agenda – is a vital part of the efforts the G20 members must make so as to get a final agreement in the Doha round. If trade becomes central to cooperation in the G20, the political commitments coming out of the group's summits can be decisive in putting WTO negotiations on track. In addition, it is time to start thinking about the multilateral trading system beyond the Doha round. The international economic scenario has changed a lot since 2001, when Doha was launched. New issues came into the trade agenda and there is a need to begin to rethink the WTO's role in trade governance, to prepare it to deliver new regulations on subjects that are important to boost international trade and development in the 21st century. Therefore, the G20 needs to address these questions by helping to conclude the Doha round in 2014, and to build the trade system of the future by re-establishing and reinforcing the WTO's centrality as a forum, to help keep markets open to trade and foster economic growth worldwide.

WTO Dispute Settlement Mechanism (DSM) reform

One of the main results of the Uruguay round was the strengthening of the diplomatic–judicial pillar of the multilateral trading system with a robust DSM – essential in reinforcing a rules-based trade governance. Even though the gains from the institutionalisation of a trade regime with a stronger enforcement mechanism are clear, both for developed and developing countries, the DSM of the WTO needs to be revised and improved so as to reduce the costs and increase the benefits of participating in it, particularly for the poorest countries. As it is important for the future of the multilateral trading system, the G20 ought to debate the expansion of Aid for Trade initiatives that may help least-developed countries (LDCs) to get the expertise and institutions necessary to defend their interests more actively in the Dispute Settlement Body. In addition, it is necessary to broaden the range of alternatives of retaliation (via financial compensation and authorisation for cross-retaliation, including by third countries); this can make the compensatory mechanism more attractive for the affected country and increase the costs of non-compliance.

Global value chains (GVCs)

The desire to integrate into regional and global production chains is a driving force of economic development in the world today. It is not only manufacturing that is important in climbing the ladder of development, but also services, which get a larger share of the value in regional and global productive chains, based on trade in tasks. These factors tend to reinforce the role of the WTO in global trade regulation, although they also bring challenges that the multilateral trading system needs to address properly.

For example, given the negative effects of divergent and complex rules of origin present in regional agreements, multilateral negotiations are more effective and beneficial in facilitating trade in global value chains. Furthermore, this agenda is connected to plurilateral agreement negotiations, which are still controversial among the G20 members, but may increase the WTO's importance to the business community. The G20 must have these questions in mind when considering trade as an essential part of its economic growth and development agenda. It should be in the group's interests to foster initiatives to better measure trade in value added, and new projects aimed at understanding the impacts of integrating into GVCs on growth, productivity and job creation. Again, a working group on international trade could help deliver a meaningful agenda on GVCs to the G20.

The topics presented above are not all new, nor do they cover all the issues that must be addressed in order to have a stronger and rules-based multilateral trade system, which seems to be an important goal for cooperation among the G20 economies. Nevertheless, if some of these issues could be taken seriously into consideration and answered properly during the Australian presidency of the G20 in 2014, not only would trade unquestionably be included in the core agenda of the group, but it would also strengthen the G20's credibility and functionality as a premier forum for economic cooperation. Trade is not only good for economies – it can also do a lot for the G20 itself.

Note

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Near future for international trade: who's behind the wheel – the WTO or regional trade agreements?

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As we approach the end of 2013, international trade negotiations are facing a crucial stage. The multilateral front, led by the World Trade Organization (WTO), is in the midst of a foundational crisis, while regional and sub-regional trade negotiations have come to fill the multilateral vacuum. The Bali Ministerial Conference, which will take place just a few days before the Australian Think20, is probably the last opportunity for the WTO to salvage at least part of the Doha round, but the prospects don't look very encouraging at the moment.

The future of international trade, at least in the short and medium term, depends heavily on the outcome of regional negotiations. Two trade initiatives stand out for their economic and strategic relevance: the Trans-Pacific Trade Partnership (TPP) and the Trans-Atlantic Trade and Investment Partnership (TTIP).

WTO and the Doha impasse

The WTO has been a victim of its own success. As the WTO's predecessor, the General Agreement on Tariffs and Trade (GATT) promoted eight successful rounds of trade liberalisation, establishing the rules that have reduced barriers to trade in goods, services and investment for the past fifty years. Thanks to these efforts, international trade flows have exploded over the last decades and have become the main engine of world economic growth.

GATT's success also resulted in a dramatic increase in its membership and a huge transformation from the original freestanding agreement into a fully-fledged international organisation. The institutionalised world trade community has gone from the twenty-three countries that signed the founding agreement in Havana in 1948 to the 159 members that are today part of the WTO in Geneva.

Despite this historical performance, the pillars of multilateralism – key for GATT and WTO success – have recently become one of the main obstacles to further progress. The principles that provided discipline and order to multilateral trade negotiations in the past – such as the consensus rule, single undertaking and most-favoured-nation (MFN) principles – have given place to free riding and a slower pace for the negotiations, imposed by the least ambitious of the participants.

For decades, developing countries benefited from progressive trade liberalisation driven by the developed countries that founded the GATT. More recently, developing latecomers have little motivation to open their economies. The consensus principle, on the other hand, has punished those seeking more ambitious disciplines and benefited countries not willing to move forward at the same pace. It is nearly impossible to obtain consensus in a 159-member club with such different levels of development and integration into the world economy.

If the Doha round is to advance, a structural reform of WTO operational rules is unavoidable. Until that happens, many countries willing to enter into ambitious trade agreements, with substantive trade and investment liberalisation, have opted for bilateral, regional and sub-regional negotiations.

Regional and sub-regional trade negotiations

The last round of successful multilateral trade negotiations concluded under GATT auspices in Uruguay in 1995. Since then, an impressively large number of separate trade agreements have been concluded all over the world.

Under Mexican leadership, the North American Free Trade Agreement (NAFTA) gave way to a wide range of NAFTA-like agreements in Latin America. Today, Mexico has trade liberalisation and/or economic cooperation agreements with over forty countries in its own region, Europe and Asia. The United States has also subscribed to NAFTA-like agreements with twenty countries, including, in the Western hemisphere, with Central America, the Dominican Republic, Chile, Colombia, Panama and Peru. Brazil is still trying to conclude an FTA with the European Union, while Canada and the EU have just successfully finalised four years of difficult negotiations.

Meanwhile, across the Atlantic, the European Union has continued deepening and expanding its own regional integration. In the twenty years that have elapsed since the conclusion of the Uruguay round, the EU has more than doubled its membership, going from twelve countries in 1993 to twenty-eight today. It has also signed FTAs with countries from other regions of the world, including agreements with Mexico, the Andean and Central American countries, and most recently with Canada.

Free trade fever also spread to the Asia–Pacific, with bilateral and sub-regional agreements being discussed or concluded by several countries in the region. The Pacific Alliance, comprising Chile, Colombia, Mexico and Peru, is another recent example of a successful sub-regional agreement that transcends the pure trade agenda to include political and social integration mechanisms. Similar agreements are in force between China and some of its East Asian neighbours.

Currently, two major plurilateral trade negotiations are underway: the TPP and the TTIP. These negotiating processes involve the most important players on the international trade scene. If the United States, the EU and Japan agree on WTO plus trade arrangements, the resulting agreements would most probably become the transpacific and transatlantic integration platforms.

Successful TPP and TTIP negotiations would result into two categories of economies:

1. those willing to engage in substantive liberalisation, and
2. those not ready to go much further than current WTO rules.

In this scenario, the Geneva trade organisation would either continue to be a forum for global dispute settlement on current multilateral disciplines, or to engage in two-track/two-speed negotiation strategies, recognising that some members will not be able – at least in the medium term – to reach the same level of engagement as the leading majority of countries.

Final comments

The coming months are crucial for determining the future of international trade liberalisation. A new Director-General, who has promised to revitalise the negotiating process and at least reach partial breakthroughs on certain parts of the Doha agenda, will lead the WTO Ministerial Conference in Bali. It remains to be seen whether what has been promised will be achieved.

On the regional front, although TTIP is still in its very early stages, TPP discussions are rapidly reaching their conclusion. Negotiations between the United States and the EU were delayed by the government shutdown in Washington, and it will be interesting to see how quickly they can advance from now on. Although Mexico and Canada have both signalled their interest in joining the TTIP, the United States has decided not to expand the membership for the time being, until it can better ascertain the prospects of a successful negotiation. Already, several of the EU members have indicated exclusions and exceptions, which do not bode well for a smooth, quick agreement. For their part, TPP member countries have signalled December as a deadline to finalise negotiations, although the consensus is that it will take some months more to reach the end. TPP will constitute an interesting test for the United States, Japan, Canada, Mexico and other G20 members on their commitment to trade liberalisation.

Insofar as the G20 summit in Brisbane is concerned, it should provide an opportunity for members to assess the success or failure of the Bali WTO Ministerial Conference, and act accordingly. If there is little or no agreement at Bali, the G20 will need to seize the initiative and decide whether to continue a hopeless effort to conclude a multilateral trade round, or whether to endorse the many regional and sub-regional agreements already concluded or under negotiation, as a better way of accomplishing the goal of a freer global trading regime.

Note

1. Member *ex oficio*, Mexican Council on Foreign Relations (Comexi).

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The G20's role in addressing the WTO's predicament: seeking political compromise and strengthening the multilateral trading system

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Generally, the current predicament of the multilateral trading system is reflected in the fact that the World Trade Organization's (WTO) Doha Development Agenda (DDA) and negotiations have been stalemated and sidelined, while mega-regional free trade agreement (FTA) talks have started to dominate the world trade agenda. There has been no compromise between the developed economies and the emerging and developing economies in the WTO negotiations, and this reflects, to an extent, the differences between G20 members. Hence, it can be argued that the fates of the WTO and the G20 are closely linked. If the differences over trade cannot be resolved, the political foundation and efficiency of the G20 will be weakened.

The transformed global economy and the transition of the WTO

On the surface, it appears that the impact of the global economic crisis and worldwide economic downturn has constrained WTO members from opening up their economies further and making more concessions in the Doha round. But, essentially, it is the uneven growth between the two groups of economies, (the developed and the developing countries, especially emerging economies) the shift of power which has caused strategic distrust, and change in member countries' perspectives on the costs and benefits of wrapping up the Doha round negotiations.

The strategic distrust is showcased by the following facts. Developing economies say that the WTO's existing body of rules only benefits emerging economies, and that the developed countries have not yet fully implemented the commitments of the Uruguay round agreements, and have failed to give consideration to development and food security issues. They dispute the scope and pace of trade and investment liberalisation that needs to happen in order to promote global trade.

The situation is more complicated than simple tension between developed and developing countries. Conflicts of vision and interests are found between emerging economies and least-developed countries (LDCs) as well, as reflected in the increasing number of anti-dumping cases they have launched against each other.

Moreover, the sharp contradiction between the two groups of trading partners is mirrored in the shifts in negotiating power within the framework of the WTO: India, Brazil and China have begun to exercise more bargaining power and influence in the Doha round negotiations.

The consequences of uneven global development

Since the global financial crisis of 2008, protectionism has risen in developed economies. Yet, business communities have not lobbied governments during the Doha round negotiations as actively as they did in the Uruguay round.

They are not satisfied with the market access benefits outlined in the Doha round talks, and have shifted their position towards favouring high-standard regional FTAs such as the Trans-Pacific Partnership (TPP), the Trans-Atlantic Trade and Investment Partnership (TTIP).

The leading negotiators of the developing and emerging economies, Brazil and India, have been more reluctant to make concessions to the demands of market access from developed countries, though their concern is partly justified, especially on food security, for example.

As an emerging economy and a rising trading nation, China's stake obviously lies in the fact that the WTO can play a role in keeping international markets open. But since 2008 there has been more vocal scepticism and criticism regarding globalisation and the opening up of the domestic economy. Also, because of the opposition of the state-owned economy, the driving forces for further opening up the economy have been dramatically reduced.

In this case, the developed countries changed their policy, and the United States launched TPP, TTIP and other regional initiatives to promote the so-called 21st-century high standard in liberalising trade and investment among participants of the talks, leaving most developing countries out in the cold. Some institutions and researchers worry that the global economy may be fragmented, and break into two separate blocs. In order to deal with the potential trade-diverting effects of TPP and other arrangements, some developing countries have begun to actively build their own FTA arrangements so their economies can adapt to the new environment and still meet their need for economic growth.

Strengthening the coordinating role of the G20

In 2010 the G20 was confirmed as the premier forum for global economic governance. We must make full use of this platform to help the two different groups of countries in the WTO to strike a compromise. To some extent, the important differences between WTO members reflect the differences between G20 members (which have not been much discussed, but do exist, and impair the G20's efficiency). If the differences between WTO members can be tackled effectively, it will help G20 members reach more meaningful and effective agreements. Otherwise, the WTO differences will spill over to the G20, eventually rupturing and disabling it.

The G20 should take the following measures to help address the WTO's predicament:

- Trust expert groups to explore the differences between the two groups of WTO members, give in-depth analysis of the reasons behind them and explore the possibility of compromise.
- Confirm the importance of maintaining the unity of the global economy. Both sides should recognise that ongoing disputes and a lack of compromise may lead to global economic division. Developed countries should recognise that the economic development of developing and developed countries is complementary; that the division of labour based on comparative advantage is still valid, that the economic growth of developing countries will inevitably elevate the level of income and the cost of labour, and that, as a result, developing countries will become future markets for the exports of developed countries. On the other hand, the emerging economies and developing countries should acknowledge that it is necessary to improve market access to exports in a way that matches the pace of economic growth, which would also serve their own interests.
- Confirm the importance of maintaining the authority of the WTO. Clearly, the authority of the multilateral trading system is likely to collapse if the rise of protectionism and mega-regional FTA arrangements continues. In resisting protectionism, the WTO rules have proven its unique value. This has been strengthened by the G20 members' standstill commitments on protectionist measures, meaning today's world will not fall back into the difficulties of the 1930s. The G20 should encourage key WTO members to compromise and restructure the Doha

round negotiations in the form of the early harvest or 'Doha-lite' version.

- Integrate G20 agendas of trade, investment and development to reach a more balanced framework of rights and obligations, and take responsibility for coordinating the implementation of the deal. Should trade and development agendas become more integrated over time, there should be an aim, under the G20 framework, to exchange developmental assistance in return for trade and investment liberalisation.
- Endorse the WTO's improved supervision and monitoring of FTAs and other regional arrangements. At the same time, the WTO could greenlight the negotiation of plurilateral agreements, for example the Information Technology Agreement (ITA), International Services Agreement (ISA), Government Procurement Agreement (GPA) and others, based on the higher standards and expressed interest of advanced economies.
- Speed up the reform of world trade statistics, with the concept of the global supply chain replacing the old model of calculation. This will ensure that the public gains a more accurate understanding of international trade.
- The most important factor is that the two groups of countries – namely, the developed and emerging economies – develop the strategic courage to reach the suggested consensus and compromise on trade issues, thereby strengthening the G20 in its position as the world's premier forum for global economic governance.

Note

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Financing for investment/ infrastructure

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Financing infrastructure investment: old roads and new paths?

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Introduction

One of the many concerns raised by leaders at the recent St Petersburg G20 summit (2013) was the anaemic outlook for global economic growth. One investment initiative canvassed at the summit, for the purpose of moving economic growth towards potential, was the imperative for new infrastructure investment in both developed and emerging economies. It is generally agreed that investment in new infrastructure projects is positively correlated with output and growth.[2] However, despite widespread accord regarding the economic benefits of infrastructure investment, there remains a substantial deficit in new infrastructure investment globally.[3] The aim of this short essay is to frame the current challenges to greater investment, and to consider potential new paths for financing in the future.

The economic viability of every infrastructure project rests on the robustness of the capital budgeting decision and cost/benefit appraisal. A best-of-breed project appraisal methodology can assist in the identification of the highest priority infrastructure projects and ensure that scarce capital (public and/or private) can be deployed in the most efficient and effective manner. Investment appraisal that is informed by the principle of opportunity cost can see capital flow to projects that can be accretive to productivity growth, national output and (from a public finance perspective) increased tax receipts. The investment decisions regarding infrastructure to be made globally over the next decade will provide the foundations for raising potential GDP growth, with associated improvements in a range of economic and social factors, including, but not limited to, productivity growth, time savings, improved health standards and sustainability. While we can generally agree on (and be advocates for) the benefits from new infrastructure investment, it is timely to consider some of the roadblocks (pardon the pun) that are hampering efforts to turn these opportunities into reality.

Current infrastructure challenges

There are numerous barriers currently inhibiting new infrastructure investment around the world. We divide these challenges into three main categories: fiscal constraints and public sector debt; changes in global banking regulation; and the investment characteristics of infrastructure.

Fiscal constraints and public sector debt

In the post-global financial crisis (GFC) period, investors have heightened concerns regarding the level of public sector debt around the world.[4] The old notion of governments simply issuing new sovereign bonds to finance infrastructure projects may not stand the scrutiny of global credit ratings agencies (for instance, Standard & Poor's, Moody's Investors Service and Fitch) unless there are additional levels of comfort in terms of creditworthiness (and/or the capacity to repay these new lines of debt). Any new model of infrastructure financing must directly address current concerns surrounding public sector borrowings.

Changes in global banking regulation

In the pre-GFC era, the global banking sector provided syndicated (and/or non-tradable medium-term bank loans) to long-life infrastructure projects in a global investment environment which was conducive to increasingly higher levels of financial leverage. This is not the investment climate in which we reside today. Global deleveraging and the introduction of the Basel III accord (demanding higher liquidity obligations on the balance sheets of banks around the world) are the contemporary themes in the sector.[5] These changes to the architecture of the global banking system make the economics of providing non-tradeable debt to finance long-term illiquid infrastructure projects more challenging. The liquidity constraints placed on the sector will see domestic and international bond markets become vital sources of new debt finance going forward for infrastructure projects. An important headwind facing the development of new paths for infrastructure financing is that bank finance may be limited (particularly compared with the experience before the GFC) and that the direct issuance of bonds will be vital in the current investment climate.

Investment characteristics of infrastructure

There is much debate about the possibility of pension (and defined-contribution (DC)/superannuation) funds providing a new funding source for new infrastructure projects. While this concept seems reasonable in theory, private sector investors face numerous risks when evaluating a new infrastructure investment proposition. The asset owner (this may take a variety of forms – say, a pension fund, an endowment fund or a mutual fund) must invest in a debt and/or equity security in a long-life asset (in fact, the holding may also take the form of a hybrid/convertible and/or stapled security). However, the size of these 'lumpy' infrastructure transactions can be large, even for a major pension fund, and the underlying infrastructure asset is typically illiquid – that is, not easily tradable or converted into cash.[6] In emerging economies – and increasingly in some developed countries also – there may be the issue of heightened sovereign risk.

The commencement of a major infrastructure project may have a multi-year construction phase, during which there are no revenue streams accruing to the investor. Such projects generally require a high level of equity investment during the construction phase, in order to absorb unexpected additional construction costs and due to the fact that the project will not deliver a revenue stream until the construction phase progresses to the operations phase. Given the long-term nature of infrastructure projects, the cost/benefit analysis and predictions associated with these projects deliver high levels of variability between forecast-demand versus actual-demand (and as history has shown this 'variability' is typically thought of as risk by investment analysts – that is, as having an attached probability. Reality may suggest that this 'variability' may more closely take the form of Knightian uncertainty).[7] One solution to these issues has been the development and growth of private sector investment via public–private partnerships (PPPs) and other financing initiatives; however, empirical evidence suggests that this is not an optimal long-term financing model for all seasons.[8]

These various risks associated with the development of new infrastructure projects culminate in a reluctance of asset owners (say, pension and DC/superannuation funds) to finance new infrastructure proposals. Instead, asset owners are more willing to invest in mature infrastructure projects well after the construction phase, when the plethora of risks during the construction phase has been mitigated and the cash flows of the operations phase are established.[9] This phase permits more traditional asset valuation models to be employed by prospective investors with a higher level of confidence. However, as we know from the National Income Identity (or GDP), there are only marginal benefits in the secondary market trading of financial securities. If our goal is to simultaneously improve GDP growth and its potential, we need to consider a new way in which to stimulate new investment in infrastructure.

New paths for financing infrastructure?

The previous section briefly canvassed some of the major challenges to new infrastructure investment, and we term this the ‘old roads’ in the debate. In this section, we consider some ‘new paths’ to advance the debate regarding infrastructure investment throughout the G20. Perhaps it is timely for the policy-makers to consider a sovereign government’s budgetary position as being divided into two distinct parts, namely, an operations account and a capital (that is, investment) account. The elected government of the day would place an emphasis on the operations account (which is based on the structural/cyclical aspects of tax receipts and expenses over time), while the capital account contains segregated accounts where the assets and liabilities of current and future infrastructure projects are centralised and reported.

The commencement of a new infrastructure project would see the creation of a segregated account where the issuance of infrastructure bonds to finance the individual project is recorded as a liability. The construction of the infrastructure is recorded as the asset in the same segregated account. Infrastructure projects that charge users will generate a cash flow that is used to repay the debt obligations of the infrastructure bonds. Surplus revenues from the project can be deployed to construct, say, new social infrastructure. Infrastructure that does not earn a direct revenue stream from its users will require the government of the day to deliver a cash receipt from the sovereign nation’s operations account to the capital account, to fulfil the debt obligations of the respective infrastructure bond issue. Put another way, the sovereign government carries the contingent liability of each infrastructure project.[10]

The concept of segregated accounts for each infrastructure project promotes two important ideas. First, the separation of the infrastructure projects allows infrastructure bond investors to assess the individual risks and viability of each project and price the infrastructure bond accordingly. Second, the concept of segregation provides encouragement to the government of the day to design, build and operate economic infrastructure as a first priority. This acts as an incentive for the sovereign to minimise the aggregate contingent liability of all infrastructure projects. The issuance of infrastructure bonds that are directly linked to each project would create a mechanism by which market discipline is forced upon each infrastructure project, due to the signal sent by the indicative pricing of each series of bonds. This encourages good infrastructure project appraisal within the current environment of fiscal austerity and avoids the poor infrastructure project evaluation influenced by short-term political cycles. The bottom line is that new infrastructure projects must translate into higher GDP, which in turn produces higher tax revenue. While the sovereign nation retains the contingent liability for each infrastructure project, the concept of segregated accounts promotes transparency in the monitoring of each infrastructure project, which in turn provides a higher level of comfort for credit rating agencies who ultimately evaluate the credit ratings of the sovereign and the infrastructure bonds relating to each project.

Financing solutions via infrastructure bonds may provide a credible new path towards new infrastructure projects. However, the question remains: why not encourage pension funds as a debt and/or equity investor in new infrastructure projects? New infrastructure projects are termed 'greenfield' investments where assets are yet to be constructed. By design, new infrastructure projects carry enormous risks (as previously stated), whereby the government is best positioned to retain this risk. It may be the case that such risk is beyond the appetite (mandate) for many pension funds. This is a potential reason why many pension funds are reluctant to invest in greenfield projects. The high level of risk is a potential rationale for sovereigns to promote the issuance of 'sovereign-like' infrastructure bonds in the early years of a new project. At a later date, the government can elect to sell the new infrastructure project, when it evolves into a more mature infrastructure asset.[11]

The second source of finance is the transfer of mature infrastructure projects as an asset into a new segregated account. A well-established infrastructure asset owned by the sovereign nation can be used as collateral to support the credit quality of the infrastructure bonds on issue, which are used to develop a new infrastructure project. Furthermore, revenues arising from mature infrastructure assets (such as ports, airports and toll roads) can be employed to fund the bond coupons and maturities of the infrastructure bonds as they fall due. This form of finance may be useful in the development of social infrastructure, as the revenues of current economic infrastructure assist in the financing of new social infrastructure projects. The transfer of existing infrastructure assets from the government to the segregated account means that the incoming cash flows from mature infrastructure projects are directed to the sovereign's capital account.

A third source of finance is via the sale of current public infrastructure assets to the private sector to the highest bidder, subject to legislative constraints to control the potential creation of a private sector monopoly entity. The proceeds can be recycled into a new segregated account for the development of new infrastructure projects. The privatisation of existing infrastructure assets means that asset owners (pension and DC/superannuation funds) can play an important role in the bidding process of these mature infrastructure projects.

Concluding remarks

In a world of public finance austerity for many countries around the world, it is imperative that new infrastructure projects demonstrate improvements in GDP and deliver meaningful price benefits (such as increases in tax receipts to the public sector as a payback mechanism for the financing of these new projects) and non-price benefits to the community. The global stakes are high and new infrastructure investments can unlock this new economic potential for all nations during the current sustained period of benign economic growth. We know that infrastructure investment can provide significant economic and social pay-offs over various timeframes (short-, medium- and long-term). We encourage the policy-makers from the G20 to take the first tentative steps on some 'new paths' to reform global infrastructure financing.

Notes

1. Professor Michael Drew and Associate Professor Robert Bianchi, Department of Accounting, Finance and Economics at Griffith Business School, Griffith University.
2. For instance, see P. Demetriades and T. Mamuneas, 'Intertemporal Output and Employment Effects of Public Infrastructure Capital: Evidence from 12 OECD Economies,' *Economic Journal* 110, no. 465 (2000): 687–712; J. Heintz, 'The Impact of Public Capital on the U.S. Private Economy: New Evidence and Analysis,' *International Review of Applied Economics* 24, no. 5 (2010): 619–632; C. Hulten, 'Infrastructure Capital and Economic Growth: How Well You Use It May Be More Important Than How Much You Have,' National Bureau of Economic Research Working Paper No. 5847 (Cambridge, MA: NBER, 1996); C. Kamps, 'New Estimates of Government Net Capital Stocks for 22 OECD Countries 1960–2001,' *Public Economics* 5, no. 6 (2001): 1–15; C. Kamps, 'The Dynamic Effects of Public Capital: VAR Evidence for 22 OECD Countries,' *International Tax and Public Finance* 12, no. 4 (2004): 533–58; and A. Munnell, 'Policy Watch: Infrastructure Investment and Economic Growth,' *Journal of Economic Perspectives* 6, no. 4 (1992): 189–98.
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6. OECD, *Annual Survey of Large Pension Funds and Public Pension Reserve Funds* (Paris: OECD Publishing, October 2013).
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8. M. Regan, J. Smith and P. Love, 'Infrastructure Procurement: Learning from Private–Public Partnership Experiences "Down Under",' *Environment and Planning C: Government and Policy* 29 (2011): 363–78; M. Regan, J. Smith and P. Love, 'Impact of the Capital Market Collapse on Public–Private Partnership Infrastructure Projects,' *Journal of Construction Engineering and Management* 137 (2011): 6–16; R. Shah and R. Batley, 'Private-Sector Investment in Infrastructure: Rationale and Causality for Pro-poor Impacts,' *Development Policy Review* 27, no. 4 (2009): 397–417.
9. R. Della Croce, 'Trends in Large Pension Fund Investment in Infrastructure', OECD Working Papers on Finance, Insurance and Private Pensions, No. 29 (OECD Publishing, 2012).
10. An alternative solution is the creation of a new institution owned by the sovereign nation who owns the new infrastructure projects as assets and issues its own infrastructure bonds as the source of finance. It is important to note that this new financing authority is not a sovereign wealth fund. The sovereign nation would act as the guarantor of this new infrastructure financing authority.
11. Della Croce (2012).

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Financing for investment in Africa: a role for the G20

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G20 and Africa: infrastructure for development

In June 2012 at Los Cabos, G20 leaders agreed to 'strengthen efforts to create a more conducive environment for development, including infrastructure investment.'[2] In line with this resolve, many Sub-Saharan African (SSA) countries are currently focused on developing their economic potential by attracting institutional investors capable of providing long-term capital for investment with the potential to spur growth and development. The G20 discussions on financing for investment present a unique opportunity in this regard. African countries seeking to raise capital must navigate underdeveloped domestic markets which impact on the channels as well as options through which finance for investment can be accessed. This barrier is compounded when financing is sought for the regional or cross-border projects which are at the heart of achieving the integration agenda of SSA – a particular challenge recognised by the G20 Development Working Group.

Infrastructure investment has been a major focus for the development of Africa, as is elaborated by the African Union (AU) in its Programme for Infrastructure Development in Africa (PIDA). This is a Priority Action Plan highlighting a number of regional infrastructure projects which was endorsed by African heads of state in 2012.[3] Due to SSA's rapid population growth, finance for investment in infrastructure has mostly been channelled to the electricity sector to date. There are still massive needs on the continent in energy, transport and water, to name just a few sectors. The process of financing infrastructure development presents a wide array of multi-layered challenges for SSA countries which are worth consideration in the G20 context, especially if the forum is to make a contribution to sustainable growth and job creation in Africa.

Challenges for financing African infrastructure

Apart from the current state of the financial markets in most SSA countries (often non-existent domestic capital markets), finance for investment in Africa is hampered by a number of factors relating to the size, complexity and viability of infrastructure projects. Using energy-related infrastructure projects as a case in point, in order to address the challenge of financing projects of this nature, a host of issues have to be tackled. First, many of these projects are costly to prepare and develop. There are ongoing challenges in project preparation and planning that must be surmounted to ensure that the result is a bankable proposal of interest to investors. Second, the regional aspect of energy development in Africa is difficult to factor into traditional financing arrangements and is often given very little weight in negotiations. Third, there is a need to accompany physical infrastructure development in SSA with the necessary 'soft' elements such as upskilling of labour, regulatory adaptation, and streamlining of administrative requirements.

Using Inga III (a proposed hydroelectric project in the Democratic Republic of Congo) as an example, it was estimated that the project would cost US$10 billion,[4] and that the costs of preparing the project would be 9 per cent of the actual project cost. It was expected that these preparation costs would be covered by private investors. However, there was an unwillingness to commit any funds to the preliminary process of project development. The large amount of capital needed meant that financing could only be raised by bringing together a diverse network of investors including multilateral institutions, private investors and governments. The challenge of financing project preparation was compounded by the complexities of a multi-party arrangement.

The AU has identified regional transformational projects such as Inga III as a key factor in increasing the economic competitiveness of SSA. However, a major challenge exists in the lack of leadership or ownership of projects located outside of countries that ought to benefit from the projects. This impacts the pace at which these projects are developed, slowing down the realisation of projected benefits. This, in turn, poses a number of challenges regarding financing for investment, as investors require high levels of certainty (such as sovereign guarantees) before committing funds to project development.

It is necessary for SSA countries to consider alternative methods by which infrastructure projects can be financed. Here, the financing for investment discussions in the G20 could make a real contribution, including through the sharing of experiences of different regions in the world, as well as by encouraging a greater understanding of the particular challenges facing Africa.

Examples of financing mechanisms

Focusing particularly on specific attributes of infrastructure projects, a range of alternatives by which governments of SSA countries and projects sponsors can raise finance for investment could be explored in the G20 discussions.

Bond finance

Bond issues can be advantageous, based on the size of the bond, which is normally larger than a bank loan and thus provides a substantially larger amount of capital. In the event that governments of SSA countries decide to sell bonds, issues relating to interest rates and maturities should, however, be considered carefully, as bonds are generally considered to be less flexible than bank loans and the creditworthiness of governments is tied to regularly scheduled repayments. Specifically targeted bonds, such as infrastructure or diaspora bonds, are being used by some SSA countries, with potential for broader application.

PPPs

Governments of SSA countries are increasingly adopting public–private partnerships (PPPs) as a viable mechanism for funding infrastructure projects. The benefits of PPPs for SSA countries include shorter delivery timeframes for projects for the public sector, and more manageable project risks due to expertise in the private sector. They have the capacity to deliver value for money on projects, if well-structured. However, PPPs are highly complex policy instruments that require advanced capacity within the public sector to both negotiate and manage.

SWFs

Currently only a few SSA countries have established sovereign wealth funds (SWFs) aimed at investing revenue raised from natural resources in areas such as infrastructure development. The option of operating an SWF has so far been reserved for the oil-rich SSA nations such as Nigeria, Angola and, in the near future, Tanzania. SWFs can help to boost domestic growth when earnings from the funds are invested in infrastructure development. If properly managed, SWFs can also impact credit ratings of SSA countries positively.[5]

Pension funds

For SSA countries, pension funds can serve as a source of revenue for infrastructure projects that require long-term investments. In 2012, the Government Employees Pension Fund (GEPF) in South Africa invested R1 billion in the green bond issued by the Industrial Development

Corporation (IDC) to finance the development of several renewable energy projects across the country.[6] However, in general pension funds are largely conservative and target low-risk investments, in accordance with the mandate to provide security and flexibility to its clients. The G20 could explore ways to mitigate risks around infrastructure projects that would increase the attractiveness to pension funds.

African initiatives worthy of G20 support

Along with its partner institutions, the African Development Bank (AfDB) has taken the initiative in developing the Africa50 Fund, in an attempt to fill the infrastructure funding gap – a necessary factor in unlocking the economic potential of African countries and improving the overall economic performance of the continent. The innovative fund focuses on leveraging resources from central bank reserves, SWFs, pension funds, the African diaspora and high net worth individuals to fund infrastructure projects necessary for development in Africa.[7]

Various roles have been taken up by partner organisations to ensure the success of the Africa50 Fund. The AU has been tasked with providing leadership for regional and international advocacy; the New Partnership for Africa's Development (NEPAD) agency will host a conference on financing for development which would bring together potential investors for the fund; and the United Nations Economic Commission for Africa (UNECA) will engage individual countries to undertake studies to highlight transformational projects as well as monitor and evaluate the implementation processes for the shortlisted projects.[8] This coordinated approach to promote financing for investment in Africa is a practical response to a complex problem.

Conclusion

Financing infrastructure projects in Africa would help to unlock the economic potential of the continent and make a contribution to a number of the overarching objectives of the G20. The challenge begins with the structuring and design of projects, as well as in determining viable processes by which funds for project development can be raised. This requires an absolute mastery of the options available for financing, taking into consideration the specific nature of differing infrastructure projects. In addition to promoting new options for financing for investment, the G20 is well placed to encourage greater linkages between the public and private sector in this regard.

Notes

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Connectivity matters for the G20

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The G20 leaders called for global action at the London summit (April 2009) by saying 'We face the greatest challenge to the world economy in modern times; a crisis which has deepened since we last met, which affects the lives of women, men, and children in every country, and which all countries must join together to resolve. A global crisis requires a global solution.' Since then I have been asking myself two questions: Are global solutions only required in times of global crisis? And, without a crisis agenda in the upcoming period, will the G20 become obsolete?

We cannot limit the role of the G20 to crisis management, considering the current imbalances and inequalities in the global economy. Moreover, enhanced globalisation and rising interdependencies require more effective policy coordination tools. So it is obvious that the G20 platform is needed in the long term. At the same time, the focus of the G20 – which has primarily been the global financial architecture – must be diverted to real sector improvements in the medium term.

As the global trading structure is changing rapidly, the G20 needs to adapt to the changing landscape. Emerging markets and other developing countries have increased their shares in global trade. Global trade trends point to developing economies having an increasing share in global trade, and developed economies having a correspondingly declining share.

Between 1980 and 2011, developing economies' share in world exports and imports rose from 34 per cent to 47 per cent and from 29 per cent to 42 percent, respectively.[2] However, trade routes have not evolved at the same pace, and fall short in meeting the demands of the emerging global economic structure. Connectivity among developing economies remains low, indicative that existing trade routes are not able to address the shift of economic power to emerging markets. Low connectivity among developing economies, resulting in a low degree of trade complementarity among these countries, also hampers the potential for global growth.

Does connectivity really matter?

Increasing connectivity among G20 countries will be central to the future of the G20. 'Connectivity' here refers to expanding transportation networks/routes, as well as energy routes and telecommunications infrastructure. Connectivity can enhance trade and growth in more than one way: above all, sufficient infrastructure provides efficient and cost-effective mobility of goods and services. It can also encourage supply chains to be built around connection routes, making not only trade, but also private direct investment flow, easier. According to a recent WEF study, improvements in connectivity are much more effective in reducing trade costs than the more 'fashionable' tariff removal.[3]

The study found that if every country were to improve just two connectivity barriers – namely, border administration and transport, and communications infrastructure and related services – even halfway to the world's best practice, global GDP would go up by US$2.6 trillion (4.7 per cent) and exports by US$1.6 trillion (14.5 per cent). By contrast, eliminating tariffs completely – the main focus of multilateral trade facilitation agreements – would increase global GDP by just US$0.4 trillion (0.7 per cent) and exports by US$1.1 trillion (10.1 per cent). Thus, connectivity is good for growth and jobs.

Second, improving connectivity is a tool for a more inclusive G20, as currently there are considerable connectivity disparities between G20 countries as well as between G20 countries and non-G20 countries. The table below shows different connectivity levels among G20 countries, using UNCTAD's Liner Shipping Connectivity Index (LSCI). The disparities between G20 countries are striking: China's connectivity level, for instance, is six times higher than that of Indonesia. Except for China, all countries that score high in maritime connectivity are industrialised G20 countries; however, developed countries such as Canada and Australia also have very low scores. Since improvements in connectivity will benefit the G20 countries which are least connected, increased connectivity would make the G20 more inclusive, serving as a rebalancing tool, especially for non-G7 members of the G20.

Figure 2: Liner Shipping Connectivity Index

High Maritime Connectivity (>70)		Moderate Maritime Connectivity (40-70)		Low Maritime Connectivity (<40)	
China	157.5	Italy	67.3	Canada	38.4
South Korea	100.4	Japan	65.7	Russian Fed.	38.2
United States	92.8	Saudi Arabia	59.7	Brazil	36.9
Germany	88.6	Turkey	52.1	Argentina	33.5
United Kingdom	87.7	India	44.4	Australia	29.9
France	74.9	South Africa	43.0	Indonesia	27.4
		Mexico	41.8		

Source: UNCTAD

G20 countries fare better than non-G20 countries in terms of connectivity. The average LSCI score for G20 countries is 62.1, much higher than the non-G20 countries' average of 15.7 (119 countries, excluding the EU). Thus, developing countries and least-developed countries (LDCs) are likely to benefit more than G20 countries if their connectivity is improved. Also, G20 countries (especially non-G7 ones) could become regional hubs connecting weaker developing countries to the global economy, which in turn would increase the credibility and legitimacy of the G20 as a global economic governance mechanism.

Third, connectivity not only holds the potential to improve the integration of different countries into the global economy, but can also improve the integration of small and medium enterprises (SMEs). In spite of their being an integral part of the national economy and an important provider of jobs, connectivity problems affect SMEs far more than large companies, which prevents them from participating in export markets and global/regional supply chains. Thus, removing barriers to connectivity increases the likelihood of SMEs operating internationally and being integrated into global markets.

Fourth, improvements in connectivity can enhance potential growth levels in the long run. In fact, long-term trade facilitation is a major advantage of connectivity over tariff reduction measures, which mainly change the allocation of resources. Improved connectivity eliminates the waste of resources, as well as improving the capability set of the host country, connecting it to global supply chains, and increasing its potential growth rates.

Lastly, connectivity improvements can be seen as a peace-building tool. Each road, route or pipeline that is built between two countries increases their interdependency and gives an economic reason to sustain stability. In other words, increased economic integration can work as an important conflict-resolution mechanism.

What can be done to improve connectivity?

Increasing connectivity among countries is not an easy task. The process involves policy coordination and planning, as well as huge infrastructure investments.

Moreover, the task is not only a hardware problem, but also a software problem. Institutional connectivity tools such as customs harmonisation, rationalisation of administrative procedures, transit agreements (the TIR convention, etc.) and the cutting of red tape must be engaged with intensively. Logistics management and service delivery mechanisms should also be developed, in order to operate the investments efficiently.

Transport infrastructure and new transport corridors are the major investments needed to improve connectivity. Maritime investments and the establishment of new routes seem to be the major issues. According to UNCTAD, among 157 countries investigated, only 17.7 per cent of the pairs (157 x 156 pairs) are served by direct liner shipping connections. Thus, there is much room for improvement. Second, land routes and railroads could be improved and integrated logistics solutions could be developed. Revitalisation of the ancient Silk Road (which connects China to Europe through Central Asia), and the building of new land routes and railroads in Southeast Asia (for example, the Singapore Kunming Rail Link) and South America (for example, the Initiative for the Integration of the Regional Infrastructure in South America – IIRSA) are among the regional initiatives started.

Building transport infrastructure, however, is not the only way to improve connectivity. Energy corridors, oil and gas pipelines, electricity transmission lines (such as DESERTEC) and even water pipelines are among the investment projects that increase regional economic integration.

What can the G20 do to improve connectivity?

The G20 can and should deal with connectivity problems that require global policy coordination and collective action. First of all, the G20 can foster institutional connectivity by setting standards and urging compliance with these standards. Moreover, the G20 countries can play an important role in identifying major bottlenecks, given that the G20 countries are the major economies and thought leaders of their respective regions.

Second, the G20, along with international organisations, can play an important role in the development, evaluation and prioritisation of infrastructure projects. Objective technical feasibility assessments can play a critical role in obtaining private sector investments and financing. Also, a coordinated effort towards capacity development and sharing know-how can speed up the connectivity improvement process.

Third, the G20 can play a critical role in increasing the commitment of nation states, and supporting greater coordination among different government agencies.

The G20 can also play a critical role in the establishment and coordination of regional development funds. Different regional initiatives should complement each other, and building private sector confidence and increasing its involvement should be key priorities for the G20.

Lastly, development of a new cross-border public–private partnerships (PPP) framework would help sovereign states to cope with financing problems. The G20 could lead this process and set the rules for effective multi-state PPP contracts. This would also create incentives for private investors (developers) to participate in these complex projects.

Notes

1. Analyst, Economic Studies, Economic Policy Research Foundation of Turkey (TEPAV).
2. WT0, 'World Trade Report 2013', http:www.wto.org/english/res_e/publications_e/wtr13_e.htm
3. WEF, 'The Global Enabling Trade Report 2012: reducing supply chain barriers', http:www3.weforum.org/docs/GETR/2012/GlobalEnablingTrade_Report.pdf

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A 7-point plan for the G20 infrastructure financing agenda

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The G20's structure as an informal, high-level group is such that it can assist policy-making in two broad ways: in an advocacy and a coordination role. First, it can help promote domestic policy measures in any area that the group considers important and/or urgent for its member countries. Since G20 recommendations are not binding, the success of the G20's advocacy role depends on member countries' willingness to deliver on their commitments. However, a unique advantage of the G20 lies in its second role: generating coordinated action to address systemic issues stemming from global public goods (GPGs). Public goods are characterised by non-rivalry and non-excludability.[2] GPGs create (unintended) effects that have global reach.

Infrastructure financing is a 'cross-cutting' issue

Infrastructure is both rival and excludable. Any immediate effects that it generates are localised, or at most regional. Therefore, infrastructure is not a GPG. Nonetheless, infrastructure investment can create unintended consequences concerning a variety of policy areas. Therefore, it is most appropriate and consistent with the characteristics of infrastructure to consider it, in the G20 context, as a 'cross-cutting' issue as opposed to a work stream independent from other policy areas. Taking into account the cross-cutting nature of infrastructure makes sure that two-way spillover effects with other policy areas are appropriately addressed.

The G20 can be effective in supporting infrastructure policy by using both its coordination and its advocacy roles. 'Collective actions'[3] require the development of a coherent G20 approach in areas such as macroeconomic policy coordination and financial market regulation (coordination), while raising awareness at the leaders' level and making commitments to implement domestic policy changes are appropriate approaches for implementing 'country-specific actions' (advocacy).

One of the outcomes of the St Petersburg summit was the endorsement of the OECD High-Level Principles of Long-term Investment Financing by Institutional Investors. The OECD principles highlight the fact that progress on infrastructure investment largely depends on improvements in a variety of economic policy areas such as financial market regulation, taxation and competition policy. Consistent with the approach of viewing long-term investment financing as a 'cross-cutting issue', and following the spirit of the principles, the Study Group on Financing for Investment (SG) should focus on identifying where G20 commitments in other policy areas can be 'infrastructure-friendly' – that is, identifying which G20 policies are likely to affect infrastructure investment and making sure that the impact on the environment for long-term investment financing is appropriately considered. This approach avoids unnecessary duplication of efforts. Implementing the principles will require both collective and country-specific actions.

Following the above proposal that the G20's work on infrastructure should have a 'cross-cutting' approach, the suggestions below focus on how infrastructure considerations should be taken into account in advancing such G20 'core' areas as macroeconomic policy/financial markets and climate change.

Infrastructure financing and financial markets

The G20 should continue its efforts to promote sound and efficient financial markets. However, there is a need to refocus the G20's work in this area away from a disproportionate attention to advanced countries, in particular Europe and the United States, and give more attention to the challenges facing emerging economies. Emerging economies hold large savings, but have predominantly invested in the advanced world, while their domestic long-term investment projects are underfinanced. Advanced country investors are still equally hesitant to commit broadly to emerging country markets. Addressing this inconsistency should be a major objective for the G20 in 2014.

Consistent with a greater focus on long-term investment challenges facing emerging economies, priority should be given to promoting local currency bond markets (LCBMs) and long-term investment funds (LTIFs). LCBMs have been on the G20's agenda since the Cannes summit, where the G20 LCBM Action Plan was endorsed. Nonetheless, important constraints on both the demand and the supply side remain, which, if they are to be addressed, will require the government to take on an activist role. On the demand side, investors' concern over market depth is a 'chicken and egg' problem: investors are reluctant to invest because of insufficient scale, but scaling up requires strong investment. On the supply side, many emerging markets 'have struggled to create LCBM[s] comparable to those in advanced economies despite having sound fundamentals'.[4] Market forces are likely to achieve only a slow growth of LCBMs. The common diagnostic framework that has been developed as part of the G20 LCBM Action Plan highlights that 'a strong high-level government commitment to upgrade and reform LCBM[s] is necessary to ensure sustainability of the reform efforts.'[5]

Given the analytical work that has already been done in this area, the G20 is well placed to promote LCBs as promising and, indeed, financially sensible investment opportunities. This may help to move LCBs further into the mainstream of what is generally considered to be a safe and financially sound investment strategy. Highlighting best practices such as the Asian Bond Fund 2 (ABF2) would be particularly effective. This could be accompanied by supporting dedicated information campaigns, led by the national central banks and research institutes. As part of this campaign, institutional investors should be specifically mentioned as suitable investors in LCBs. Moreover, emerging markets should commit to further developing existing LCBs like the ABF2, including an opening up to foreign investors. Redirecting technical and financial assistance by multilateral development banks and G20 members towards LCBM development in future budget allocation decisions – reflecting the level of priority assigned to this issue – may provide further momentum to the existing global efforts to promote LCBMs and encourage their development in other emerging economies.

For the establishment of nascent LCBMs, the common diagnostic framework suggests that 'a broad sequencing in this context would begin with the appropriate macroeconomic reforms and establishing robust legal, regulatory, and supervisory frameworks before moving to any specific measures of market deregulation or expansion of the investor base.'[6] G20 leaders should explicitly commit to apply the recommendations set out in the analytical work that emerged from the G20 LCBM Action Plan. Similar efforts are required for promoting LTIFs. This includes the promotion of existing initiatives such as the ASEAN Infrastructure Fund (AIF), as well as enhanced support for the development of similar funds.

The St Petersburg Leaders' Declaration notes that particular attention should be given to improving the design of, and conditions for, productive public–private partnerships (PPPs). In order to facilitate progress in this area, a clear PPP framework has to be developed for individual G20 member countries. There would be value in establishing a set of common principles for domestic PPP frameworks, to achieve greater harmonisation. Some of the key elements that should be covered in the development of PPP principles include: the importance of legal certainty; competitive tendering being the instrument of choice for allocating projects; the need for full transparency; and the effective devolution of competencies to other levels of government in order to enable them to deal efficiently with the planning and implementation of infrastructure projects. Finally, the principles should also acknowledge the advantages of having an independent regulatory body dealing with infrastructure investment, in order to minimise political and industry capture.

Infrastructure and the environment

The G20's work on infrastructure financing should take into account the importance of avoiding negative environmental impacts, especially relating to climate, as much as possible. An intuitive approach relies on improving the productivity of existing infrastructure instead of focusing only on expanding supply. A more efficient use of existing infrastructure requires demand-side policies, in particular for urban transport infrastructure. Demand-side policies go beyond congestion pricing. Non-price alternatives include using traffic-monitoring technologies to optimise traffic flows. The G20 should promote demand-side policies and other productivity-enhancing measures, in particular regarding incentives for using mass transit modes of transport, as an effective complement to supply-side interventions.

One specific area that promises enormous benefits in terms of making transport infrastructure 'greener' is non-motorised transport (NMT) infrastructure. NMT does not only create benefits in terms of reduced pollution, but also improves accessibility and safety. The safety benefits are particularly important for poorer people, because they are disproportionally affected by road hazards. It is a stark contrast that large parts of the population of emerging and developing countries have to rely on NMT, but NMT infrastructure is insufficient and often not a policy focus. The G20 should make an explicit commitment to focus on extending NMT infrastructure domestically, ideally setting numerical targets.

Summary

1. View infrastructure as a cross-cutting issue. Focus the Study Group's work on integrating infrastructure concerns with other G20 policies, in particular in the areas of financial markets and climate policy, without compromising the overarching policy goals in these broader policy areas.
2. Refocus the work on financial markets to pay more attention to the challenges facing emerging markets.
3. Promote LCBs and LTIFs as promising and financially sound investment opportunities.
4. Redirect technical and financial assistance to support the development of LCBs and LTIFs.
5. Commit to developing clear PPP frameworks domestically. Agree on joint principles to provide an appropriate degree of harmonisation.
6. Commit to improving the productivity of existing infrastructure assets domestically, in particular by promoting demand-side policies.
7. Commit to extending NMT infrastructure domestically.

Notes

1. Research Fellow, G20 Studies Centre, Lowy Institute for International Policy.
2. Non-rivalry requires that the benefits from using a good or service are not diminished when more people start using it as well. Non-excludability means that no one can be excluded from using the good or service.
3. At the St Petersburg summit, leaders committed to 'identify and start to implement by the Brisbane summit a set of collective and country-specific actions that tangibly improve our domestic investment environments such that they are more favourable to long-term investment financing'.

4. IMF, World Bank, EBRD and OECD, *Local Currency Bond Markets – A Diagnostic Framework* (July 2013).
5. IMF, World Bank, EBRD and OECD, *Local Currency Bond Markets – A Diagnostic Framework*.
6. IMF, World Bank, EBRD and OECD, *Local Currency Bond Markets – A Diagnostic Framework*.

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Infrastructure development: the role of East Asian regional institutions in managing capital flows through financial deepening

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Introduction

The massive capital inflows coming into the East Asian emerging countries as a result of the quantitative easing (QE) in the United States, Europe and Japan do not necessarily translate into productive investment, such as foreign direct investment (FDI). For example, Azis shows that, combined, the net capital flows of Indonesia, the Republic of Korea, the Philippines and Thailand that came in the form of FDI in the post-global financial crisis (GFC) period were rather weak compared to those that came in the form of debt.[2] Meanwhile, central banks in these East Asian emerging countries are busy preparing a mixed suite of unconventional policy tools for the purpose of managing capital flows, combined with a focus on promoting financial deepening so as to better channel capital inflows into productive investments.

This paper will review the importance of the role that regional monetary and financial institutions in East Asia could play in deepening the regional financial market so as to better finance infrastructure development.

Financial deepening and infrastructure financing

Many East Asian emerging countries do not have deep financial markets. Massive capital inflows during the recent period of quantitative easing, undertaken by some developed economies, made it necessary for these East Asian emerging countries to deepen their financial markets, so as to better channel capital inflows into productive investments.

Sarwono has written:

> Financial market deepening is [part of] the medium-term priority agenda. In this [regard], the measures are designed to create a deep, sound and liquid financial market through creating [a greater] variety of instruments. A variety of financial instrument[s], such as the promotion of corporate bonds issuance, is … very crucial to take advantage of the potential capital inflows and channel them to finance [the] productive sector, especially the badly needed infrastructure investment. On the other hand, a deep financial market could also stimulate a more resilient economy against unanticipated shocks in the financial market.[3]

Within the Association of Southeast Asian Nations (ASEAN), there are a few initiatives to help promote infrastructure development, many of which focus on deepening financial markets in the region. There is a limited capacity of individual governments to finance infrastructure projects through national budgets. Developing financial instruments to recycle East Asian countries' excess foreign-exchange reserves into more productive investment, and lowering institutional hurdles that stand in the way of attracting private capital to long-term infrastructure investment, are among the goals of these initiatives.

First, there is the Master Plan for ASEAN Connectivity (MPAC), which aims to connect the region internally, as well as with the rest of the world, in terms of physical connectivity, institutional connectivity and people-to-people connectivity. Key strategies to enhance physical connectivity include completing the ASEAN highway network; completing the implementation of the Singapore–Kunming Rail Link project; establishing an efficient and integrated inland waterways network; accomplishing an integrated, efficient and competitive maritime transport system; establishing an integrated and multimodal transport system to make ASEAN the transport hub in the East Asian region; accelerating the development of information and communications technology (ICT) infrastructure and services in each of the ASEAN member states; and prioritising the processes for resolving institutional issues in ASEAN energy infrastructure projects.

Within ASEAN, there is also the ASEAN Infrastructure Fund (AIF), a source of funding for ASEAN infrastructure development. This fund could help East Asian countries to better channel their excess savings into regional development. The G20 also stands to gain from the AIF's implementation of its infrastructure investment goals. Established in September 2011 to finance the development of road, rail, power, water and other critical infrastructure needs, the AIF aims to finance six projects a year, with a US$75 million lending cap per project. Total lending commitment through 2020 is anticipated to be approximately US$4 billion, and could be leveraged to more than US$13 billion if it is co-financed by the Asian Development Bank (ADB) and other financiers.

A unique feature of the AIF is its plan to issue debt to target the use of the region's foreign-exchange reserves in the future. With over US$700 billion in ASEAN reserves, the AIF can thus be used to mobilise ASEAN resources for its growing infrastructure requirements. The AIF debt can be purchased by the central banks' foreign-exchange reserves, and others. Achieving a high investment rating is certainly the main objective of the AIF in utilising the foreign-exchange reserves. The AIF can also complement public sector financing through better catalysing private and capital markets as well as domestic savings, including foreign exchange reserves.

One of the political economic issues that may arise is a power struggle within the AIF, since a more dominant country may be able to have access to more projects in the future. Currently, infrastructure financing in ASEAN seems to be dominated by Malaysia. The ASEAN Infrastructure Fund (AIF) is incorporated as a limited liability company in Malaysia. Therefore, the AIF will be subject to the rules and regulations of that jurisdiction. It is therefore important that the AIF does not become an institution with weak corporate governance and less than rigorous standards for investment; the AIF must maintain good corporate governance and be able to deliver high-quality projects.

Within ASEAN+3, there is the Asian Bond Market Initiatives (ABMI) and the Asian Bond Fund. The ABMI aims to develop and integrate the region's bond market, where the main objective is to better utilise the region's excessive savings for productive investment and use in the region. The ABMI's contribution to the growth and development of the region's bond markets since its inception in 2003 has been remarkable.[4] To help with the issuance of local currency denominated bonds, the Credit Guarantee and Investment Facility (CGIF) was established in the context of the ABMI. CGIF provides guarantees on local currency denominated bonds to make it easier for companies to issue local bonds with longer maturities. This will help reduce the currency and maturity mismatches that were one of the main culprits during the 1997–98 Asian financial crisis.

Within APEC, there are also multi-year initiatives, including the APEC Framework on Connectivity and the APEC Multi-Year Action Plan on Infrastructure Investment and Development. APEC cooperation on infrastructure development and investment will take advantage of regional expertise, experience and funding sources, including from multilateral and regional development banks, and the private sector. The public–private joint initiatives include:

- the Asia–Pacific Infrastructure Partnership (APIP), where the private sector has worked with governments to boost capacity for the design, finance and implementation of economic infrastructure; and
- the Asia–Pacific Financial Forum, which will work to enhance the region's financial systems so that the private sector can help deliver new infrastructure and other regional investments, including social safety nets, health and other services. The forum will also work on a convergent approach, so that financial sectors can facilitate regional economic integration. The forum's first meeting was held in April 2013.

During Indonesia's chairmanship in 2013, APEC leaders have also endorsed the APEC Expert Advisory Council, with a pilot project of building a Public–Private Partnership Centre in Indonesia.

All these regional initiatives will help to channel capital inflows into more productive investment.

Conclusion

Infrastructure is a multi-faceted issue that cannot be tackled by any one regional or global institution; however, synergy among regional and global institutions is necessary. ASEAN institutions have the advantage of looking at infrastructure from the perspective of development and the need to deepening the financial market in the region, including by developing the regional bond market. ASEAN is also ready with a list of potential projects in the region. APEC has the advantage of looking at infrastructure from the regulatory perspective, with an interest in creating a sound investment climate for the private sector, particularly institutional investors. G20 has the advantage of looking at infrastructure from the perspective of global financing, rebalancing and financial stability, including fiscal reforms.

Uncertainties in the timing and size of quantitative easing (QE) in the United States necessitate a strategy to ensure that massive amounts of capital that flow into East Asian emerging countries do not easily flow out, especially when the QE is tapered or reversed. Good monetary and fiscal policy management is the first line of defence. However, this is not enough. Central banks often have to use mixed, non-conventional policy tools to manage a policy trilemma.[5] This policy trilemma consists of the tasks of managing the volatility of capital flows, responding to the ensuing exchange rate overshooting (or undershooting), and containing domestic liquidity expansion (or crisis).

However, on top of this, financial deepening is needed to channel the huge capital inflows into more productive investment, such as foreign direct investment (FDI) and sovereign bonds, instead of short-term portfolio investments or non-monetary instruments. The development of the regional bond market in Asia, including the ASEAN+3 Asian Bond Market Initiative, could support the G20's initiative to address global imbalances by recycling Asia's excess savings within the region, rather than channelling it into portfolio investment in developed countries. The MPAC and the AIF provide a ready project that could be financed by regional and domestic capital markets, regional and global funds and facilities, private individuals and businesses, and the region's foreign exchange reserves.

Massive capital inflows to many emerging East Asian countries can be either a curse or a blessing to the region, depending on how they are managed. Regional institutions could help with the management of these inflows.

Notes

1. Economist, Consultant, World Bank Office Jakarta.
2. Iwan Azis, 'Assessing Asian Economic Integration with Cautionary Notes' (presentation at the Asia Economic Community Forum (AECF), 'Emerging New World Order: A Challenge or an Opportunity for the Asia Economic Community', Incheon, Korea, 1–3 November 2011), p. 4.
3. Hartadi Sarwono, 'Managing Capital Flows: Indonesia's Experience' (presentation at RBI–ADB Conference on Managing Capital Flows, Mumbai, India, 19 November 2012), p. 11.
4. Azis, 'Asian Economic Integration', p. 10.
5. Sarwono, 'Managing Capital Flows', p. 1.

Development

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The G20 and development

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> The G20 development agenda is central to the issues facing the G20. Development issues and global economic issues can no longer be treated in isolation.[2]

Introduction

Robin Davies described the G20 development agenda as 'invertebrate, flabby and toothless'. Even sympathetic observers describe it as 'diffuse, lacking a coherent narrative and disconnected from the central concerns of G20 leaders and finance ministers'.[3] Andrei Bokarev is more charitable: 'It is not always clear what G20 is doing on the development front, what concrete steps and decisions have been taken, what particular results it has helped to achieve.'[4]

This note suggests some helpful outcomes:[5]

- Preparing the ground for initiatives re food security, financial inclusion, infrastructure, and domestic resource mobilisation.[6]
- Coordination with other G20 work streams.
- A Plan B for climate finance.
- A G20 contribution for Post-2015 Development Goals to succeed the Millennium Development Goals (MDGs).

Specific concrete actions

What tools are in the G20 toolbox, aside from statements for the record, commitments to mobilise resources in international financial institutions, pledges to put their own domestic affairs in order, and creation of new international institutions (for example, the Financial Stability Board). The G20 prepares the ground for future action by commissioning studies for impending deliberation, requesting reports from international organisations (for example, on inefficient fossil fuel subsidies), or from a key actor.[7] Prime Minister Abbott could request other leaders to present a report to discuss at Brisbane. Australia could devise terms of reference for future reports, to be discussed at the 2015 summit in Turkey.

There are already many G20 initiatives in play. Examples are remittances facilitation and project preparation facilities (PPFs). Domestic resource mobilisation is largely a matter of tax administration and tax base erosion and profit shifting (BEPS), issues in the purview of finance ministries and the G20 Anti-Corruption Working Group. Worthy initiatives include:

- *Food security*: invite Brazil to propose options for new institutional arrangements (reserve stocks and emergency sharing arrangements) to dampen commodity price volatility.
- *Financial inclusion*: invite India and Mexico to jointly present options for new institutional arrangements, such as a 'Global Microfinance Facility' in the World Bank Group to lever new Official Development Assistance (ODA) commitments and private sector investment in the microfinance sector.
- *Infrastructure*: invite Turkey (2015 G20 presidency) to work with the World Bank to prepare a ranking (triple bottom line) of projects for potential public–private partnerships.
- *Domestic resource mobilisation*: invite the United States and China to prepare a joint proposal for international cooperative tax arrangements to deal with tax evasion, money laundering and corrupt practices.

See the diagram below.

Figure 1: Specific actions at Brisbane

	Area	Concrete Actions
Specific Actions	Food Security	Invite Brazil to propose options for new institutional arrangements to dampen commodity price volatility
	Financial Inclusion	Invite India and Mexico to present options for new institutional arrangements to increase the availability of basic financial services
	Infrastructure	Invite Turkey to work with the WB to prepare a ranking of projects for potential public–private partnerships
	Domestic Resource Mobilisation	Invite the US and China to prepare a joint proposal for new international cooperative tax arrangements to deal with tax evasion, money laundering and corrupt practices
Coordination with Other Work Streams	Development Working Group	Non-G7 countries second officials to the DWG Chair
	Ministers' meetings	Establish regular joint G20 Finance Ministers–Development Ministers meetings
	Preparatory Process	Consolidate the separate Sherpa and Finance tracks
Climate Finance	G20 Niche	Task Finance Ministers with developing a plan on how to both spend the money in G20 countries and how to raise it
MDGs	Post 2015 Agenda	Provide a report to the UN, combining vision and principles, and options for a limited number of concrete and time-bound Development Goals

Coordination with other G20 work streams

President Putin noted 'all of the issues on the agenda … proposed are closely interlinked and complement each other. For example, creating a good environment for investment growth automatically includes adjusting financial instruments, carrying out structural reform, and fighting corruption … the investment issue is also closely linked to another financial priority – managing state debt.'[8]

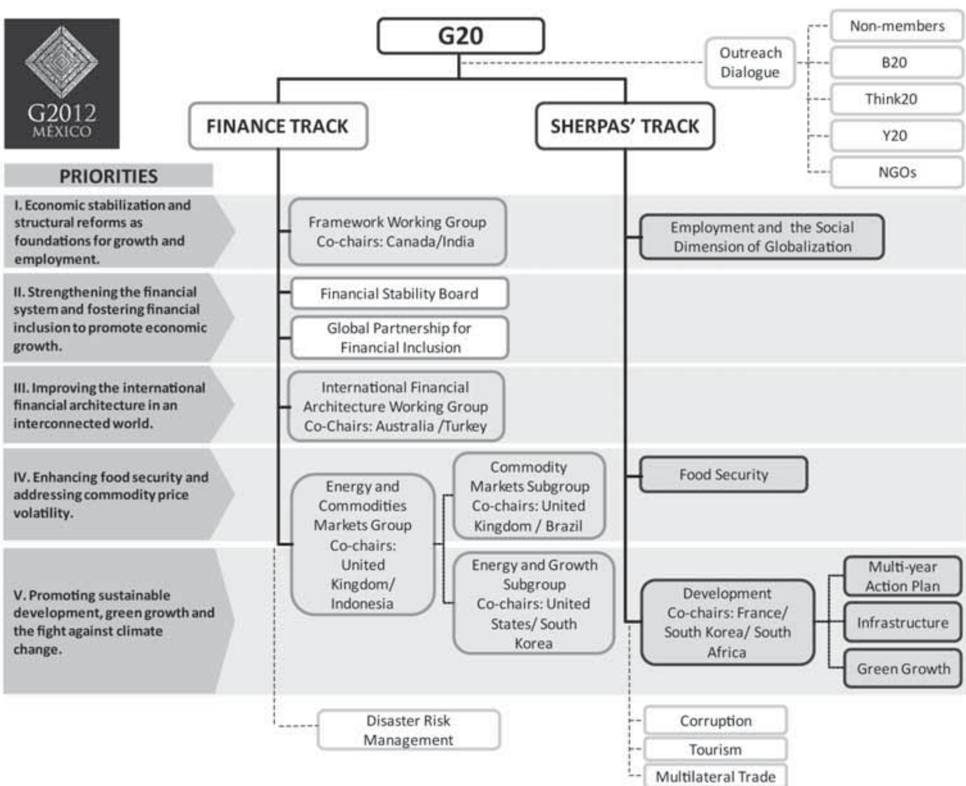
Development ministers don't control the necessary policy instruments. Trade access, infrastructure, agricultural development, tax policy, policies on commodity and food price volatility, and anti-corruption are all handled by other ministers. The Development Working Group (DWG) is constrained in every priority area. Food security involves six other Ministries: Agriculture (subsidies), Energy (biofuel policies), Finance (regulation of derivatives markets, and investment), Public Works (rural infrastructure), Welfare (safety nets) and Science (research).[9] In the financial inclusion area, regulation or promotion of microfinance is outside their mandate. In the infrastructure area, they are not responsible for any of the relevant instruments – local currency bond markets, the role of sovereign wealth funds or increased multilateral development bank lending.

To enable the DWG to champion development interests, highlighting the cross-cutting impacts of the range of other policies:

- Invite non-G7 countries in the G20 to invest more heavily in the DWG process, by seconding officials to the Chair of the DWG. Otherwise the preparatory process will be dominated by default by G7 and OECD thinking, simply by virtue of their ODA history and their being mature institutions.
- Regularise joint G20 Finance Ministers–Development Ministers meetings, supported by the DWG.[10]
- Scrap the awkward inherited preparatory system which separates the Finance Ministries' work from the Sherpas (the Leaders' Personal Representatives).

The third suggestion refers to the two-track system, illustrated below, introduced by the Mexicans to prepare for Los Cabos. The organisation chart makes clear that the system disadvantages work on development. All the potential development issues, allocated to the Sherpas track, require the intimate involvement of Finance Ministries. At the very least, each country should send a finance official to the DWG.

Figure 1: The two-track system



Climate finance

We cannot afford to wait for a United Nations Framework Convention on Climate Change (UNFCCC) agreement on a plan to meet the Copenhagen 'commitment'. There will never be support in developed countries to transfer substantial 'new and additional' sums to developing countries 'on a predictable and sustainable basis'. The Copenhagen US$100 billion per year 'commitment' is not a pledge. Read the fine print.[11] Doha's COP18 acknowledged that 'funds provided to developing countries may come from a wide variety of sources'. Aside from the implacable opposition of the US Congress, the effect of the financial crisis precludes raising even US$50 billion per year from developed countries. Applying the UN scale of assessment to determine burden sharing for transfers to developing countries would be equivalent to doubling ODA in a period of austerity.

Noting that the atmosphere is indifferent to the geographic source of reductions in emissions, and that developing countries will benefit from reduced emissions anywhere, climate finance could be raised and spent effectively in developed countries sooner, while there is still time. A compelling G20 plan to 'spend the money' in their own countries is a necessary – but not sufficient – prerequisite to raising the money. Demonstrating efficiency and incrementality will not be enough. Expenditure proposals will have to command wide public support to gain legislative approval in each country, to raise money. Rather than relying on the UNFCCC, the G20 should task Finance Ministers to develop a plan on both how to spend the money in G20 countries and how to raise it.

Contribute to the successor framework to the MDGs[12]

Goals influence behaviour, priorities and investment. For Post-2015 Development Goals, there is pressure to include poverty; employment; inequality; social protection; food security; health; secondary and tertiary education; physical security; gender equality; disaster resilience;

connectivity; 'energy for all'; human rights; environmental sustainability; climate change; anti-corruption; and governance. Quoting de Saint-Exupéry, 'Perfection is reached, not when there is nothing left to add, but when there is nothing left to take away', Vandemoortele worries that 'the post-2015 agenda will … become an unending wish list.'[13] The process of developing Post-2015 Development Goals is likely to result in a valueless, overloaded agenda. The United Nations is not likely to provide the essential leadership needed to reach agreement on concrete targets – compelling, easy to understand, measurable and limited in number.

It will be difficult to gain consensus in the G20, but easier than in the United Nations. More consultation and negotiation will not help. The G20 should prepare a narrative of the post-2015 agenda, combining vision and principles, together with two or three options for a limited number of concrete and time-bound commitments.

Conclusion

The presidency of the G20 is a worthy challenge. Despite the apparent prerogatives to set the agenda and guide the debate, the Chair is over-constrained. The G20 is an informal arrangement, without a secretariat or compliance provisions. Meeting time is short; there are high expectations, pressure from civil society, and extreme scrutiny from a sceptical media. The topics are complex and leaders do not have technical expertise. G20 countries have different interests and cultural approaches to decision making.

Cognisant of the challenges, Australia can initiate progress on several positive development initiatives. It could initiate several new reports to the G20 by inviting other countries to co-author options for G20 consideration. It could streamline the G20 preparatory process to focus on cross-cutting issues. It could rescue the otherwise deadlocked and doomed discussion on climate finance. It could catalyse the failing process to determine Post-2015 Development Goals.

Notes

1. Senior Fellow, Centre for International Governance Innovation (CIGI).
2. Preliminary Report on the G20 Action Plan on Development: Summary by the French Presidency (September 2011), www.g20.utoronto.ca/2011/2011-dev-plan-110923-en.html.
3. http://lowyinstitute.org/files/g20_monitor_the_g20_and_development_.pdf.
4. Russian Finance Ministry official, chair of the G20 Development Working Group, http://en.g20.ria.ru/news/20130610/781417056.html.
5. The question 'How can the G20 improve its outreach with other stakeholders, particularly LICs?' is of little consequence unless progress is made on specific priorities.
6. I exclude consideration of the fifth item on the DWG list – human resource development – as there is little scope for effective international cooperative action.
7. Prime Minister David Cameron and Bill Gates prepared reports for the Cannes summit at the request of President Sarkozy.
8. See www.g20.org/news/20130215/781206186.html.
9. A means needs to be found to integrate the work of ministerial meetings, so as to avoid headlines such as 'G20 Fails 1 Billion Hungry People Worldwide: Development and Food Security Sidelined', which appeared after the Los Cabos summit: www.oxfam.org/en/grow/pressroom/pressrelease/2012-06-19/g20-fails-1-billion-hungry-people-worldwide.
10. The first one was held in September 2011.
11. Clinton said 'In the context of a strong accord in which all major economies stand behind meaningful mitigation actions and provide full transparency as to their implementation, the United States is prepared to work with other countries toward a goal of jointly mobilizing $100 billion a year by 2020 to address the climate change needs of developing countries. We expect this funding will come from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources of finance': www.state.gov/secretary/rm/2009a/12/133734.htm. See preamble to section 5 and para 69, COP18, at http://unfcccint/resource/docs/2012/cop18/eng/08a01.pdf

12. Paragraph 86 of the St Petersburg Leaders' Declaration: 'We commit to participate actively in this process and engage in the discussion on the direction of the new framework and its key principles and ideas and effectively contribute to the timely conclusion of the process.'
13. Jan Vandemoortele, www.dhf.uu.se/wordpress/wp-content/uploads/2013/09/dd-paper_no2.pdf.

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The G20 and its outreach: new measures of accountability, legitimacy and success

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Introduction

The world economy is changing rapidly. In August 2013, the International Monetary Fund (IMF) reported that for the first time in recorded history, the combined gross domestic product of emerging and developing markets, adjusted for purchasing price parity, has eclipsed the combined measure of advanced economies.[2] The global economy is still fragile. The rise of China and the BRICS nations (Brazil, Russia, India, China and South Africa) is leading international relations scholars to debate whether a new international order is emerging.

The effectiveness/efficiency claims of the G20 have been built on the idea of a small, compact and self-selected membership which can move relatively quickly to make decisions. However, the legitimacy of a global governance actor usually rests on broad claims of representation, or a universal mandate (an example is the United Nations). The solution for the G20 is to keep its current membership, but improve its outreach to a greater number and wider array of state, private sector and civil society actors, and increase accountability measures at the leader level.

The G20 leaders' summit is a new entity in international relations, only five years old. The G20 itself can be seen as the product of outreach by the Group of 8, facing challenges to its own legitimacy during the global financial crisis. In the last five years the G20 has become an important new global governance actor, dealing with crises, and urging coordination to promote sustainable and balanced growth. But it has faced serious questions about whether or not it is an effective actor, accountable to its own agreements, or even a legitimate entity. This paper seeks to understand and make suggestions for the improvement of what is known as the 'outreach strategy' of the G20, and thereby expand our understanding of global governance processes in a time of seismic power shifts.

The aim of my wider research is to seek answers to the following questions:

- Can the G20 be judged as a global governance actor on how it manages its outreach activities? (Should outreach be a factor in how outsiders measure the success of a leaders' summit? What types of outreach has the G20 conducted since forming in 2008, noting its 'troika' format? What does previous outreach tell us about the notions of accountability and legitimacy in the G20? What are the current perceptions of G20 outreach by influential individuals outside the membership, and do these perceptions affect overall judgments of the G20 in terms of success, effectiveness, legitimacy or accountability?)
- Do the 'systematically significant' countries (or pivotal or middle powers) of the G20, such as Australia, Mexico, Turkey, Indonesia, Saudi Arabia, Canada and South Korea, have a strategic advantage when it comes to outreach in comparison to non-G20 countries, and citizens in G20 countries?
- What aspects of the outreach process are most difficult? Which issues on the G20 agenda are most difficult to communicate to non-members, and what are the risks/opportunities of reaching out on these issues? Does better outreach lead to fewer violent protests?

- What does the G20 as a case study tell us about global shifts from club diplomacy to network diplomacy?

Preliminary ideas

As the G20 operates on a 'troika' system where the immediate past host, present host and future host work together to ensure continuity, this poses challenges for consistent outreach. The G20 has evolved rapidly, and large sections of the agenda are led by central bank governors and finance officials (whom Anne-Marie Slaughter would call regulators)[3] rather than diplomats. The governance systems of each G20 member are diverse, with more diversity of views about democratic governance principles and the inclusion of civil society.

The G20's membership is contested – but its importance is not. The G20 economies provide over 84 per cent of the world's output, 80 per cent of global trade and two-thirds of the world's population. Serious strategic and coordinated attempts at outreach, even if minimalist in nature, are likely to have impact.

Now is the time to invest in outreach. The Russian presidency had a public outreach strategy,[4] which is now being evaluated. The Australian summit in Brisbane 2014 has the potential to be an excellent comparative case study. Only five years since the first leaders' meeting, the G20 is suffering a loss of confidence in its ability to successfully promote policy coordination between its members and achieve global economic stability and sustainable balanced growth; to design financial regulation that will prevent the next crisis; and to progress financial architecture reform.

The organisation is constantly being analysed as a global governance actor in terms of effectiveness and legitimacy. Kharas and Lombardi speak of the G20 as a whole having made 'mixed' and 'uneven' progress, as do other well-placed commentators.[5] Hugo Dobson identifies three key criticisms of the G8 which are now being levelled at the G20: low legitimacy, overlap with the work of other actors, and questionable effectiveness and value for money in terms of progress on its own agenda.[6] Ian Bremmer writes of a 'G-Zero world' without clear leadership.[7]

Some see the G20 as 'a lever for progress' on many issues facing global leaders, because the correct actors are at the table to break these deadlocks.[8] In this sense, at this historical juncture, the G20 can be seen as a critical platform for the future of global governance, as a forum with deliberately shared membership between emerging and dominant powers which is nimble enough to move quickly.[9] This is not to dismiss the serious legitimacy issues the G20 has regarding membership and outreach,[10] but to see them as intimately linked. The advantages of nimbleness must be clear and well communicated.

Serious analysis of the G20 outreach program – to member countries, to non-G20 countries, to citizens of the G20 members and beyond – is timely and important. The aim of my wider research is to create a methodology to evaluate summits across time and troikas, called the G20 Outreach Index.

This paper identifies the following examples of outreach, using a diplomacy framework.

Figure 1: The G20 Outreach index

First track and 1.5 track diplomacy
(between state officials)

- In-reach within current G20 architecture – building relations between the troika, finance stream, leaders stream, central bank governors ('troika diplomacy').
- Outreach to non-G20 countries, with a special focus on the Global Governance Group (3G) led by Singapore, as well as critics such as Norway.
- Outreach to international organisations, including the United Nations, multilateral development banks and regional actors such as the African Union and Asia–Pacific actors (ASEAN, APEC).

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Track two diplomacy
(conducted by non-state actors, outcomes communicated to state officials)

- Outreach to organised civil society, domestic and international
  - The formal outreach activities pre-Summit – Business (B20), Think20, Labor20, Youth20, Girls20, Civil20
  - Government consultations with stakeholders

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Public diplomacy
(from state officials directly to citizens in foreign countries)

- Outreach to general public through international and national and non-traditional media, including gender and demographic analysis
  - G20 citizenry
  - Non-G20 citizenry
  - Protest movements

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Controversies

Relationship with civil society

Assessment of the relationship of organised and unorganised civil society to the G20's processes and decisions has not been attempted before in a systematic manner. Business and labour groups have been seen as policy stakeholders and implementing partners of the G20 to varying degrees, but international NGOs have not had the same level of access, and local civil society actors have generally been ignored. Brisbane will be an excellent opportunity to assess how easy it is for civil society actors to access and participate in G20 processes and discover G20 priorities and outcomes relevant to their lives. Civil society actors are often trusted by citizens as interlocutors, and could be excellent outreach partners, as they have been for the UN around the Millennium Development Goals, for example. Civil society often takes a monitoring role, which improves the accountability of global actors to the citizens they affect.

The role of civil society in modern diplomacy is an emerging area of research, and there is extensive literature about the UN as a comparator. The G20 is not the UN, and its outreach strategy must be fit for its purposes, but it can learn from the experience of other international actors like the World Bank about dealing with civil society as a partner.

Accountability

Analysis of outreach entails a systematic examination of the G20's multiple accountabilities, and the link between accountabilities, questions of legitimacy, and measures of success. David Skilling has argued that '[t]he fundamental problem is that trading off inclusiveness for effectiveness only works if the G20 is in fact effective'.[11]

Accountability to the current G20 agenda/promises may be important, as Skilling suggests. Accountability in other senses to the citizens of G20 countries, including women; to non-G20 countries; to regional actors; and to the world's poorest people may be just as important. G20 outreach to least-developed countries (LDCs) and transnational civil society could improve perceptions of the G20 as well as add a counterpoint to current 'failure' narratives about the forum.

The G20 does not communicate well to external actors outside limited economic and finance circles, even when it has significant achievements to communicate. For example, the G20 made progress this year in dealing with corporate tax evasion, but failed to make explicit to developing countries or citizens of G20 countries how the new agenda might benefit them. The leaders' summit focused on Syria and the communiqué failed to hold the attention of the international media. The London summit mobilised huge resources to combat the global financial crisis, but most ordinary citizens will only associate the meeting with violent protest.

Time to hypothesise and test

Scholars should be systematically examining G20 outreach, and building hypotheses about the impact of improved strategies on the effectiveness and responsiveness of a new global governance actor. The quality and substance of the outreach of each host/troika combination has not yet been analysed in a rigorous manner, in order to design effective strategies. Note that outreach strategies will be different when the G20 is operating in crisis mode as opposed to steering committee mode.

The most successful outreach may be that which is directed at social media, and which combines public diplomacy messages about the host nation with an emphasis on the G20's comparative advantage as a forum in which political leadership can deal with the human consequences of globalisation. As yet, we have no agreed way to test such a hypothesis. Some relevant questions:

- Most outreach activities have focused on nation branding by the host, rather than selling the G20 as an actor. Would investing in a troika outreach strategy improve the G20 brand, rather than having the host simply promoting their nation brand (or the BRICS)?
- Should foreign ministries assume responsibility for outreach, rather than finance officials? Does it matter which government department is responsible for outreach? Should foreign ministers be more involved?
- Should the G20 focus its invitations on regional representatives who may or may not be able to use the opportunity to the fullest? Alternatively, should it choose invitees based on economic importance or relevance to the chosen summit priorities?
- How much time, money and energy should leaders/Sherpas dedicate to public communication and interaction with the Think20, Business20, Civil20, and so on?

- How transparent should G20 meetings be? Should the G20 invest in one central website, hosted by the IMF, for example?

Recommendations

1. The current G20 troika (Russia, Australia, Turkey) should produce a comprehensive outreach strategy, building on the current Russian outreach strategy, to consolidate messages and target engagement around priority issues for Brisbane (for example, the Alliance of Small Island States (AOSIS), the Pacific Islands Forum (PIF) and the Small Island Developing States (SIDS) on climate change, LDCs on corporate tax evasion). This strategy should have a sophisticated e-diplomacy component and focus on leaders. It should be led by foreign ministries. Strategies should be evaluated by external bodies and an Outreach Index created.
2. G20 countries should invest in their citizens' participation in second track processes such as Think20, Business20, Civil20, Youth20, Labor20, Girls20, and consolidate the status of these groups in policy development, but also task them with dissemination of summit outcomes and general outreach about what the G20 is and does.
3. The G20 should have different outreach strategies for when it is operating in crisis mode to when it is in steering committee mode. When in steering committee mode, the troika should communicate agenda priorities earlier, and with more impact. The troika should use public diplomacy strategies, especially around those issues with wider public appeal and less technical detail, such as the development agenda, jobs and employment, corporate tax evasion and financial stability. In crisis mode, the G20 should focus on messages about how and why it is handling the crisis (for example, Syria discussions in St Petersburg).

Conclusion

It is important to analyse the G20 through a political and diplomatic lens as a global governance actor, as a complement to the technical focus on the G20 agenda which dominates most policy papers. As Ramesh Thakur has noted in relation to the UN, the G20 could be both a site of global governance and an actor in its own right.[12] Outreach by the G20 about its achievements, ability to manage crises and sell its 'coordinated growth' message to various segments of influence may be critical to the G20's ability to survive and thrive as the 'premier forum of international economic cooperation'.

Notes

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3. Anne-Marie Slaughter, *A New World Order* (Princeton: Princeton University Press, 2004), 1.
4. 'Outreach Strategy of the Russian Presidency,' G20 St Petersburg summit web page, 2012, www.g20.org/docs/g20_russia/outreach_strategy.html.
5. Homi Kharas and Domenico Lombardi, 'The Group of Twenty: Origins, Prospects and Challenges for Global Governance,' August 2012, www.brookings.edu/research/papers/2012/08/g20-global-governance-kharas-lombardi, 1.
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7. Ian Bremmer, *Every Nation For Itself: Winners and Losers in a G-Zero World* (New York: Portfolio Penguin Group, 2012).
8. Barry Carin and David Shorr, 'The G20 as a Lever for Progress,' CIGI G20 Papers, No. 7, February 2013.

9. Andrew F. Cooper and Ramesh Thakur, *The Group of Twenty (G20)* (London and New York: Routledge Global Institutions Series, Routledge, 2013).
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11. David Skilling, 'The G20: A Small Advanced Economy Perspective,' *G20 Monitor No. 1*, Lowy Institute for International Policy, 17 December 2012.
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The G20, climate financing and the UNFCCC COP21 meeting in Paris

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> Warming of the climate system is unequivocal, and since the 1950s, many of the observed changes are unprecedented over decades to millennia. The atmosphere and ocean have warmed, the amounts of snow and ice have diminished, sea level has risen, and the concentrations of greenhouse gases have increased.[2]

The above statement, taken from the introduction to the IPCC Fifth Assessment Report (AR5) summary for policymakers, highlights the challenge that the international community faces in arresting the detrimental effects of global climate change. However, even though the degree of confidence that the IPCC has expressed in its predictions has only increased with each assessment report, international negotiations on climate change have, relative to the scale of the problem, languished. Nevertheless, there has been a clear recognition within the G20 that climate change cannot be left off the agenda of a leaders' summit – it has been referenced at every G20 summit since leaders first assembled in Washington in 2008. Yet despite the fact that the biggest greenhouse gas emitters are all members of the forum, the G20 has done lamentably little to actually break the climate change stalemate beyond offering platitudinous statements within its communiqués, and commissioning reports which are forgotten with all the predictability of a sunset. Hence, if the G20 is to retain (or even obtain) credibility on climate change, and thus as a global governance forum, it must find a way to make a pragmatic and tangible contribution on this issue.

This paper presents two pragmatic suggestions for G20 leaders to pursue in dealing with climate change in 2014. Firstly, leaders should simply commit to turn up to the 2015 United Nations Framework Convention on Climate Change 21st Conference of Parties (UNFCCC COP21) negotiations in Paris. This would be a simple but symbolic commitment that would help to build momentum around the COP21 meeting. It would also be an important signal to non-G20 members that the G20 is not seeking to pre-empt the COP21 negotiations, or supersede the UNFCCC process.

Of course, there is not much point in promising to attend COP21 unless the leaders have something to add to the convention. Hence, leaders should also begin a serious conversation in 2014 about how best to mobilise the billions of dollars of investment funding that is needed for climate change mitigation and adaptation.[3] Climate change financing was a prominent issue at Copenhagen; it was the subject of a 2010 report from the UN Secretary-General's High-level Advisory Group on Climate Change Financing, and the G20 released a study on potential sources of funding in 2011.[4] Ideally, a plan on how best to generate the requisite funding for a global 'direct action' climate change financing scheme would be reached by the time of the Paris negotiations, but even if the G20 were simply able to 'get the ball rolling' and build some real momentum in clarifying how the money would be raised and spent, this would be more valuable than any commitment to an arbitrary deadline or amount of funding.

The remainder of this paper briefly explains why the two ideas put forward are particularly well suited to the G20's modus operandi, and how the Australian government could best contribute to their realisation as the 2014 Chair of the G20.

G20 leaders and climate change

Absent of a renewed global treaty on reducing greenhouse gas emissions, political leaders have a clear temptation to free ride on the long-term mitigation efforts of other countries, so as to avoid the short-term domestic political and economic costs of tackling climate change in their own backyard.[5] This incentive to free ride has a notable salience for leaders in emerging economies, who naturally object to mitigation requirements that would impede their development – not least because emission-intensive industrialisation played such a major role in the economic development of wealthier countries.[6]

Unfortunately, the free-rider dilemma is precisely why climate change has been depicted as 'a diabolical policy problem' at both the domestic and global level,[7] because nothing less than cooperation from the entire international community – both developing and developed – will do if we are to avoid an increase in average global temperature of more than 2 degrees Celsius by the end of this century.[8] Resolving the global impasse on climate change thus requires an appreciation of, and an ability to navigate through, differing conceptions of what constitutes economic, environmental and generational equity, as well as the unique political circumstances that leaders face within major greenhouse gas emitting countries.

Few individual agents are better equipped, or in a more influential position to address this impasse, than the leaders of the G20 countries. G20 leaders have, for the most part, obtained their position because of their ability to mobilise, effectively negotiate with, and gain the support of multiple social groupings within their domestic polity. Accordingly, if the G20 is to retain any relevance in this area, key G20 leaders must apply their strengths in coalition building to tackle climate change. Although it is now a fairly clichéd reference point when discussing the potential of the G20, it is a fact that the London G20 summit in 2009 demonstrated the kind of political breakthrough that is unique to the remit of leaders: the London summit saw Gordon Brown reject a proposal from lower-level officials to double IMF resources on the grounds it was too weak, after which he assembled a leader-only meeting (with no aides) that resulted in a significantly larger boost to IMF funding than had been proposed by officials.[9]

By beginning a meaningful discussion on climate change in 2014, and committing to continue that discussion up to (and beyond) COP21 in Paris, G20 leaders can help to reframe the trajectory of climate change negotiation in a way that incorporates the realities of domestic and international politics. Ideally, such a shift would also build momentum around the UNFCCC negotiations in 2015.

Moving forward on climate financing

Another area in which G20 leaders can make a contribution is in advancing the debate on climate change financing. That so many high-level studies on this topic have been commissioned, with so little tangible action, highlights the deficit of political guidance that this debate has received from leaders. All the same, it is neither realistic nor desirable that the 2014 chair should seek to conclude an agreement on mobilising climate finance at Brisbane, as it is unlikely major emerging economy emitters (such as India or China) will deign to resolve this issue outside of the UNFCCC. Nevertheless, G20 leaders, with guidance from the Australian presidency, can and should assist the UNFCCC by starting a politically pragmatic discussion about two questions that have proven to be major stumbling blocks in discussions about climate change financing: namely, 'Where will the money come from?' and 'Where will the money be spent?'

As indicated earlier, a range of ideas have been put forward as to how to best fund climate change financing. These include carbon taxes, financial transaction taxes (such as the 'Robin Hood tax'), levies on aviation and bunker fuel, the redirection of fossil fuel subsidies,[10] a reallocation of the IMF's Special Drawing Rights (SDR),[11] and emissions trading schemes. Provoking a serious conversation about which option (or blend of options) is the most feasible and appropriate is a task that is well suited to the coalition-building capacity of political leaders.

As Barry Carin has noted elsewhere, one possible way of addressing the historical difficulty of getting leaders to seriously discuss where the money will come from might lie in first discussing where it should be spent.[12] Despite understandable concerns from emerging economies about the equity of climate change burden sharing, the post-crisis fiscal situation of many G20 countries has meant funding mitigation and adaptation activities in foreign jurisdictions is, domestically, a tough political sell. Yet it is possible that G20 leaders could advance the debate on climate change financing by discussing and assessing the merits of domestic ‘direct action’ mitigation programs, calibrated to meet a set percentage decrease in greenhouse gas emissions. Such an approach should not preclude any discussion about overseas climate financing, but by starting with an exchange of perspectives on domestic climate change financing, G20 leaders could help to lay the groundwork for a future agreement on financing domestic and overseas projects. Given that the recently elected Australian government has expressed an interest in pursuing a domestic ‘direct action’ plan (focused on a 5 per cent reduction in carbon emissions by 2020, based on 2000 levels), there is a strong domestic and international incentive for the Australian Prime Minister to kick-start a conversation on how the major emitting economies that make up the G20 could better pursue their respective policies.

To conclude, the G20 can and should bring its own institutional comparative advantage to bear on the issue of climate change, namely, that it is led by the primary political figures (leaders) from twenty major economies and emitters. If the G20 were able to launch a pragmatic discussion on the two suggestions made in this paper in 2014, this would be good for the forum and good for the world. For although the UNFCCC rightly has primacy in coordinating the global response to reducing greenhouse gas emissions,[13] if the relatively limited membership of the G20 is unable to at least instigate a meaningful conversation on climate change, then negotiations at COP21 in Paris – where there will be an additional 170 countries in the room – may not be much more productive. G20 leaders have the potential capacity to bust deadlocks that their lower-level officials and ministers do not, and few global issues require this kind of breakthrough from leaders more than climate change.

Notes

1. Research Associate, G20 Studies Centre, Lowy Institute for International Policy.
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Advancing accountability for development and growth

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G20 Research Group

Introduction

Global development has been a core, continuing part of G20 summits since their start. Their development agenda is primarily how the G20 shows it is an outward-looking group serving the broader global community and pursuing its distinctive foundational mission of making globalisation work for all. Yet despite impressive partial gains in global development, there remains much to do if the Millennium Development Goals (MDGs) are to be met by 2015, and to shape the post-2015 MDGs.

In shaping an actionable initiative on development for the 2014 Brisbane summit, three pillars provide the base.

1. Development is a central component of the G20's focus on finance, economics and growth and should thus be fully integrated and coordinated, not addressed as an afterthought on a separate track.
2. The imminent arrival of the 2015 deadline for the MDGs provides an immediate need and audience for Brisbane

development initiatives which support this key priority of the universal United Nations system and global community in today's intensely interconnected world.

3. With a still struggling global economic recovery and ongoing fiscal consolidation in many G20 members, the priority is for affordable initiatives that work for both development and growth, starting with accountability assessments for integrated impact, done by G20 governments and experts outside.

This can be done by, first, returning development to the Framework for Strong, Sustainable and Balanced Growth and its Mutual Assessment Process (MAP) and, second, improving experts' accountability assessments to identify which G20 summit commitments, when implemented, most impact and improve both development and growth.

Returning development to the Framework and MAP

Proposal

Return development as a key component of the Framework and MAP, to identify the impacts of development on growth, and vice versa, and how coordinated initiatives could simultaneously enhance each goal.

Problem

When the G20 summit's attention turned to long-term growth in September 2009, it instituted the Framework and MAP as the core of the G20's work.[2] It specified five components, with development as one. This was done at the two subsequent summits, but then development was dropped. The separate Seoul Development Consensus (SDC) and Development Working Group (DWG) created in 2010 have operated as separate, subsequent add-ons, reporting through Sherpas rather than Finance Ministers. Few regarded this as the best way for the G20 to contribute distinctively to global development. Under the Framework the G20 has initiated a steadily improving accountability process, now extended to microeconomic issues such as structural reform. But development and the DWG's implementation assessments remain apart. This hurts at a time when many G20 members have subdued or declining growth rates, and when many developing countries are becoming new sources of global growth. Development should thus be returned to the Framework and its accountability process, to create an integrated G20 growth-development assessment, strategy and narrative.

Possibility

Analytically, there is a consensus that growth and development are closely connected in central ways. Politically, the G20 summit has already prioritised the need for new sources of growth, has always supported the MDGs and has now taken up the task of shaping the post-2015 MDGs. With some advanced G20 members now reducing their previously projected levels of official development assistance, G20 members must consider alternative approaches to development – as highlighted by the leader-approved SDC itself. Much support for such integration arises within and beyond the G20, where for poor people and poor countries, development and growth are a single thing. The G20 should now return to such an integrated approach.

Product

Development would be returned to the Framework and MAP as one of the five pillars and integrated in the mix, to help inform a new G20 growth strategy and narrative. The Framework's accountability process would include development, with a focus on how development and growth affect each other, and how specific sorts of development can be new sources of growth. The DWG, through appropriate interaction, would contribute to the G20's overall accountability on development. The results would be reported at the Brisbane summit in a more robust way than at St Petersburg.

Process

For a fast start, G20 Sherpas, Finance Deputies and Ministers and Framework Working Group officials could return development to the

Framework–MAP and accountability work as the Australian year as host begins. At Brisbane, leaders would review and endorse the process and results, and identify how to enhance it, including support for the post-2015 MDGs.

Assessing accountability for impacts on development and growth

Proposal

An independent report on 'Accountability Assessment for Impacts on Development and Growth', to extend existing efforts and improve the G20's effectiveness in securing development and growth.

Problem

Existing efforts to assess implementation of G20 summit commitments still fall short in several ways.[3] The G20's own dominant approach of asking specific international organisations for assessments on selected issues leaves many issues uncovered, and produces varying methodologies and reporting procedures. The G20's self-produced assessment for development in 2013 does not highlight country-specific, time-specific information and induces scepticism about the high grades the G20 gives itself.[4] Independent academic assessments tend to focus on governments implementing action from the time the commitment was made to the next summit, or for a single and variable period in the past. They do not focus systematically on the impact of implementation in achieving the desired results in the areas under scrutiny, or those beyond. Publics thus still wonder about the G20's effectiveness, coherence, transparency and legitimacy. G20 leaders do not reliably or rapidly know if their personal, public summit commitments are being kept, and those responsible for doing so do not have important feedback to help them do a better job.

Possibility

Analytically, academics have recently produced assessments of G20 commitments, including two focused on development that together prove the possibility of assessing implementation impacts on development, and on related goals such as employment, after a subsequent summit and from processes within member governments.[5] Other studies of groups similar to the G20 have made suggestions on how to craft commitments to raise or lower the compliance that eventuates.[6]

Politically, there is a growing demand from G20 governors for improved accountability assessments, including those done independently by experts with no stake (as public policy advocates) in the results. British Prime Minister David Cameron publicly praised such an effort in his concluding remarks at the 2012 Los Cabos summit. At their first meeting to prepare the St Petersburg summit, G20 Sherpas spent two hours in discussions with the authors of two extended implementation studies. Looking ahead to Brisbane, the Australian preparatory team solicited advice from such analysts on how to improve accountability assessments. Some G20 leaders have expressed regret that the G20's ability to deliver on its decisions has been in decline, and have called for improved accountability assessments as well.

Product

To advance beyond the prevailing stunted silo approach to accountability assessment, the G20 should facilitate the production of an extended Accountability Assessment for Impacts on Development and Growth, with the following components:

1. The identification of all commitments from the St Petersburg summit, highlighting those the leaders themselves initiated, discussed and personally approved.
2. The ranking of these commitments, by social scientists and expert stakeholders, for likely development impact.
3. The implementation of these commitments, starting with the highest ranking ones.

4. The actual impact of this implementing behaviour, within the initial period until the next summit and beyond, on development and growth, and key connectors such as equity.[7]
5. The processes producing implementation, to identify improvements.

Process

An independent analytic would do this work, supported by the World Bank and International Monetary Fund. Participants, including those from developing countries, would meet periodically with the G20's own assessors to share and compare methods and data, best practices and the consensus about consequences and causes. An Accountability Conference, appropriately timed before Brisbane, could initiate this process, and publicly release the initial integrated impact assessment's results. At Brisbane, leaders would briefly discuss the process and report and agree on further steps.

Notes

1. Co-director, G20 Research Group; Munk School of Global Affairs, University of Toronto; Non-Resident Senior Fellow, Chongyang Institute for Financial Studies, Renmin University of China.
2. Zia Qureshi, 'The G20 and Growth and Development' (presentation at the G20 Partnership for Growth and Jobs, Pre-G20 summit Conference, Higher School of Economics, Moscow, 29 August 2013).
3. Mike Callaghan, *Playbook for the Brisbane G20 summit* (Sydney: G20 Studies Centre, Lowy Institute for International Affairs, 2013).
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Strong, sustainable, balanced and inclusive growth – a cornerstone of development

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Taking stock of the progress so far

The G20 leaders expressed their commitment to development assistance at their first summit in Washington, where they made four pledges. At the London summit the G20 reiterated its responsibility for the state of international development amid financial crisis. The leaders made nine commitments and not only confirmed the responsibility in reaching the Millennium Development Goals but also agreed to allocate a further US$850 billion to support developing countries through multilateral financial institutions. Assistance to developing countries remained a significant part of the G20 agenda in Pittsburgh and Toronto. A new initiative on financial assistance to small enterprises was launched. These two summits resulted in eight G20 commitments each. At the 2010 Seoul summit the leaders agreed to the Multi-Year Action Plan on Development (MYAP), containing commitments on nine principal pillars of official development assistance.

By 2013 the MYAP commitments approached the deadline, which highlighted the need to monitor their implementation and develop a new

G20 action plan on development. To that end, at the 2012 Los Cabos summit the leaders requested the Development Working Group to prepare a monitoring report. The report findings were expected to lay the foundation for elaboration of a new three-year plan. Despite the institutional approach to the G20 assessment adopted by the Development Working Group, which does not take into account G20 members' individual performance, the preparation and the publication of the *Saint Petersburg Accountability Report on G20 Development Commitments* has become an important step towards enhancing the G20 accountability, and ensuring higher transparency of its activities. The report presented only the results of the implementation of the Seoul summit decisions, omitting those of the previous leaders' meetings. However, it became a starting point for a new G20 strategy on development.

Where we are, and where we should aim to go

The *Saint Petersburg Development Outlook* emphasised the central place of strong, sustainable, balanced and inclusive growth in development assistance. Thus the development strategy should contribute to growth, focusing on eliminating obstacles and creating opportunities for growth in development countries. This is a new and a valid approach; however, the G20 actions fall short of the claim.

The G20 focused on five, instead of nine, priority areas: food security, financial inclusion, infrastructure, human resource development and domestic resource mobilisation, dropping the commitment to enhance the access and availability to trade with advanced economies and between developing and low income countries. Even though the compliance performance for this Seoul commitment had been low, given the role of trade in economic growth, the G20 members should have consolidated efforts to integrate developing and low-income countries into the trade flows. Hopefully the G20 can revisit the pledge to foster access and availability to trade for developing and low-income countries.

The *Saint Petersburg Development Outlook* commitments divide into nine 'new actions' and fourteen 'ongoing actions', and can be split into three groups: general objectives, specific policy measures and assessment actions. Less than half of the actions (eleven) represent specific policy measures, such as dissemination of best agricultural practices, measures to promote financial inclusion, or assistance on domestic resources mobilisation. Notably, all these actions are ongoing, that is, reiterated commitments from the 2010 Seoul summit. Seven commitments (six new and one ongoing) are very unambitious, being confined to monitoring, examining or exploring ways to address existing problems. Five actions are, in fact, general objectives which lack specific details and do not contain compliance indicators such as deadlines or reporting format. Therefore, these commitments do not contribute directly to addressing obstacles to growth in developing countries and to stimulating growth, even though some of them are technically easily assessable. To make a tangible contribution to development, the G20 ought to forge commitments which are more ambitious and forward-looking, explicitly contributing to strong, sustainable, balanced and inclusive growth.

As a new action on food security, the G20 committed to review 'critical opportunities for economic growth and job creation in connection with food security and nutrition focusing on LICs'.[2] Following upon the previous commitments, the G20 pledged to promote dissemination of best practices in agriculture and food production, such as network centres of excellence and knowledge-sharing platforms on food security and nutrition. It is also planned to continue monitoring of the previously proposed initiatives, including those on food reserves and access to humanitarian food supplies, the upholding of the Principles for Responsible Agricultural Investments, agricultural risk-management tools and scaling up of nutrition. Furthermore, the G20 expressed the commitment to fully implement the Agricultural Market Information System (AMIS) and to continue sharing knowledge through the Meetings of Agricultural Chief Scientists, including on agricultural research and technology. So far, so good. However, the G20 could obviously have built on its earlier commitments to boost agricultural growth with special attention to smallholders, especially women and young farmers, in particular in developing countries.

On financial inclusion, the G20 committed to explore the 'options to strengthen financial inclusion work in developing countries and targeted actions to harness emerging mechanisms such as electronic payments and mobile technology' in partnership with the Global Partnership for Financial Inclusion (GPFI).[3] The G20 also pledged to consider new mechanisms to reduce the costs of transferring remittances to developing countries. As ongoing actions, the G20 committed to continue the implementation of the G20 Financial Inclusion Action Plan and the G20 Peer Learning Program, and to working to reduce the global average costs of transferring remittances. Looking into the future and drawing on the accumulated experience and expertise, the G20 should consider making commitments on incorporating successful small and medium enterprise (SME) financing models into the national practices, as well as concrete commitments by its members on policy measures to stimulate financial inclusion, raise standards of consumer protection and increase levels of financial literacy.

On infrastructure development, the G20 committed to strengthen cooperation with the G20 Study Group on Financing for Investment, and to examine the implications for LICs arising from its work. The G20 also plans to assess the effectiveness of project preparation facilities (PPFs) in regions in addition to Africa in promoting long-term investment financing for infrastructure. In addition, the G20 pledged to continue to implement ongoing commitments under the MYAP action on an MDB (multi-level development bank) Infrastructure Action Plan. To move from assessments to actions, the G20 cooperation to stimulate long-term infrastructure investment planning and expand the G20 members' participation in implementing infrastructural projects in developing countries should be consolidated.

The G20 plans to cooperate with relevant international organisations in providing assistance to developing countries in assessing their skills development needs and in building national capacity in professional training; also to 'explore ways to develop South-South and Triangular cooperation programs involving G20 members, aimed at providing training and knowledge-sharing to developing country nationals'.[4] The ongoing action on human resource development is a planned monitoring of the MYAP commitments' implementation, including disseminating and promoting the use of the internationally comparable skills indicators database; implementing and assessing the effectiveness of the action plans on skills for employment and productivity; and promoting the use and ensuring the maintenance of the Global Knowledge Sharing Platform. The platform should become an instrument for engagement and learning, and its effectiveness to this end should be assessed and discussed with the stakeholders of the process.

Domestic resource mobilisation became the fifth issue area of the *Saint Petersburg Development Outlook*. In this regard, the G20 committed to work in partnership with the Global Forum on Transparency and Exchange of Information for Tax Purposes to identify and eliminate the obstacles to automatic exchange of information (AEOI) and reinforce support to revenue authorities in developing countries. The Outlook also contains the G20 commitment to review relevant work on base erosion and profit shifting in order to identify issues relevant to LICs. As an ongoing action the G20 took up the commitment to encourage more developing countries to join the Multilateral Convention on Mutual Administrative Assistance. The leaders also called upon the Global Forum on Transparency and Exchange of Information for Tax Purposes to engage more closely with developing countries in order to prepare for their peer reviews and provide them with required technical assistance. Further action is required to strengthen tax systems and the capacity for tax collection in the developing countries, with the aim of building a sustainable revenue base. The G20 should implement their intention to assist developing countries in capacity building in the area of tax administration.

Despite some limitations, *the Saint Petersburg Development Outlook* commitments, to a varying degree, contribute to the goals of strong, sustainable and balanced growth. Specifically, the commitments on financial inclusion and human resource development are aimed, inter alia, at enhancing the quality of human capital, which results in a more balanced model of economic growth. Similarly, the measures in the sphere of food security – particularly those aimed at job creation in agriculture and food production – boost economic productivity and stimulate growth.

The emphasis on strong, sustainable and balanced growth in addressing issues of international development is a strong point of the *Saint Petersburg Development Outlook*. It is in line with the G20 mission and reflects the international community's understanding of the centrality of inclusive economic growth in achieving the UN's Millennium Development Goals.[5] The actions agreed on, and their implementation and monitoring, can form the foundation for more effective actions in the future. Based on the results of the consultations, reviews and studies launched by the *Saint Petersburg Development Outlook*, under future presidencies the G20 should be able to make commitments which will directly and tangibly contribute to inclusive growth as a cornerstone of development. The G20 should also ensure that decision-making on the G20 core policies includes an assessment of their impact on development.

Notes

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The development agenda for the Brisbane G20 Summit

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Although the G20 has made general statements on aid and development issues since its inception at the ministerial level in 1999, it was not until the 2009 Pittsburgh summit that it made a link between development and its core mission of strong, sustainable, and balanced growth (SSBG) through international cooperation. Promoting development would not only contribute to SSBG by creating new sources of demand and facilitating global rebalancing, but it would also help to enhance the G20's legitimacy – the G20 might represent 85 per cent of global GDP, but it had to find ways to address the concerns of the 150 countries and 2 billion people not represented. Building on this rationale, Korea in 2010 proposed a new development agenda 'complementary to and differentiated from' the Washington Consensus and the Millennium Development Goals (MDGs). Korea pushed for a 'beyond aid' development agenda focused on growth and resilience, the G20 Seoul Development Consensus for Shared Growth.

The G20 Seoul Development Consensus focuses on nine 'pillars' essential to strong, resilient and inclusive growth. The first four pillars deal with enhancing growth potentials (infrastructure, human resource development, trade, and private investment and job creation); the next four deal with managing risks and building resilience (financial inclusion, growth with resilience, food security and domestic resource mobilisation); and the ninth and final pillar – knowledge sharing – seeks to provide an effective interactive platform for developing countries and support the other pillars through mainstreaming.[2] Green growth, the tenth pillar added by Mexico in 2012, emphasises environmentally sustainable economic growth. These pillars constitute a comprehensive set of essential ingredients for development – wider in scope than the Washington Consensus policy package of liberalisation, privatisation and stabilisation, and more dynamic than the MDGs, which are concerned primarily with poverty reduction and basic human development.

Since the 2010 Seoul summit, each subsequent G20 Chair tended to choose its priority pillars (for example, infrastructure and food security for France in 2011) with a view toward achieving tangible deliverables. Most recently, at the 2013 Petersburg summit, the G20 agreed to focus on five priority areas: food security, financial inclusion and remittances, infrastructure, human resource development, and domestic resource mobilisation. However, this is not a serious problem in itself, as the G20's multi-year action plan on development, with Development Working Group (DWG) meetings and co-facilitators for each of the pillars, helps to ensure continuity and implementation. The implementation mechanism could be improved, for example by linking the Sherpa-driven DWG process with the ministerial process, but the Chair's tendency to focus on a few of the development pillars is not without benefits in terms of deliverables.

The real problem with the performance of the G20 on the development front is the lack of resource commitments. This is in addition to the lack of policy action and coordination that the G20 has regarding other issues, which leads it to task international organisations with conducting research and coming up with policy recommendations on various topics (for example, climate finance in 2011), without there being substantive follow-up action. In other words, the G20 development agenda suffers from both resource commitment and collective action problems. For instance, in 2010 it was argued that 'beyond aid' agenda items such as infrastructure investment and trade facilitation, implemented through concrete agreements on, say, trade-promoting infrastructure projects in Africa, would greatly strengthen the G20's credibility in growth and development issues. However, many G20 members were reluctant to make any resource commitments, given their fiscal situation.

In fact, in areas such as infrastructure, the G20's reluctance to make resource commitments tended to skew policy discussions in a particular direction. Given the private sector's focus on the short term and concern about expropriation and other political and regulatory risks (and hence their demand for a high-risk premium), and developing countries' reluctance to rely on high-cost short-term financing for infrastructure, it does not seem to make much sense to emphasise public–private partnership (PPPs) so much. While pension funds could make longer term commitments than ordinary private investors, their concern about political and regulatory risks may be no less significant. In these circumstances, it may be useful to strengthen the financial and technical role of the multilateral development banks (MDBs), for they could not only raise capital more cheaply but also negotiate more effectively with country governments than could private investors. This would lower perceived risks and infrastructure financing costs. However, if the G20 members are reluctant to make resource commitments to strengthen the role of the MDBs, this option will be closed off, and G20 discussions on infrastructure would instead focus on the role of private investors and domestic policy reform in developing countries.

If the G20 cannot make resource commitments on the development front, it should focus on using its role as a minilateral forum at the leadership level, to address collective action problems and strengthen the link between development and SSBG.[3] The international development landscape today is characterised by 'hypercollective action'. A wide range of actors, platforms and processes is involved, and issues and initiatives cut across institutional and policy communities, while the steering function is underprovided. It is essential to link up the various platforms and processes so that they constitute a coherent, effective global effort that works to eliminate poverty and advance sustainable development. G20 leadership can bring impetus and coordination to this polycentric international development system at a time of transformative change in the global economy.

There are three major UN processes underway: on development strategies beyond the Millennium Development Goals (MDGs) for 2015; on sustainable development goals (SDGs), which are to be coherent and integrated with the post-2015 development strategies; and the UNFCCC process to produce a new Global Framework Agreement on climate change from 2020. They each culminate at the end of 2015. Achieving inspiring, coherent outcomes in 2015 will be a test of global leadership. These processes are all interrelated, but they are dealt with largely by separate policy communities at the national and global levels. The G20 can assist upstream in shaping coherent, convergent outcomes. An important contribution by the G20 would be to ensure well-coordinated across-government preparation processes in G20 capitals and, through a G20 2015 Strategic Convergence Group, maintain an overview of the key political issues which cut across and connect up these agendas and processes, in close cooperation with the UN.

At the country level, the polycentric development cooperation effort brings together diverse ideas and strengths, but agency failures and dysfunctional incentives undermine national capacities and public policy processes. Important progress has been made, with developing countries strengthening their public policy and management systems and taking a leading role in the aid policy and practice discussions at regional and international levels.

The Global Partnership on Effective Development Cooperation established after the Busan High-Level Forum at the end of 2011 should work to speed up collective action on these issues. Under ministerial leadership from Indonesia, Nigeria and the United Kingdom, this global partnership has created a new political space for the whole range of development actors, public and private. With its cross-government and cross-system overview, and in conjunction with the UNDP and the OECD support teams, the G20 can strengthen the connection between global and local efforts to increase the effectiveness of development cooperation.

Emerging countries in the G20 could bring to bear their experiences in managing their own development processes and in fostering the domestic intellectual and analytical capacities needed to help leaders as they shape and articulate national strategies and reforms. For instance, they could present a progress report on country-level development cooperation models, supported by country case studies prepared by local think tanks on the performance and problems of the development cooperation effort in these countries (including at least one fragile state). This report could articulate the findings in such a way that they can be used by G20 leaders in shaping their policies on development cooperation, in order to promote further cooperation among G20 countries and others to build up developing countries' core capacities.

To achieve economic transformation in developing countries, financial integrity is paramount, as the history of resource-rich countries shows, with its close connection with elite incentives. A holistic approach to financial integrity is required, bringing together action across the global financial and fiscal systems to eliminate illicit flows and increase financial transparency, fostering capacity development that will strengthen the institutions and resources needed to effectively manage national wealth for sustainable development. The G20 is uniquely placed to help pull together these political and operational elements, taking further its work to date on corruption and tax avoidance. Financial integrity in terms of the quality of the regulatory environment and investment decision-making is equally critical for generating long-term financing of infrastructure, urbanisation, rural development and climate change response.

As these capacities strengthen, both domestic revenues and foreign finance will grow rapidly as a development story takes hold. Mainstreaming development and strengthening the link between development and SSBG, the G20 should elaborate a vision of development finance built around this holistic concept of financial integrity.

Notes

1. Director and Vice President, Department of Competition Policy, Korea Development Institute.
2. L. Alan Winters, Wonhyuk Lim, Lucia Hanmer, and Sidney Augustin, 2010, ‘Economic Growth in Low Income Countries: How the G20 Can Help to Raise and Sustain It,’ KDI Working Paper 2010-01.
3. Wonhyuk Lim, Richard Carey, and Michael Clark, 2013, ‘Connecting up Platforms and Processes for Global Development,’ Paper Commissioned by the ROK Ministry of Foreign Affairs.

Appendix A

Participants in the December 11 Think20 meeting

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Think20 Papers

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Appendix A

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About the G20 Studies Centre

The G20 Studies Centre seeks to strengthen the effectiveness of the G20. A particular focus is contributing to Australia's role as G20 chair in 2014. It does so through undertaking independent analytical research and supporting research networks, both in Australia and overseas, on global economic governance issues and the role of the G20. The Australian Government provided funding to the Lowy Institute to establish the G20 Studies Centre in late 2012.

About the editors

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Mike Callaghan is the Director of the G20 Studies Centre at the Lowy Institute and Editor of the G20 Monitor. Prior to taking up this position, Mike was Executive Director, International, in the Australian Treasury and Australia's G20 Finance Deputy. He was also the Prime Minister's Special Envoy on the International Economy. From 2005 to 2007, Mike was Executive Director, Revenue Group in the Australian Treasury. In 2006 he was appointed by the IMF Managing Director and the President of the World Bank to an eminent persons group to report on improving cooperation between the World Bank and the IMF. From 2000 to 2004 Mike was Executive Director at the International Monetary Fund, Washington, DC. Mike has served as Chief of Staff to the Australian Treasurer, the Hon. Peter Costello. He has economic and law degrees from the Australian National University and is a graduate of the Royal College of Defence Studies, London.

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On 1 December 2013, Australia began its twelve-month presidency of the G20, a role that will culminate with the chairing of the Brisbane G20 summit, 15-16 November 2014. The 'Think20' is a network of think tanks and academics from G20 countries that are working to provide an important analytical input into the G20 process. The first Think20 meeting was held under the Mexican G20 presidency in 2012, the second under the Russian G20 presidency in 2013. With support from the Australian government, the first Think20 meeting under Australia's G20 presidency will take place on 11 December 2013. Participants in the December meeting have authored a paper on one (or more) of the following four themes, that make up this collection:

- the G20 economic/finance process
- trade liberalisation
- financing for investment/infrastructure
- development.

Each author was asked to identify, in their chosen area, specific actions and achievable outcomes that the G20 should pursue in 2014. A discussion on these policy recommendations will take place at the 11 December Think20 meeting, the outcome of which will be submitted to G20 Sherpas. It is hoped that Think20 participants will maintain an on-going dialogue on the issues contained within this book throughout 2014 and beyond.

G20 STUDIES CENTRE

T20 AUSTRALIA 2014

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