The G20 and Growth and Development

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Thank you for the kind invitation to this conference. I have been asked to speak on the topic of the G20 and growth and development. I welcome the opportunity to speak on this topic, as it is important and timely.

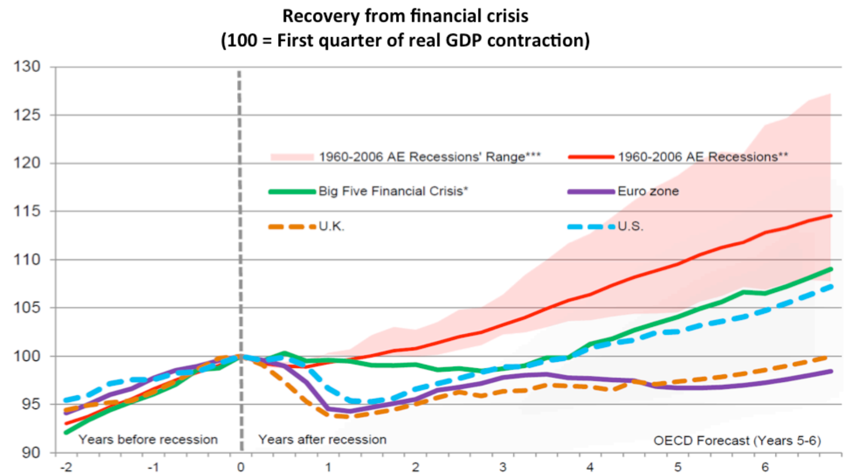
From crisis management to promotion of growth and development

- Much of G20's attention to date has been focused on crisis management and recovery
- But economic stabilization alone will not restore strong and sustained growth—as global growth faces deeper structural challenges
- Going forward, more attention needs to be devoted to structural reforms and supportive investments that address fundamental weaknesses, facilitate necessary structural change, boost productivity, and open new sources of growth
- Successfully addressing this agenda will be an important test of G20's ability to act as a premier global economic forum not just for crisis response but for the promotion of longer-term growth and development

The G20 summitry was born in a crisis setting in 2008—in the thick of the global financial crisis. Much of the G20's agenda since then has been focused on response to that crisis—on short-term crisis management and recovery. In the aftermath of a major crisis, economic stabilization of course is the first order of business. And the G20 has done reasonably well in that respect. But economic stabilization alone will not restore strong and sustained growth, as global growth faces deeper structural challenges.

Going forward, more attention needs to be paid to structural reforms and supportive investments that address fundamental weaknesses, facilitate the necessary structural change, improve labor utilization and boost productivity, enhance competitiveness, and open new sources of growth. Successfully addressing this agenda will be an important test of G20's ability to act as a premier global economic forum, not just for crisis response but for the promotion of longer-term growth and development. The G20 may currently be at an inflection point in making this transition—from crisis response and recovery to addressing a longer-term economic agenda.

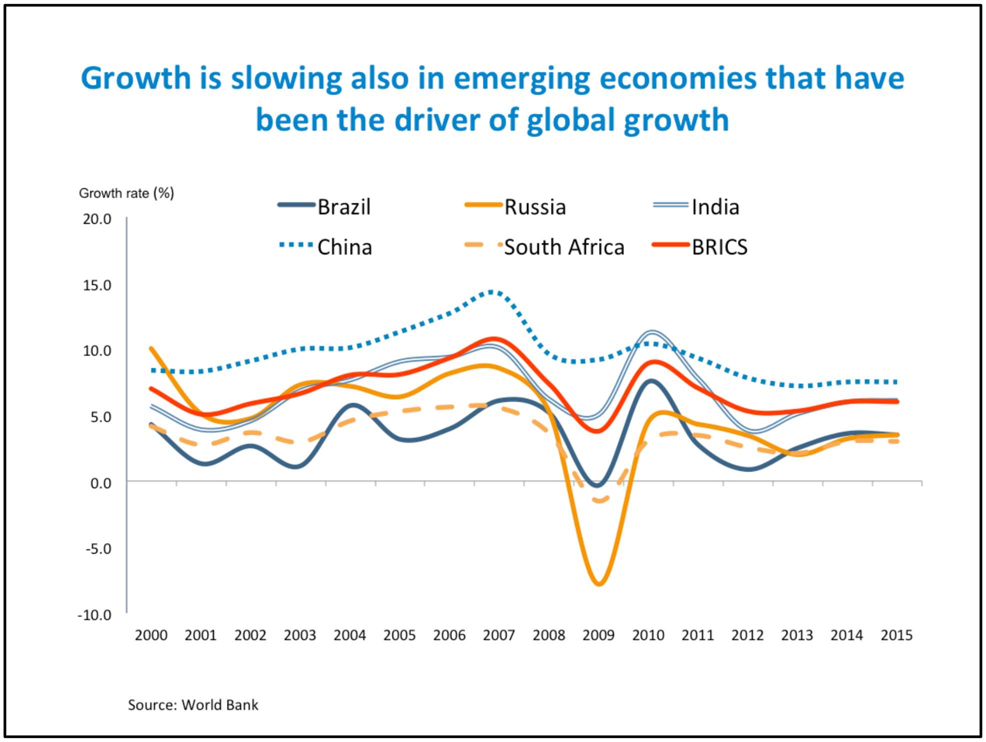
Recovery in advanced economies is weak—even by the standards of past crises



Source: OECD, Haver Analytics, Rogoff and Reinhart (2008), and staff calculations.
* Big Five financial crises include Spain (1977), Norway (1987), Finland (1991), Sweden (1991) and Japan (1992). ** Recessions (i.e., two straight quarters of contraction) in G20 advanced economies since 1960. *** Range limits are average of best/worst three AE recessions 1960-2006.

Economic recovery in advanced economies is weak. Recoveries are known to be weak and protracted following major financial crises, but this one is weak even by the standards of recoveries following past financial crises, as shown in this chart. The pace of recovery in output in the Euro Area, the UK, and even the US lies below the range experienced after the major financial crises in the past half century. This suggests that the slow progress may reflect, in addition to the crisis-related cyclical factors, deeper structural causes.

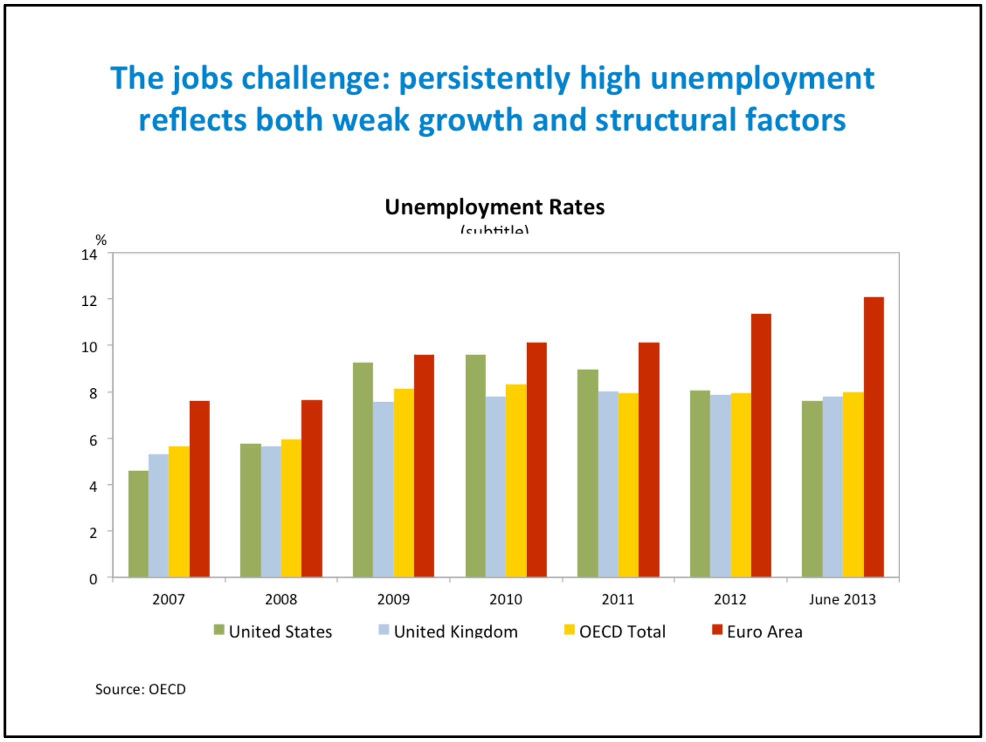
Some of the structural weaknesses have accumulated over time, such as the labor market rigidities in Europe, the deficiencies in tax and expenditure structures and associated fiscal problems in a broad range of advanced economies, including the US, and the challenges arising from ageing populations. The global financial crisis has added to these challenges by causing supply-side disruptions that lower potential growth, including the destruction of capital stock, financial sector dislocations, and increases in structural unemployment—as well as adding to the fiscal woes. Challenges also arise from a changing pattern of competitiveness and comparative advantage as emerging economies increasingly penetrate global production and trade. So future growth in advanced economies will require not just supporting a recovery of demand but also a reallocation of resources to new sources of growth—new products, new services, new jobs.



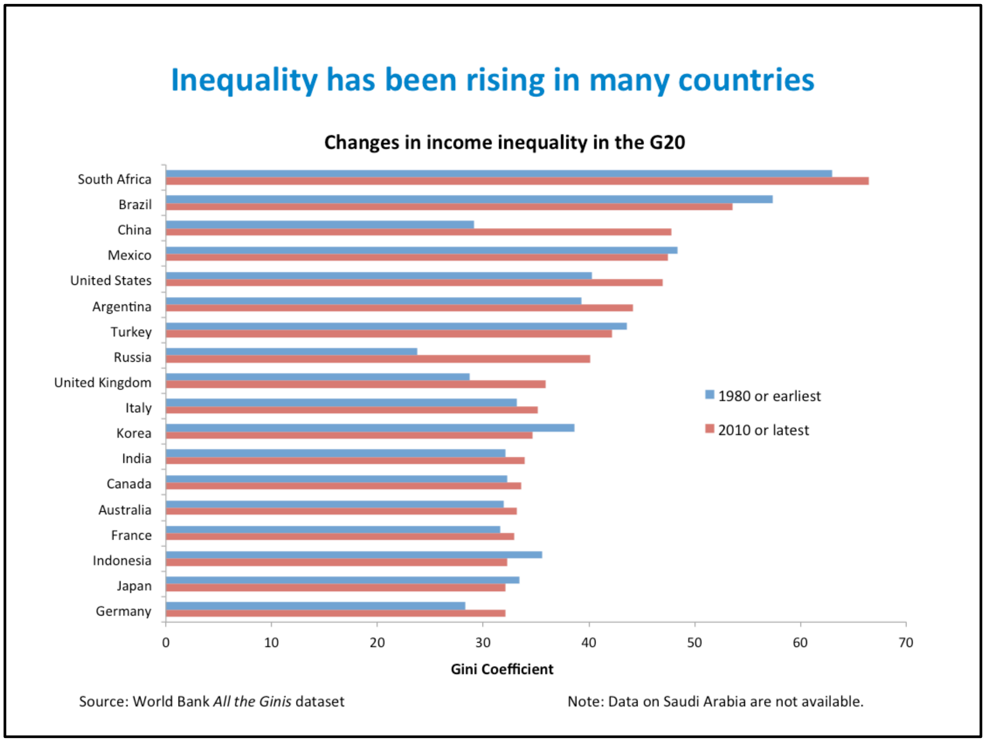
Growth has also started to slow in the emerging economies that have been the driver of global growth. In the five years since the onset of the global financial crisis, these economies contributed close to two-thirds of total global growth. Emerging economies face their own challenges of reform in sustaining strong growth. For many, there is a substantial unfinished agenda of structural reform and much investment needed in infrastructure and human capital. Some are having to contend with the so-called "middle-income trap" that postulates a stalling of growth if economies, as they reach middle-income levels, fail to graduate from growth reliant on surplus/cheap labor and technology catch-up to one based on generating increases in productivity through innovation. Some economies, notably China, face the challenge of effecting a shift in their growth model from external to domestic demand.

All emerging economies need to adjust to an external environment marked by lower advanced economy growth and more volatile capital flows. Lower advanced economy growth means that emerging economies will have to look more to other emerging economies and their own domestic markets for growth.

Finally, future growth faces challenges, as well as opportunities, from climate change, in both advanced and emerging economies.



Unemployment has risen sharply in many countries after the financial crisis and the high levels of unemployment have either persisted or shown only modest declines. The longer unemployment persists, the more structural and entrenched it can become. The persistence of high unemployment reflects the weak economic growth in these economies. But it also reflects structural factors, such as labor market distortions, skill mismatches, and erosion of competitiveness, that weaken the relationship between growth and jobs. Hence the concerns about "jobless recovery" or "jobless growth". So demand stimulus policies alone will not be enough to deal with the unemployment problem; the structural factors must also be addressed.



Inequality has been rising in many countries. This chart shows that for a large majority of G20 countries, income inequality has risen in the past two-plus decades. Globally, more than two-thirds of the world's population lives in countries where inequality has risen in the past couple of decades. The rising inequality is another dimension of the growth challenge that bears attention. The Russian presidency has, appropriately, put inclusive growth and development on the G20 agenda. This is not just a matter of "fairness" in the distribution of benefits from economic growth. Inclusive growth in the longer run is also stronger, more stable and sustainable.

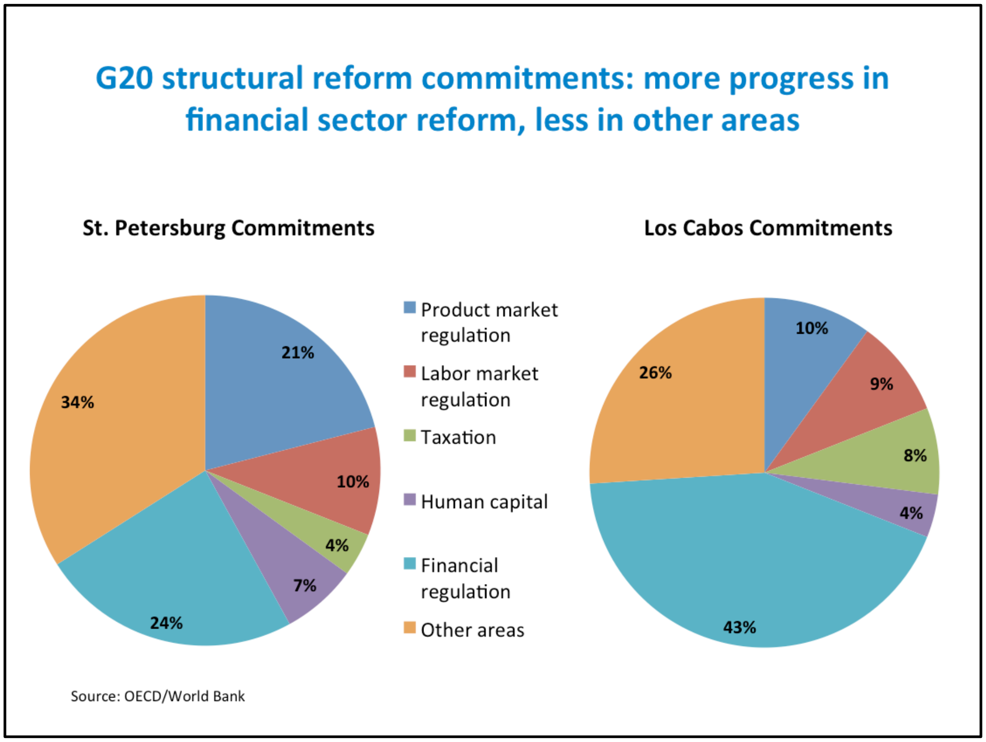
Promotion of inclusive growth is a central pillar of the World Bank Group's strategy to achieve the twin goals of ending poverty and boosting shared prosperity. This agenda will require a strong multilateral effort. The G20 can play a key role in that effort, both by promoting inclusive growth in their own economies and by supporting an inclusive agenda globally.

Centrality of structural reforms to the growth agenda

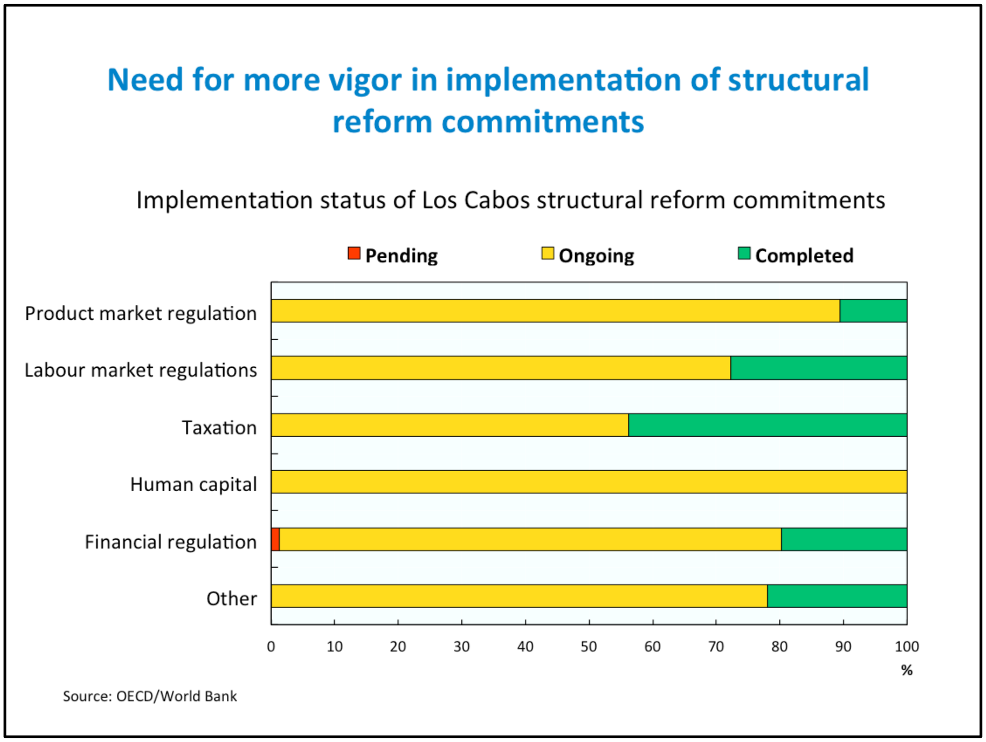
- Restoring robust growth will require going beyond current focus on short-term macroeconomic and demand management and implementing reforms that remove structural impediments to stronger and sustainable growth
- Essential to stronger growth, structural reforms are also key to addressing the jobs challenge, promoting a balanced pattern of growth, reducing inequality, and supporting environmental sustainability
- The reform agenda spans product market regulation and competition, labor market regulation, financial sector reform, tax and expenditure reform, and investment in infrastructure and human capital
- Priorities vary across countries, but structural reforms are central to the growth agenda in advanced and emerging economies alike
- The G20 has stepped up its work on structural reforms under its Framework for Strong, Sustainable and Balanced Growth but more needs to be done

In meeting the growth challenges that I have just outlined, structural reforms are a central element of the agenda. Restoring strong growth will require going beyond the current focus on short-term macroeconomic and demand management to implementing reforms that remove structural impediments to stronger and sustainable growth. Not only are structural reforms essential for stronger growth, they are also key to addressing the jobs challenge, the rise in inequality, and the challenge of environmental sustainability. The reforms agenda spans product market reform and competition, labor market regulation, financial sector reform, tax and expenditure reform (including importantly social protection), and investment in infrastructure and human capital. Specific priorities vary across countries of course, but structural reforms are central to the growth agenda in advanced and emerging economies alike.

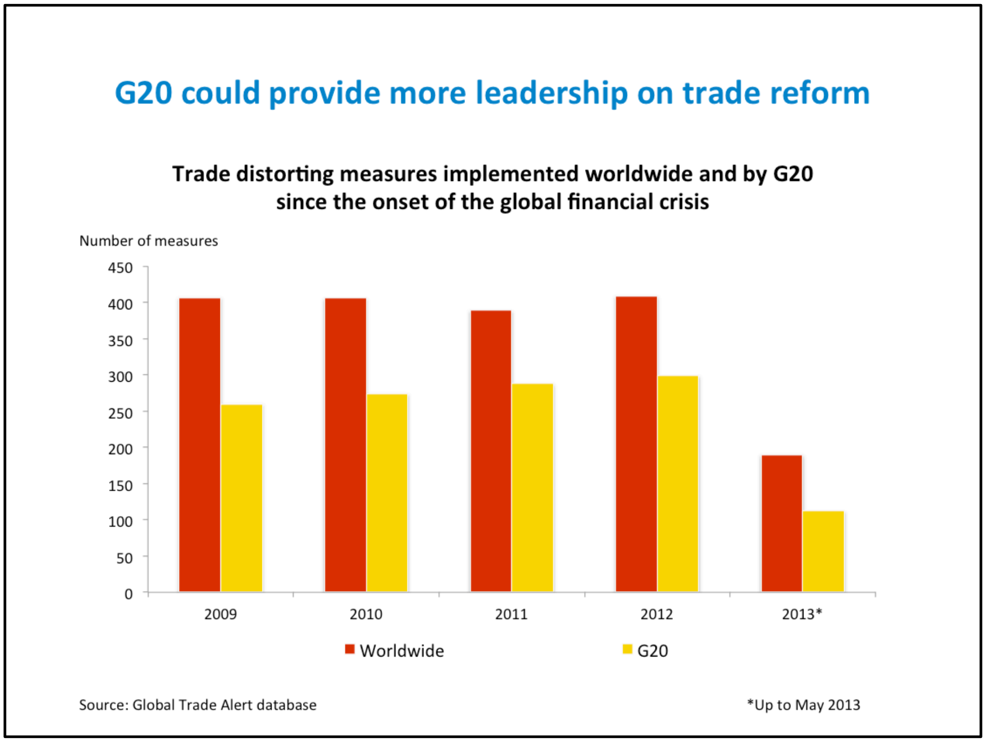
I represent the World Bank on the G20 Working Group on the Framework for Strong, Sustainable and Balanced Growth. This G20 work stream does cover structural reforms, but the unrealized potential for a stronger and more coherent effort toward structural reforms and growth is significant. This year, under the Russian presidency, the work on structural reforms has been stepped up, with members' reform commitments reset along more relevant and concrete lines, backed up by a stronger process of accountability in implementation. This is a positive development.



Structural reform commitments made by G20 members under the G20 Framework for Strong, Sustainable and Balanced Growth have had a strong focus on the financial sector, spurred by the immediacy of repairing the sector where the crisis originated. Almost half of all structural reform commitments made by G20 members at the Los Cabos summit related to this sector. Commitments in other key areas of reform, such as product market regulation and competition policies, labor market regulation and social protection systems, human capital, and taxation have been much fewer. As the pie chart on the left side of the slide shows, structural reform commitments submitted by G20 members for the St. Petersburg summit have a more balanced coverage of the reform areas.



Under the Framework for Strong, Sustainable and Balanced Growth, the G20 has now instituted an accountability process for assessing the actual implementation of the policy commitments made by members. The Word Bank, working jointly with the OECD, is assisting the Framework Working Group in assessing implementation. This chart shows the implementation status of G20 structural reform commitments made at the Los Cabos summit, based on the World Bank/OECD assessment. It's message is clear: there is a need for more vigor in implementation.

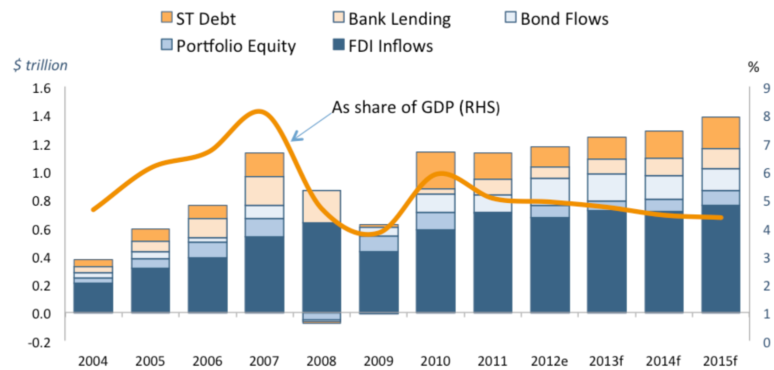


Trade reform, which is an important part of the structural reform agenda, needs more attention. It can give a significant boost to global growth. The G20 can provide more leadership on trade reform. So far, it has shown low ambition on trade reform. Rather than push for multilateral cooperation to reduce trade barriers, increase transparency in trade, and develop deeper disciplines for trade in services and for investment, it has been content with committing only to refrain from imposing new protectionist measures. And even this minimalist commitment has not been fully delivered. This chart shows the number of trade restricting measures introduced worldwide since the onset of the global financial crisis. G20 members have accounted for about three-quarters of these measures. Most of these measures have been of an opaque, less transparent nature, such as anti-dumping actions, safeguards, local content requirements, preferential procurement, and state aid. Together, these new restrictive measures affect about 5% of world trade.

The next WTO Ministerial in Bali in December this year provides an opportunity to put the multilateral trade reform agenda back on track and the G20 can lead in providing an impetus for that.

Key role of investment, especially in infrastructure, in enhancing potential growth
Welcome G20 initiative on long-term investment financing

Net private capital flows to emerging and developing economies
Recovering, but well below pre-crisis levels relative to GDP



Source: World Bank

Investment is a crucial complement of structural policy reforms to enhance potential growth and job creation. Infrastructure investment is especially important. Emerging economies face large infrastructure gaps. Infrastructure modernization needs are large also in many advanced economies. Addressing these needs is important for future growth. Infrastructure investment needs in emerging economies alone amount to about $2 trillion per annum in the medium term. This is roughly double their current investment levels. Infrastructure investment typically requires long-term financing. The supply of long-term investment financing has come under particular strain in the aftermath of the global financial crisis, affected by heightened risk aversion, bank deleveraging, and regulatory tightening. As this chart shows, net capital flows to emerging economies have recovered but remain well below pre-crisis levels relative to these economies' GDP. Long-term investment financing in advanced economies has felt the strain as well.

So the G20 under the Russian presidency has taken the initiative to study the availability of long-term investment financing and explore how it can be better catalyzed and leveraged. This is a welcome initiative, with a clear focus on growth and development.

Build on other G20 initiatives on growth and development

- Infrastructure Action Plan (infrastructure investment climate, project preparation, finance, public-private partnerships, MDB role)
- Tax reform and domestic resource mobilization
  - Action Plan on base erosion and profit sharing; tax transparency
- Global Partnership for Financial Inclusion
- Agriculture and food security
- Promoting energy sustainability, combating climate change
  - Energy efficiency: phase-out inefficient fossil fuel subsidies
  - Inclusive green growth
  - Climate finance

The G20 has some other important initiatives under way as well that support growth and sustainable development, which are at different stages of discussion and progress. The Infrastructure Action Plan goes beyond issues of financing and looks at aspects such as project preparation capacity and regulatory framework for infrastructure investment, with a focus on low-income countries. On tax reform, some notable progress has recently been made on tax transparency and tackling cross-border tax evasion and avoidance. Other initiatives relate to financial inclusion, agriculture and food security, and energy sustainability and climate finance. While in my presentation today I have focused on G20's role in structural reforms and supportive investments for growth and development and do not have the time to go more into the details of these other initiatives, this is certainly not to detract from their importance.

Concluding Remarks

- As a "premier forum for international economic cooperation", the G20 can do more to promote and coordinate policies for global growth and development
- The increased attention to growth-enhancing structural reforms and investment under the Russian presidency is a welcome refocusing of the G20 agenda
- The proposed call in the St. Petersburg Leaders' Declaration for G20 members to submit, peer review, and coordinate growth strategies will reinforce this shift of emphasis
- There is a need to better focus the various separate initiatives on development, integrate them into a coherent narrative and effort, and improve coordination across the G20 work streams
- Stronger engagement with non-G20 countries and other stakeholders will help enhance both the effectiveness and legitimacy of G20 efforts

To conclude, as a "premier forum for international economic cooperation", the G20 can do more to promote and coordinate policies for global growth and development. The increased attention to growth-enhancing structural reforms and investment under the Russian presidency is a welcome refocusing of the G20 agenda on growth. Reinforcing this shift of emphasis, at the St. Petersburg summit, G20 Leaders will consider a proposal to ask G20 member countries to submit comprehensive growth strategies next year as a basis for a deeper discussion and better coordination of the collective growth agenda. The G20 Framework Working Group will carry that work forward.

As I noted, the G20 is also embarked on other initiatives on development, several under the auspices of the Development Working Group. There is a need to better focus these various separate initiatives and integrate them into a more coherent narrative and effort. Coordination across the G20 work streams needs to be improved, including, notably, between the Framework Working Group and the Development Working Group—given the interconnections between the growth and development agendas. This will also help address concerns that development issues tend to get marginalized (or "ghettoized") in the G20. Development issues need to be better mainstreamed into G20's work.

Finally, stronger engagement with non-G20 countries, especially in the work relating to low-income countries, and with other stakeholders will help enhance both the effectiveness and legitimacy of G20's efforts.