



G20 MONITOR

# The G20 at the end of 2014

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Number 15 | January 2015

**LOWY INSTITUTE**  
FOR INTERNATIONAL POLICY



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Funding to establish the G20 Studies Centre at the Lowy Institute for International Policy has been provided by the Australian Government.

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

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## OVERVIEW

TRISTRAM SAINSBURY<sup>1</sup>

This issue of the G20 Monitor reflects on the state of the G20 at the end of 2014, and offers suggestions for the path forward during Turkey's 2015 G20 Presidency.

My paper identifies ambitious policy pursuits that will define a successful 2015 Presidency. There are also papers outlining the perspectives on the state of the G20 from participants in the Think20, the outreach grouping of professional G20 observers drawn from academia and think tanks that contributes to the G20 through analysis, ideas, and commentary.

**Ye Yu** suggests that the G20 has evolved positively in the last six years, and is the premier forum for international economic cooperation. **Jun Yokota** concludes that the G20 remains the only forum of its kind, providing an opportunity for leaders of this grouping of developed and developing countries to meet annually and progress international economic issues. **Katharina Gnath** and **Claudia Schmucker** also support this sentiment, but explain that summits have lost their lustre in recent years and the G20 needs to be strengthened. **Fan He** notes that Australia has managed to get the G20 back on track, but that the forum needs to look beyond the fluctuation of annual growth rates and address global governance issues. **Stephen Grenville** explores the prospect of the G20 developing its role over time as a ginger group and steering committee for international organisations. **Carlos Heredia** suggests that emerging economic and geopolitical challenges continue to raise fresh questions about the identity and role of the G20, while **Sergey Drobyshevsky** cautions against the risk of the G20 drifting from the 'economic government' to just one more international institution dealing with international affairs or global security issues.

Turning to G20 outreach to the broader community, **Melissa Conley Tyler** and **Duc Dao** explore public perceptions of the Brisbane Summit and recall the primary issues that will dominate the domestic Australian audience's memory of the G20. **Susan Harris Rimmer** explains that the G20 narrative is, on the whole, still not resonating with its citizenry, despite Australian efforts to strengthen the outreach process in 2014, and explores some issues that the Turkish and Chinese presidencies will face.

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Focusing on Turkish G20 priorities, **Stephen Pickford** warns of the need for the G20 to prioritise a few key issues in 2015, and identifies advances that can be made by a focused agenda. **Fariborz Moshirian** identifies the essential prerequisites that could facilitate the successful promotion of the Turkish Presidency's three I's (inclusiveness, implementation, and investment). **Barry Carin** examines the case for G20 attention on fossil fuel exploration subsidies, and **Antonio Villafranca** explores issues around global economic governance and the redistribution of power in international institutions. With China confirmed as G20 host for 2016, **Yong Wang** and **Gregory Chin** explain how the infrastructure agenda will support the G20's growth goals and link with China's heavy interest in the topic.

Also included is the summary of a Think20 seminar hosted by the Lowy Institute for International Policy's G20 Studies Centre in Sydney in October 2014, which canvassed key issues around the state of the global economy, developments in global economic governance, and the future of the G20. A specific objective of the seminar's discussions was to identify the successes and lessons of the 2014 Think20 process.

# POLICIES FOR THE TURKISH 2015 G20 PRESIDENCY: WALKING A TIGHTROPE OF G20 RELEVANCY

TRISTRAM SAINSBURY<sup>1</sup>

The G20 is in a delicate position at the end of 2014. The global economy continues to face significant short- and long-term challenges associated with the sluggish recovery from the global financial crisis. The collective solutions required to address the broad range of international economic challenges often require multi-year negotiations, and today's integrated global economy needs an effective forum for international economic cooperation. The latest G20 Leaders' Summit, held in Brisbane in November, provided a welcome reminder of the power of the G20 to overcome political roadblocks and for leaders to provide the necessary high-level strategic leadership that advances global economic issues. The successful 2014 Australian G20 Presidency has brought back a sense of optimism that the G20 is able to focus on collective solutions to the major economic challenges of the day.

Yet the G20's legitimacy as the world's premier economic forum has been increasingly questioned amid claims that it has not always provided the economic leadership that is required, and that people have become disillusioned with the slow progress being made on key international governance issues. A side effect has been the development of alternate regional architecture and the formation of geopolitical blocs and factions. Many feel that, at the start of 2015, the G20 is a group still in search of more substance and permanence.

The 2015 Presidency provides an opportunity to show that the G20 is continuing to play a very positive ongoing role; that governments have the capacity and willingness to cooperate; and that non-G8 countries are continuing to listen and learn about how to steer global affairs. It is important that Turkey's G20 Presidency is a success, and not just for reasons of Turkish national pride. We live in a world of workarounds, and alternative forums will continue to be sought if the G20 is not demonstrating its relevance. As a result, the G20 will walk a tightrope of relevancy in 2015.

The key challenge that the Turkish G20 Presidency faces is how to manage efforts to 'have it all'. That is, how it can balance advancing the

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G20's primary objective to lift growth and quality jobs, achieve progress on a remarkably broad scope of nominated priorities that appeal to its domestic constituency, and make concrete progress on the longer-term challenges of global economic governance upon which the G20's reputation ultimately rests. At the same time, it needs to maintain the functional process that was a feature of 2014 discussions, pursue a clear G20 communications strategy for the broader public, and strengthen outreach with engagement groups and non-members, which are vital for the longer-term legitimacy and effectiveness of the G20.<sup>2</sup> The experience of previous presidencies suggests that pursuing such a broad range of priority topics will be highly challenging, and it will be important that Turkey's public narrative clearly communicates which of the priorities it considers indispensable, and how these are in the best interests of the G20.

If the Antalya Summit in November 2015 can make tangible advances in tackling longer-term global governance and also consolidate the substantial gains made during Australia's Presidency, it will also go some way towards restoring the reputation of the forum. This article will identify some of the areas that will make this possible, starting by examining the economic context for the Presidency.

#### THE G20 IN 2015 FACES SIMILAR ECONOMIC CHALLENGES TO 2014

The economic outlook that leaders faced in November 2014 was for low, uneven, and disappointing global growth. In October 2014, the IMF downgraded its global growth forecasts to 3.3 per cent for 2014 and 3.8 per cent in 2015.<sup>3</sup> Many countries are forecast to grow below their potential growth rates, combined with downgrades in growth potential; and there has been a marked slowdown in convergence of the growth performance between advanced economies and emerging markets.<sup>4</sup> Unemployment in many countries remains uncomfortably and naggingly high, particularly for the young and disadvantaged groups. Further, there has been a loss of momentum in global trade, monetary policy continues to play a prominent and potentially disruptive role in economic management, and short-term risks to global growth increased over 2014,

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<sup>2</sup> For further detail on the G20 engagement process in 2014, particularly the Think20 process, see Susan Harris Rimmer, "Stronger Outreach but G20 Narrative Still Not Resonating with Citizenry" in *The G20 at the end of 2014*, G20 Monitor No. 15, Lowy Institute for International Policy, 2015 and Tristram Sainsbury, "Summary of October 2014 Think20 Seminar," in *The G20 at the end of 2014*, G20 Monitor No. 15, Lowy Institute for International Policy, 2015.

<sup>3</sup> IMF, *World Economic Outlook: Legacies, Clouds, Uncertainties*, (Washington DC: IMF, October 2014).

<sup>4</sup> Ibid.



notably associated with concerns that markets continue to misprice risk and with ongoing geopolitical tensions.<sup>5</sup>

Developments since the Brisbane Summit suggest that growth will remain uneven and global recovery prone to significant risks. The IMF has assessed that the price of oil, which has now fallen by around 50 per cent since June 2014, will provide a net boost to global GDP.<sup>6</sup> However, the recent conditions in the Russian economy and foreign exchange market have highlighted the distributional consequences of the sharp fluctuation in oil prices on oil-exporting countries and the heightened risks to financial stability.<sup>7</sup> Elsewhere, there are signs of strength in the US economy and labour markets, an increasing acceptance that we are seeing a 'new normal' of slower Chinese growth, stagflation in Brazil, renewed financial market uncertainty stemming from the Greek elections, as well as price deflation in Europe, and growing expectations that the ECB will deliver further unconventional monetary policy stimulus. Yet there is a sense of familiarity to the overarching economic preconditions of sluggish, uneven growth and mounting risks, which were also the challenges that influenced the start of Australia's Presidency.<sup>8</sup>

#### A SUCCESSFUL AUSTRALIAN PRESIDENCY

The response at the start of the Australian Presidency was to drive an evolution of the G20 towards a second phase of the forum, focused on lifting growth in countries affected by the crisis, and away from the initial response to the financial crisis that had dominated the G20 narrative for its first five years. This was operationalised through a tight and focused narrative centred on two themes: promoting stronger economic growth and employment outcomes, and making the global economy more resilient to deal with future shocks.

The thing that stands out has been the clear articulation, then achievement, of the G20's goals. The forum made boosting sustained economic growth its central objective in 2014, and achieved this aim through actions to promote growth, investment, and trade; and build a stronger, more resilient economy through actions on energy governance, tax, and financial regulation. It also went beyond a narrow rhetoric of

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<sup>5</sup> Tristram Sainsbury, "Summary of October 2014 Think20 Seminar," in *The G20 at the end of 2014*, G20 Monitor No. 15, Lowy Institute for International Policy, 2015.

<sup>6</sup> Stephen Grenville, "Oil Drops 50%, World Shrugs," *The Interpreter* (blog), 12 January 2015, <http://www.lowyinterpreter.org/post/2015/01/12/Oil-drops-50-percent-world-shrugs.aspx>.

<sup>7</sup> Rabah Arezki and Olivier Blanchard, "Seven Questions about the Recent Oil Price Slump," *IMF direct* (blog), 22 December 2014, <http://blog-imfdirect.imf.org/2014/12/22/seven-questions-about-the-recent-oil-price-slump/>.

<sup>8</sup> Australian G20 Presidency, *G20 2014: Overview of Australia's Presidency*, 1 December 2013.

core economic fundamentals with commitments to put 100 million women into jobs, address youth unemployment, and tackle corruption through strong principles on beneficial ownership.<sup>9</sup>

The broad-ranging outcomes from the Brisbane Summit provided much-needed momentum to the forum. Coinciding with the important deals reached bilaterally on climate change between the US and China and trade between the US and India, Brisbane provided a sense that the significant global governance challenges we face can be tackled. An energetic Australian Presidency has also strengthened habits of cooperation within the forum through improvements in managing time, the length of speeches, and maintaining the relevancy of the G20 discussions through peer-to-peer conversations and informality of interactions.

The commentary in the immediate aftermath of the Brisbane Summit concluded that Australia had delivered a successful Presidency. Respected G20 observer Mike Callaghan noted, in giving the Brisbane Summit a tick of approval, that the G20 produced substantial outcomes broadly in line with what was predicted would be necessary for Brisbane to be called a success.<sup>10</sup> The Australian press, civil society and business groups hailed the Summit as a victory and there was broad acknowledgement of the contribution of various engagement groups to the final communique.<sup>11</sup>

Commentaries generally acknowledge that the extent of the Australian Presidency's achievements in 2014 will only be fully determined in years to come, once it becomes clear if the campaign to lift G20 growth by 2 per cent by 2018 is achieved, the Global Infrastructure Hub becomes a known entity, and the multi-year agenda on tax, financial regulation, climate change, trade, energy, and IMF reform progresses further.<sup>12</sup> Thomas Bernes and Mike Callaghan argue that the real question is whether leaders will be able to deliver on these commitments.<sup>13</sup>

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<sup>9</sup> Tristram Sainsbury, "Taking Advantage of Australia's G20 Moment," *The Interpreter* (blog), 28 November 2014, <http://www.lowyinterpreter.org/post/2014/11/28/Taking-advantage-of-Australias-G20-moment.aspx>.

<sup>10</sup> Mike Callaghan, "Brisbane G20 Summit a Success, Despite Australia's Climate Misstep," *The Interpreter* (blog), 16 November 2014, <http://www.lowyinterpreter.org/post/2014/11/16/Brisbane-G20-summit-success-despite-Australias-climate-misstep.aspx>.

<sup>11</sup> Bill Scales, "Everyone's Gone Home. So Was it a Success?," *G20 Watch* (blog), <http://g20watch.edu.au/everyones-gone-home-so-was-it-success>; Petrina Berry, "Civil Society Groups Hail G20 a Success," AAP via *The Courier-Mail*, 16 November 2014, <http://www.couriermail.com.au/news/breaking-news/civil-society-groups-hail-g20-a-success/story-fnihsfrf-1227124852436?nk=7d832ed381d61cf4fc97220631abf83e>.

<sup>12</sup> Tristram Sainsbury, "Taking Advantage of Australia's G20 Moment."

<sup>13</sup> Thomas Bernes, "If Fully Implemented...", Centre for International Governance Innovation, 17 November 2014, <https://www.cigionline.org/publications/if-fully-implemented>; Callaghan, "Brisbane G20 Summit a Success."

## THE G20 FACES ONGOING QUESTIONS OF RELEVANCE

Although it was able to get the G20 back on track, the Brisbane Summit was not able to banish the overriding sense that the state of the G20, and global governance generally, has been in decline in recent years as the immediacy of the global financial crisis has subsided. People have become disillusioned and increasingly cynical as the G20 has delivered slower and lower levels of progress.

Problems in areas such as the Bali trade agreement and IMF reform have contributed to the formation of blocs in the international community, with three main groupings emerging: the BRICS grouping (Brazil, Russia, India, China, and South Africa); the G7 (US, Canada, Germany, UK, Japan, France, and Italy); and more recently MITKA (Mexico, Indonesia, Turkey, Korea, and Australia). There is the potential for these blocs to work against global economic cooperation and impede achievement of the necessary compromises that advance international issues, making the task of future G20 presidents harder.

Recent years have also seen clear signals from emerging market economies, and China in particular, of their capacity to develop an alternate financial architecture, particularly through the BRICS New Development Bank and Asian Infrastructure Investment Bank (AIIB). The ongoing evolution of these arrangements, and their interaction with the existing financial architecture, will influence the G20's reputation as the premier forum for bringing together advanced and emerging economies to progress collective economic outcomes.

Many still feel that the G20 is in search of permanence and substance, and that nothing short of a fundamental shake-up in its priorities will achieve this. For example, Fan, Gnath and Schmucker argue that the G20's very focus on nation-specific issues such as growth strategies, employment and infrastructure is misplaced, as it overlooks an important feature of the G20 — its informal nature — which limits its direct influence at a national policy level.<sup>14</sup> They urge that future G20 attention should be more appropriately directed towards long-term cross-border governance issues in international forum and global institutions. Such a focus would place a high priority in 2015 on tax cooperation; overcoming political deadlocks in multilateral trade; reforming international financial institutions; financial regulation, and greater political impetus on international coordination and better global standards.

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<sup>14</sup> Katarina Gnath and Claudia Schmucker, "Group with a Cause: There is no alternative to the G20, but it does need reform" in *The G20 at the end of 2014*, G20 Monitor No. 15, Lowy Institute for International Policy, 2015; and Fan He, "Back on Track" in *The G20 at the end of 2014*, G20 Monitor No. 15, Lowy Institute for International Policy, 2015.

## TURKEY'S APPROACH: THREE PILLARS AND THREE I'S

Ahead of the Brisbane G20 Leaders' Summit, Prime Minister Davutoglu foreshadowed that the Turkish Presidency would pursue a broad agenda of seven priorities: Development, Trade, Employment, Small and Medium Enterprises (SMEs), Investment, Energy and Climate Change.<sup>15</sup> In addition to these, Turkey would continue to progress Australia's multi-year agenda, such as tax and growth strategies. On assuming the Presidency on 1 December 2014, Turkey outlined that it will organise G20 discussions along three main 'pillars':<sup>16</sup>

- **Strengthening recovery and lifting potential:** growth strategies; investment; employment; and trade
- **Enhancing resilience:** international financial regulation; international financial architecture; tax; and anti-corruption
- **Buttressing sustainability:** development; energy; and climate change finance

The Turkish Presidency also indicated that it will place a special emphasis on the 'three I's' of Inclusiveness, Implementation, and Investment. In opening discussions by officials in Istanbul in mid-December, Turkish Deputy Prime Minister and Finance Minister Ali Babacan outlined that the inclusiveness agenda will focus on the voice of low-income countries, small and medium enterprises, and reform of the governance arrangements at the IMF; the implementation agenda will focus on growth strategies, particularly establishing a robust monitoring framework; and the investment agenda will look to introduce a new narrative to address investment gaps of member countries via concrete and ambitious investment strategies.<sup>17</sup>

In all, Turkey has delivered a useful sense of continuity, picking up all the main elements of the 2014 discussions and demonstrating a firm commitment to drive forwards on the core 'growth and jobs, and resilience' thematic structure that the Australian Presidency successfully pursued. As has become the norm for a new host, it has expanded upon the rhetorical scope of the agenda. 2015 will see renewed interest in the 'sustainability' topics, and elevated importance to topics, such as a focus on small and medium enterprises, that are of domestic significance.

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<sup>15</sup> Tristram Sainsbury, "Turkey Sets its G20 Agenda for 2015," *The Interpreter* (blog), 14 November 2014, <http://www.lowyinterpreter.org/post/2014/11/14/Turkey-sets-its-G20-agenda-for-2015.aspx?COLLCC=2460656200&>.

<sup>16</sup> Turkish G20 Presidency, *Turkish G20 Presidency Priorities for 2015*, 1 December 2014.

<sup>17</sup> Turkish G20 Presidency, *Deputy Prime Minister Ali Babacan's Speech at the G20 Sherpa Meeting*, 15 December 2015.

However, the messaging has come across as somewhat haphazard and has failed to deliver a sense of what Turkey's central objective is. Further, the broad scope of agenda is prone to criticism that we are witnessing a re-emergence of a proliferating agenda which could translate into the 'bad old days' of laundry-list communiqués that are tens of pages long. G20 political capital is limited, and a political and economic case still needs to be made for pursuing just a few specific, tangible, and realistic outcomes, tied together in a simple, coherent public narrative. The first Finance Ministers' Meeting, to be held in Istanbul in early February, will be crucial in resetting the tone for the remainder of the 2015 Presidency.

The following identifies the sort of specific, tangible, and realistic outcomes in each of the workstreams that would contribute towards a successful 2015 Presidency.

#### GROWTH STRATEGIES:

The overarching objective of the G20 remains to support global growth, create quality jobs and deliver sustained increases in wages and living standards. In Sydney in February 2014, G20 finance ministers and central bank governors outlined an ambition to take the actions necessary to lift the G20's GDP by at least an additional 2 per cent by 2018. In Brisbane, leaders declared success against their first five-year growth plan by citing IMF-OECD analysis that indicated that the more than 1000 actions members committed to take over the year, if fully implemented, would deliver a 2.1 per cent GDP boost by 2018 and create millions of jobs.

With the OECD and IMF determining the growth commitment to be achievable, the focus in 2015 will be on implementation, and ensuring that substantive progress is recorded on actually achieving the G20's ambition. At Antalya the G20 will need to demonstrate how much of the 'more than 2 per cent' has been delivered since Brisbane, and explain what further steps will need to be taken in future years. Despite the best of intentions, it is clear that not all 1000+ measures will be implemented, and further measures will need to be announced.<sup>18</sup> Given its central position in the G20's narrative, the growth strategies are also central to the credibility of the G20.

Ultimately, the G20's credibility will be judged on how well the 1000+ commitments translate into IMF/OECD forecasts, and then actual on-the-ground actions. It can be expected that the IMF and OECD will only forecast the impact of policies they are confident will actually contribute

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<sup>18</sup> Josh Frydenburg, "Australia's G20 agenda and the case for improved global governance," (speech to The G20 Brisbane Pre-Summit Conference: Strengthening Global Growth, 14 November 2014), <http://www.joshfrydenberg.com.au/guest/SpeechesDetails.aspx?id=266>.

to GDP. It is instructive that the October 2014 IMF World Economic Outlook (WEO) did not attribute a GDP impact to G20 efforts, despite more than 90 per cent of measures being known to the IMF via the September 2014 Finance Ministers' Meeting in Cairns.<sup>19</sup> The downward revisions in the World Bank's economic outlook in January did not recognise the contribution of collective G20 actions, which suggests that the growth strategies are not expected to deliver substantial real GDP outcomes as yet.<sup>20</sup> Questions will need to be asked if the G20's commitments are still not even beginning to translate into stronger growth forecasts by the next IMF WEO in April, which will mark 18 months from the October 2013 baseline for the target.

In all, the growth agenda shapes as a key test for the Turkish Presidency, which will need to be proactive in urging leaders and finance ministers to continue to take personal ownership for their countries' contribution to the target, their measures' delivery, and to making adjustments to their growth strategies as necessary.

A welcome development in Brisbane was that G20 countries said that they will be held accountable for their performance and called on the IMF and OECD to monitor and report on their progress in implementing their commitments. To add further rigour and transparency to the accountability assessments, G20 members should consider inviting Think20 representatives to work alongside the international organisations in assessing members' commitments.

#### INFRASTRUCTURE:

Infrastructure investment is a long-standing challenge facing all G20 governments, with the size of the global financing requirement often cited as an additional \$US70 trillion by 2030.<sup>21</sup> It has, unsurprisingly, been a consistent focus of G20 attention and commitments, and both Australia and Turkey have nominated it as a key focus of their respective presidencies. Another longstanding challenge, though, has been in developing concrete proposals that allow the G20 to move beyond rhetoric and undertake actions that actually increase infrastructure investment.

The Australian Presidency's agenda focused on investment actions; 27 per cent of the growth target is expected to come from investment and

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<sup>19</sup> Australian Treasurer, the Hon. Joe Hockey MP, "Treasurer's Closing Statement, G20 Finance Ministers And Central Bank Governors Meeting," (speech, Cairns, 21 September 2014).

<sup>20</sup> World Bank Group, *Global Economic Prospects: Having Fiscal Space and Using It*, (Washington DC: The World Bank, January 2015).

<sup>21</sup> OECD, *Private Financing and Government Support to Promote Long-term Investments in Infrastructure*, (Paris: 10 September 2014), <http://www.oecd.org/daf/fin/private-pensions/Private-financing-and-government-support-to-promote-LTI-in-infrastructure.pdf>.

infrastructure measures.<sup>22</sup> In September, finance ministers also announced the multi-year Global Infrastructure Initiative to facilitate higher public and private investment, particularly in quality infrastructure and SMEs. In Brisbane, leaders followed this announcement by establishing a Global Infrastructure Hub in Sydney to develop a knowledge-sharing platform, address data gaps, and develop a consolidated database of infrastructure projects connected to national databases, to help match potential investors with projects.<sup>23</sup>

Babacan's pledge to officials in December that the G20 will introduce a new narrative to address investment bottlenecks and gaps via concrete and ambitious country-specific investment strategies has the potential to be a valuable addition to the workstream. Improving investment remains an acute goal for several G20 countries, with the IMF suggesting that public investment, particularly in infrastructure, should be increased by ½ per cent of GDP in the United States, Germany, Brazil, India, and Indonesia as part of their contributions to the G20's growth target.<sup>24</sup> Although investment may not be the main growth challenge faced by all G20 members, all members will benefit from tailored strategies that improve the quality of investment. It will also allow for a focus on building the evidence base for practical domestic actions to facilitate quality investment in SMEs, complementing efforts to encourage market sources of finance and transparent securitisation.

The Turkish Presidency will also need to focus on implementation of the Global Infrastructure Hub, and convincing a sceptical global audience that this initiative can make a substantive contribution towards addressing the global infrastructure challenge. With just a four-year mandate and questions persisting over its role vis-à-vis the World Bank's Global Infrastructure Facility, the Hub does not have much time to demonstrate its value. Starting as a small pilot program, it is important that it makes demonstrable progress in 2015 and delivers tangible outcomes to leaders by the Antalya Summit. Goals for 2015 should be for the consolidated database of infrastructure projects to be made accessible to G20 members, reports of firm steps in the development of the knowledge-sharing platform and network of those involved in infrastructure projects, and for leaders to be presented with clear, albeit preliminary, examples in which the Hub has matched investors with appropriate projects. Operational arrangements for the Hub, including the CEO and staffing, should be announced as soon as possible.

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<sup>22</sup> IMF and OECD, *Quantifying the Impact of G-20 Members' Growth Strategies*, report delivered to G20 Brisbane Leaders' Summit, November 2014.

<sup>23</sup> G20, *G20 Note on the Global Infrastructure Initiative*, November 2014.

<sup>24</sup> IMF, *Note on Global Prospects and Policy Challenges*, report delivered to G20 Finance Ministers and Central Bank Governors, February 2014.



In what will be an active workstream, it appears that the Turkish Presidency will also focus on public-private partnerships (PPPs). In December, Deputy Prime Minister Babacan indicated to G20 officials that Turkey has already asked the World Bank to study how to standardise these projects and make them easier to securitise, with a particular emphasis on affordability, feasibility, and risk sharing. As Mike Callaghan noted, it will be important to keep the use of PPPs in perspective, and finance ministers should signal that decisions to use a PPP should rest on whether it would result in lower production costs, better maintenance, and a higher level of service than investment by public funds alone.<sup>25</sup>

#### EMPLOYMENT:

The Brisbane Summit was significant for G20 efforts on employment. The IMF and OECD assessed that measures to boost employment are the single greatest contributor to the 2 per cent growth target, representing 30 per cent of efforts.<sup>26</sup> Yet amidst a persistently and disappointingly high unemployment outlook in many countries, leaders stated that the G20 must do more to address unemployment, raise participation, and create quality jobs.<sup>27</sup> Turkey has pledged to work with international organisations in 2015 to understand the factors behind the jobless growth phenomenon and initiate a discussion on labour income as a share of GDP.<sup>28</sup>

In the policy response to overcoming these challenges, Turkey is maintaining the approach adopted in previous presidencies that actions be included in members' growth strategies and country employment plans, recognising that labour solutions need to be tailored to country-specific settings. Labour markets are complex and there are no easy answers to these challenges. Solutions need to reflect the diversity of groups such as women, young people, and the disabled; as well as providing incentives, removing impediments, and enhancing opportunities for the most vulnerable. A good outcome for 2015 would be to continue to see these aspects incorporated appropriately in each country's growth strategies and employment plan, and implemented accordingly.

Along with a renewed focus on putting people into jobs generally, the Brisbane communiqué committed to reducing the gap between male and female participation in G20 countries by 25 per cent by 2025, estimated

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<sup>25</sup> Mike Callaghan, *G20 Brisbane Summit Form Guide: What Will Make the Summit a Success?*, Lowy Institute Analysis, (Sydney: Lowy Institute for International Policy, October 2014).

<sup>26</sup> IMF and OECD, *Quantifying the Impact of G-20 Members' Growth Strategies*.

<sup>27</sup> Brisbane G20 Leaders Summit Communiqué, November 2014.

<sup>28</sup> Turkish G20 Presidency, *Turkish G20 Presidency Priorities for 2015*, 1 December 2014.



to bring more than 100 million women into the labour force, and targeted youth unemployment by ensuring young people are in education, training, or employment. There is scope for further ambitious commitments in these areas in 2015, such as by setting targets for youth employment. Ultimately, these will need to translate into actions, so the G20 will also need to outline a timetable for meeting the grand 10-year commitment to increase female participation, and should develop country action plans dedicated to unleashing the power of young entrepreneurs, start-ups, and small and medium enterprises.

#### TRADE LIBERALISATION:

The Brisbane Summit saw some life breathed back into the multilateral trade agenda, mainly on the back of the agreement between the US and India on trade facilitation that allowed leaders to commit to implement all elements of the Bali package.<sup>29</sup> Leaders were also able to commit to defining a World Trade Organization (WTO) work program on remaining issues of the Doha Development agenda, which will be developed by July 2015.<sup>30</sup>

Despite these developments, trade remains in a shaky place. Trade growth numbers of 3.1 per cent in 2014 and 4 per cent in 2015 may be greater than recent years, but they remain significantly lower than long-term average growth rates.<sup>31</sup> Countries continue to look at bilateral and regional arrangements, notwithstanding that these deals may be inconsistent with a trading system dominated by global value chains and goods that are 'made in the world'.<sup>32</sup> A regional focus also ignores the many large trade issues that are best tackled in multilateral forums, such as trade facilitation, financial liberalisation, telecommunication liberalisation, and farming subsidies.

In October, and in light of the paralysis on Bali negotiations that emerged in the months leading up to the US/India deal, WTO Director-General Robert Azevedo lamented that the trade facilitation deadlock was not an uncommon scenario for the organisation, and sought to open conversations on the future of the 'negotiating pillar' of the WTO — the rules that govern decision-making in the body. G20 leaders subsequently agreed that they would discuss ways to make the multilateral trading system work better in Antalya. This is encouraging, although the process should be accelerated, starting by making a review

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<sup>29</sup> Brisbane G20 Leaders' Summit Communiqué, November 2014.

<sup>30</sup> Roberto Azevedo, "Let's Make Sure 2015 Will Be a Year to Remember for the WTO," (speech to WTO General Council, 10 December 2014), [http://www.wto.org/english/news\\_e/news14\\_e/gc\\_rpt\\_10dec14\\_e.htm](http://www.wto.org/english/news_e/news14_e/gc_rpt_10dec14_e.htm).

<sup>31</sup> Ibid.

<sup>32</sup> Mike Callaghan, "The WTO is in Big Trouble," *The Interpreter* (blog), 20 October 2014, <http://www.lowyinterpreter.org/post/2014/10/20/The-WTO-is-in-trouble.aspx?COLLCC=543343775&>.

of the WTO's operations a clear G20 priority for 2015, with finance ministers in Istanbul calling on the WTO to provide leaders with an options paper that assesses current failings in WTO process and actions that G20 countries can take to improve WTO decision-making. Leaders should look to provide high-level direction to WTO negotiators on desired changes in the WTO's negotiating pillar in Antalya.

G20 members could also look to put the power of trade liberalisation behind the efforts to control climate change. As part of this, the G20 could build on APEC's decision to liberalise trade in environmental goods and services and ask the OECD and the United Nations Environment Programme to define genuine green trade.

In all, 2015 is shaping as a pivotal year for the WTO, and trade is an area that could feature prominently in G20 discussions.

#### FINANCIAL REGULATION:

The financial regulatory agenda enters its seventh year, and despite optimistic claims that the agenda was substantially completed in 2014, financial regulation will continue to occupy a fair degree of ministers' and officials' time in 2015. The key item will still be for leaders to agree by the Antalya Summit on the last major outstanding piece of the regulatory reform puzzle: requiring 'too big to fail' globally systemic banks to hold enough capital so that creditors bear losses in the event of their failure, rather than taxpayer bailouts being needed.

Ahead of the Brisbane Summit, it became clear that Financial Stability Board (FSB) would propose that globally systemic banks maintain a capital base of 16-20 per cent. FSB Chair Mark Carney has described the proposal as "a watershed in ending 'too big to fail' for banks. Once implemented, these agreements will play important roles in enabling globally systemic banks to be resolved without recourse to public subsidy and without disruption to the wider financial system."<sup>33</sup> Encouragingly, leaders also committed that the proposal will be subject to public consultation and a quantitative impact assessment before a final measure is agreed at Antalya. The degree to which the proposal survives the public consultation and impact assessment processes may determine how successful the financial regulatory agenda is seen to be in 2015.

G20 finance ministers and central bank governors will also continue to monitor progress on reforms, particularly in shadow banking and for over-the-counter derivatives markets. Consistent with a post-crisis phase, the financial regulatory agenda really needs to focus on the

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<sup>33</sup> Financial Stability Board, "FSB Consults on Proposal for a Common International Standard on Total Loss-Absorbing Capacity (TLAC) for Global Systemic Banks," media release, 10 November 2014.

monitoring of, and response to, emerging risks, and 2015 would be significant if disciplined communiqués focused more on the overarching narrative of how the financial sector is contributing to economic growth, the evolving outlook for the sector's risks, and the acknowledgement of major policy milestones; and were no longer filled with references to relatively routine updates to the policy framework.

Emphasis also needs to be placed on implementation; 2015 will see the first consolidated annual reporting by the FSB on global implementation of financial regulatory reforms and their effects. It will also see the FSB and other international standard setting bodies' plans to publish information on their processes for policy development and implementation reviews. How the G20 acknowledges underperformance and whether members or institutions 'own' this failure is a perennial question for the credibility of the G20 in advancing meaningful reforms.

#### INTERNATIONAL FINANCIAL ARCHITECTURE:

In 2010, the G20 agreed to a series of reforms to the IMF's quota and governance arrangements. These reforms aim to increase the voice and representation of fast-growing emerging markets in IMF decision-making, and are an important step towards ensuring that global economic governance decisions reflect economic realities. However, their implementation has been repeatedly blocked by the US Congress (the only key remaining member to do so and with a veto power on decision-making), which has damaged the credibility of the IMF and brought the value of a 'G20 commitment' into question. Frustrated with the lack of progress, emerging market economies, and China in particular, have loudly signalled their capacity to develop workarounds to the existing financial architecture, such as the BRICS New Development Bank and Asian Infrastructure Investment Bank.

Turkey has signalled that it will place a high priority on progressing the 2010 reforms during its Presidency, with Babacan advising G20 finance deputies that "we should preserve the spirit of the 2010 Reform and deliver as much as possible on the gains of dynamic, emerging and developing countries. Besides, a plausible option could only constitute an interim solution that aims to ease the resentment from the long delayed implementation of the Reform. Our primary aim should remain as to implement the 2010 Reform eventually."<sup>34</sup>

In April 2014, G20 finance ministers called on the IMF to develop options for next steps if the latest deadline for US implementation (December 2014) was not met.<sup>35</sup> With prospects under the new US Congress

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<sup>34</sup> Turkish G20 Presidency, Deputy Prime Minister Ali Babacan's Speech at the G20 Finance and Central Bank Deputies Meeting, <https://g20.org/deputy-prime-minister-ali-babacans-speech-g20-finance-central-bank-deputies-meeting/>.

<sup>35</sup> G20 Finance Ministers and Central Bank Governors' communiqué, April 2014.

appearing more unlikely than ever, the IMF will have circulated these options to members for discussion in the lead-up to the Finance Ministers' Meeting in Istanbul in February. Possible 'Plan B' options include so-called de-linking of the package of IMF reforms with the aim to 'banking' parts of the 2010 package that have already received a sufficient majority, and making ad hoc increases to the quotas of underrepresented emerging markets in a way that does not necessitate US congressional approval.

If US implementation of reforms remains unattainable, the G20 should focus on a relatively modest Plan B, recognising that the US veto can prevent any substantive alternatives that undermine its position at the IMF from being brought into force. In addition, the Turkish Presidency should seek commitments that assure the broader community that decision-making at the IMF remains even-handed, and start conversations about IMF resourcing and the \$US460 billion in temporary bilateral loans that will expire by the end of 2016. The G20 should also continue to explore options to strengthen IMF and regional financial safety net cooperation.

As part of efforts on the international financial architecture, Turkey should also push for concrete progress towards a more effective sovereign debt restructuring framework. The topic emerged in G20 communiqués in September 2014, although international discussions on prospective enhancements to the sovereign debt restructuring framework have been taking place for years. Notably, in April 2013 the IMF assessed that recent sovereign debt restructurings, such as those in Greece, have been 'too little, too late' and have often failed in their primary objective: to re-establish a country's ability to access financial markets in a durable way.<sup>36</sup> The recent Argentinian debt default also highlighted the challenges that so-called 'vulture fund' litigation poses, and the need to strengthen the orderliness and predictability of the sovereign debt restructuring process.

The G20 has so far favoured the approach of strengthening the contractual (rather than statutory) framework underpinning debt restructurings. In Brisbane, leaders welcomed the international work on strengthened collective action and clarification of *pari passu* clauses and encouraged their adoption.<sup>37</sup> In an encouraging development, countries are starting to do this. Mexico, Kazakhstan, and Vietnam have recently issued bonds as per the International Capital Market Association (ICMA) templates, and euro zone countries have adopted the 'dual limb'

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<sup>36</sup> IMF, *Sovereign Debt Restructuring – Recent Developments and Implications for the Fund's Legal and Policy Framework*, IMF Policy Paper, (Washington, DC: IMF, April 2013).

<sup>37</sup> Brisbane G20 Leaders' Summit Communiqué, November 2014.

aggregation clauses advocated by ICMA since January 2014.<sup>38</sup> However, with \$US900 billion of foreign-law sovereign bonds outstanding and with 29 per cent of these with maturities longer than 10 years, the new clauses will take many years to gradually phase in.<sup>39</sup>

Whilst international community adoption of stronger contracts is a commendable approach, it, and modest changes to the IMF lending framework, will not be enough to prevent another case such as that seen in Greece. Turkey needs to drive discussions on more active steps that the G20 can take to strengthen the restructuring process. In the absence of firm G20 leadership on the topic, energies will continue to be devoted to alternate mechanisms such as UN proposals for a legal framework for sovereign debt restructuring, that are doomed to fail as they are opposed by the US and UK (the jurisdictions in which most international debt is issued). This is not in the interest of global policy-making.

#### INTERNATIONAL TAX:

An increasing priority for the G20 in recent years has been ensuring the fairness of the international tax system and the security of countries' revenue bases. Since 2013, policy efforts have focused on modernising international tax systems in order to end bank secrecy and prevent globally operating firms shifting profits to low- or no-tax jurisdictions. The two-year initiative has already seen the announcement of a Common Reporting Standard (CRS) for the automatic exchange of tax information, with G20 countries to exchange information automatically with one another by 2018. This will help end bank secrecy and tackle tax evasion by individuals, and is a significant achievement.

Turkey's 2015 Presidency will oversee the delivery of the final eight items in the two-year, fifteen-point BEPS action plan. It will be an instructive year in tax. Many of the difficult issues on the agenda are still to be addressed, including the transparency of taxpayer-specific rulings found to constitute harmful tax packages, and country-by-country reporting of the pricing of transfers within companies. Success will see great steps made towards tackling tax evasion by multinational companies, which have provided the biggest and most high-profile cases of tax evasion globally. Proactive involvement by the Turkish Presidency will be needed to guarantee that the momentum and achievements through 2013 and 2014 continue to translate into commitments in communiqués on issues that will facilitate compromise.

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<sup>38</sup> International Capital Market Association, "Standard Collective Action and Pari Passu Clauses for the Terms and Conditions of Sovereign Notes," (Zurich: ICMA, August 2014), <http://www.icmagroup.org/resources/Sovereign-Debt-Information/>.

<sup>39</sup> Tapas Strickland, *Sovereign Debt Restructuring: Current Issues and Reforms*, RBA Bulletin, December Quarter 2014, <http://www.rba.gov.au/publications/bulletin/2014/dec/pdf/bu-1214-9.pdf>.

The Turkish (and Chinese) Presidency will also need to lead a narrative on the longer-term tax agenda. It is likely that countries will begin to amend their domestic laws in 2015 to implement the OECD recommendations, such as a 'multilateral instrument' that the OECD claims will amend over 3000 bilateral tax agreements at once. These agreements may take years to come into force, and the G20 will need to set ambitious but realistic timeframes for the implementation of agreed changes over the coming years.

More generally, though, the BEPS project needs to be viewed as just the start of a broader fundamental change in international tax governance arrangements. Corporate tax evasion and avoidance are ongoing concerns and G20 actions will need to be reviewed regularly to ensure international tax standards keep pace with complex global business operations and evolving technological developments. An ambitious outcome at Antalya would be to reach agreement on a new, permanent international tax organisation that could manage country-by-country reporting on tax issues.

Turkey has made the inclusiveness of international tax system improvements, developing countries' perspectives in the tax agenda, and bilateral and multilateral cooperation between tax authorities an important aspect of its agenda. 2015 will need to see tangible progress in assisting low-income countries to meet G20 standards, without undermining their limited tax administration capacity.

#### ANTI-CORRUPTION:

Fighting corruption remains an ongoing objective of the G20, and with corruption a high-profile domestic issue within China, this is a topic that is likely to become more prominent as 2015 progresses. The Brisbane Summit saw the successful adoption of the High Level Principles on Beneficial Ownership Transparency. The principles commit governments to ensuring that information about the real identities of owners of corporations, trusts, and other legal entities is kept and made available to authorities internationally. In 2015, the G20 should build on this success by committing to extend the identity information kept to cover those who deal with the companies, corporations and trusts, and ambitiously committing to develop public registers of this information.

Brisbane also saw the agreement to a new two-year G20 Anti-Corruption Action Plan for 2015-16, which broadens the G20's anti-corruption work to encompass a wider integrity and transparency agenda, on top of the 'hard' corruption activities of foreign bribery or siphoning off of public assets.<sup>40</sup> The G20 should continue to look to add value to the existing

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<sup>40</sup> AJ Brown, "Path Away from Hypocrisy Begins with Better Accountability for National Action: Lessons from, and for, the Brisbane G20 Anti-corruption Outcomes," Centre for Governance and Public Policy, Griffith University, 18 November 2014,

anti-corruption efforts of multilateral institutions, such as the OECD and UN, recognising the comparative advantage of different international institutions. G20 discussions in 2015 could also focus on the effective implementation of anti-corruption commitments and the evaluation of country efforts. Finance ministers could ask the OECD/UN to report to leaders on members' progress in implementing the anti-corruption agenda, starting with the beneficial ownership principles, to supplement current self-assessment and self-reporting processes.

#### DEVELOPMENT:

One thing that stood out from Turkish Prime Minister Ahmet Davutoglu's initial speech was that development concerns would be front and centre of the Turkish G20 Presidency. The promise is to further enhance the integration of developing and low-income countries into the world economy through concrete and growth-oriented actions, including by examining innovative ways to enhance the contributions of the private sector in development. A coherent G20 growth narrative must account for the contribution of developing economies to stronger global growth and global economic resilience. A challenge will be for the Turkish Presidency to articulate what concrete growth actions it sees necessary to progress development objectives, whilst communicating that the G20 continues to deliver substantive advancements on core growth and resilience agenda items.

Despite progress in recent years on some aspects of the development agenda, such as food security, remittances, and efforts to promote financial inclusion, the development agenda remains largely a diffuse add-on to the core G20 agenda, disconnected from the central concerns of leaders and finance ministers. A substantive outcome in 2015 would be the 'mainstreaming' of development considerations within the G20, in recognition that the substantive policy prescriptions for development — such as trade access, infrastructure, agricultural development, tax policy, education and human resources development, commodity and food price volatility, and anti-corruption — are not wielded by development ministers. As a consequence, the role of the Development Working Group should be re-characterised to, as its primary responsibility, provide quality input of development perspectives into other workstreams, with a mandate to be a loud advocate for development interests.

A clear mainstreaming of a development issue would be to focus finance ministers' attention on addressing health governance gaps, and at the same time addressing one of the emerging issues that occupied finance ministers and leaders' time in the final three months of 2014. In their

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[http://www.griffith.edu.au/\\_\\_data/assets/pdf\\_file/0009/666954/G20-anti-corruption-outcomes-.pdf](http://www.griffith.edu.au/__data/assets/pdf_file/0009/666954/G20-anti-corruption-outcomes-.pdf)



Brisbane communiqué and statement on Ebola, leaders expressed deep concern over the humanitarian and economic impact of the Ebola outbreak, recognised the coordinated global efforts to combat the epidemic and ensure economic recovery, and committed to do all they could to contain and respond to the crisis.<sup>41</sup> In welcome news, the head of the UN global response now expects that new cases in the Ebola outbreak will drop to zero by the close of 2015, and has described the coordinated emergency response as highly successful.<sup>42</sup> In time, the focus of the Ebola response will shift away from emergency containment and towards ensuring economic recovery in affected nations. International organisations, particularly the World Bank, African Development Bank, and the IMF will lead the international communities' actions to promote economic recovery, and G20 members will also play an important individual role in assisting affected West African nations.

Further, the Ebola outbreak has demonstrated that the world — and particularly low-income and developing countries — remains ill-prepared to respond to any severe, global, sustained, and threatening public health emergency. Now, while the memory of how close it came to causing devastating global confidence is still fresh, is the best time to initiate action to fix the fundamental deficiencies it (and similar recent infectious disease emergencies such as Avian Influenza and SARS) exposed in global health governance. In particular, the G20 should look to address the market failures it exposed in discovering and developing medicines, vaccines, and diagnostic tests for infectious diseases that disproportionately kill the world's poor, and fix gaps in the multilateral health architecture, particularly deficiencies in the operation of the World Health Organization and global and regional health surveillance.

In addition, in the event that UN negotiations on the set of post-2015 Millennium Development Goals fail to deliver a clear and coherent outcome, G20 leaders should be prepared to provide necessary direction for subsequent UN negotiations, recognising that the G20 should not be the forum for negotiating new post-2015 goals.

#### ENERGY:

It is clear that current global energy governance arrangements are not working in the interests of all. Current arrangements, which were largely developed due to the oil shocks of the 1970s with the International Energy Agency (IEA) at their centre, are fragmented and do not reflect the significant transformation in energy markets of recent years,

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<sup>41</sup> G20 Leaders' Brisbane Statement on Ebola, 15 November 2014.

<sup>42</sup> Jean-Jacques Cornish, "Ebola Outbreak Will End this Year – UN Head," *Eyewitness News*, 3 January 2015.



particularly the growing role played by emerging markets.<sup>43</sup> A major factor that the IMF attributed to the 40 per cent decline in global oil prices between September and December 2014 was the publicly announced intention of Saudi Arabia, the biggest OPEC oil producer, to not cut supply in response to the steadily increasing supply of oil globally, and the subsequent decisions by OPEC (and other oil producers) to maintain production levels in spite of a perceived glut.<sup>44</sup>

The Turkish Presidency has an opportunity to build upon what could prove to be one of the most substantial and unsung developments coming from the Brisbane Summit: a decision to bring together energy ministers from G20 nations to work on options to implement the nine agreed G20 principles of energy collaboration.<sup>45</sup> This decision will bring together major global energy producers and consumers for discussions on redesigning the international energy architecture. Turkey should push for an ambitious timetable for future energy negotiations, and for scope to pursue actions that facilitate well-functioning, open, competitive, efficient, stable, and transparent energy markets, underpinned by improved publicly-available data and analysis.

Low oil prices have provided an unexpected bonus to policy-making: the impetus for G20 members to finally address so-called 'inefficient' fossil fuel subsidies. It is difficult to overestimate the destructive effect that fossil fuel subsidies have on the budgets of those who provide them — for example, in Indonesia in 2008, combined subsidies for fuel and electricity were estimated to total 4.5 per cent of GDP and 20 per cent of total government spending.<sup>46</sup> Yet the subsidies have proven stubbornly tough policies to address domestically. The tide began to turn in October, when Indian Prime Minister Modi eliminated state controls on diesel prices for the first time in a decade. In welcome news, the petrol price in Indonesia is, from 1 January 2015, reflecting global market prices for the first time in decades. The decision is estimated to boost Indonesia growth and free up to \$16 billion in budget space.<sup>47</sup> The February Finance Ministers' Meeting in Istanbul could be the ideal timeframe for G20 members to welcome these positive developments

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<sup>43</sup> Christian Downie, "The Prospects for G20 Energy Reform: States, Coalitions, and Crises," in *G20 2014: The G20 Brisbane Summit, Inequality, Energy and Anti-corruption*, G20 Monitor No. 12, (Sydney: Lowy Institute for International Policy, 2014).

<sup>44</sup> Rabah Arezki and Olivier Blanchard, "Seven Questions about the Recent Oil Price Slump."

<sup>45</sup> G20 Principles for Energy Collaboration, November 2014.

<sup>46</sup> World Bank and OECD, "Fossil-fuel Support," OECD Secretariat1 background report to support the report on "Mobilizing Climate Finance," report delivered to G20 Meeting of Finance Ministers, 14-15 October 2011, <http://www.worldbank.org/content/dam/Worldbank/document/SDN/Annex%203%20-%20Fossil-fuel%20support.pdf>.

<sup>47</sup> The Economist, "A good scrap: As Jokowi abandons wasteful fuel subsidies, fiscal prospects brighten," *The Economist*, 10 January 2015.

and demonstrate their intent to finally deliver on a commitment that was originally made by leaders in 2009 in Pittsburgh.

2015 will also need to maintain momentum on the Energy Efficiency Action plan, in which the G20 acknowledged that it would focus on 'next priorities' of vehicle energy efficiency, networked devices, enhancing capital flows to energy efficiency investments, improving metrics and performance for buildings, industrial energy management, and electricity generation.<sup>48</sup> With the energy sector contributing two-thirds of carbon emissions, firm commitments on increasing fuel quality and reducing carbon emissions by heavy-duty industries in time for the Antalya Summit would make a valuable addition to the 2015 climate agenda.

#### CLIMATE CHANGE:

Climate change could become the defining issue of 2015 and COP21, the United Nations Framework Convention on Climate Change (UNFCCC) conference that will take place in Paris in December 2015, has the potential to define the future of global efforts in this important field. The UNFCCC discussions in Paris will consequently loom large over leaders' discussions in Antalya in 2015. Davutoglu's powerful rhetoric in Brisbane that: "on most issues we act as the heads of nation states, but on climate change we should act as the ministers of home affairs for humanity," suggests that this will also be an important domestic issue for Turkey.

The key question for the G20 is how it can add value to the United Nations negotiations. The experience of COP20 in Lima and the chequered history of global climate change negotiations show that reaching an international agreement on reducing emissions is very difficult. Political leadership is needed, and the G20 provides an avenue to demonstrate this leadership, given its membership includes all of the world's largest emitters. A consensus from the G20 that provides strategic direction on several key conditions for a climate agreement, just weeks out from the Paris meeting, would make a major contribution towards a successful outcome. Such a consensus result will not be easy, but it needs to be attempted.

But as any casual observer in Australia would have noted, the climate change language was among the most controversial aspects of the Brisbane Summit, with the G20 unable to claim a consensus on simply reporting country commitments in early 2015. Coming off the back of a historic agreement between China and the US, the G20's reportedly heated discussions robbed climate discussions of much-needed momentum, which was further eroded by the painstaking negotiations on some more technical dimensions to a climate accord in Peru.

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<sup>48</sup> G20, *G20 Energy Efficiency Action Plan*, November 2014.

Given the history of negotiations, the G20 should be looking for contingencies in the event of further failure on climate change. Achievements on emissions standards and scaled-up climate change finance provide important pragmatic steps forward that can be built upon in the future. Further, Turkey has nominated climate finance as a core issue, stating that it will conduct studies to improve the collaboration, dialogue, and cooperation between climate funds. In addition to these efforts, the G20 should look for members to build on the commitments made to the Green Carbon Fund with further financial contributions.

### A PROSPECTIVE PUBLIC NARRATIVE

Imagine that it is the day after the Antalya Summit, and people wake up to see the international media proclaiming that the G20 has well and truly delivered in 2015. OECD and IMF analysis claims that G20 members have delivered on the majority of the 2 per cent target, backing up their forecasts from the October 2015 IMF-World Bank annual meetings. G20 Leaders have agreed to a firm target that will address persistently high youth unemployment, and outlined its ambitious collective plans to actually put 100 million more women into jobs by 2025. In a broad-ranging set of achievements, the G20 is also taking real action to advance longer-term global governance issues. These include the first steps on developing new international energy architecture and a new international tax body, and long-awaited, tangible (albeit modest) progress on improving governance arrangements at the IMF. Leaders are also praised for reaching a consensus position on climate change that provides real leader-driven direction ahead of UN negotiations in Paris. Rounding out the achievements, leaders will also take action to improve the WTO's decision-making framework and, as part of a renewed G20 mandate on development, finance ministers are taking steps to improve global health governance arrangements.

Based on where the G20 is positioned at the end of 2014, this sort of public narrative is possible, although achieving outcomes on substantive, specific, tangible outcomes across the broad range of topics will clearly not be easy. It highlights that if the Turkish Presidency is to be considered a success, it needs to be more than just an implementer of existing priorities and domestic issues. It needs to focus attention on cross-border governance issues that the forum's reputation depends on.

Achievement will allow the 2015 Presidency to demonstrate that the G20 is continuing to play a very positive ongoing role; that governments have the capacity and willingness to cooperate; and that non-G8 countries are continuing to listen and learn how to steer global affairs. In short, it will restore the reputation of the G20 as the premier global economic forum. Yet there are substantial risks to achieving this type of narrative, and the consequence in a world of workarounds is that alternative forums will continue to be sought if the G20 is not seen to be continually

demonstrating its relevance. It seems certain that the G20 is destined to walk a tightrope of relevancy in 2015.

# A REFLECTION ON THE G20: FROM STRATEGIC TO PRAGMATIC

YE YU<sup>1</sup>

At a speech in Shanghai early this year, Professor Oran Young, the world-renowned expert on international institutions and global governance, said global economic governance was at a risky crossroad from 'punctuated equilibrium' to 'arrested development'. Indeed, the world is in a transitional period facing the systematic challenge of re-negotiating the principle of "common but differentiated responsibilities" in almost every key issue area, from trade and finance to climate and development. Major economies are competing in the supply of regional and global public goods. The transition will occur in an incremental, fragmented, and chaotic way, and we cannot expect a new system to be agreed in a short period like what happened after the Second World War.

This is the world the G20 faces today and into the future. When the G20 Leaders' Summit was first assembled in 2008, the former British Prime Minister Gordon Brown praised it as creating a new world order and the former Brazilian President Luiz Inacio Lula Da Silva declared that it marked a change in global politics. Now we have realised that the G20 needs to be more patient about its strategic role and more pragmatic about what can be achieved.

Based on this modest attitude, we can find the G20 has evolved positively in the following aspects during the last six years:

First, rules have been renovated in areas that exhibit more consensus than differences. Financial regulation and tax cooperation are typical examples. The Financial Stability Board (FSB) said in its report to the Brisbane G20 Summit that financial reform is "completing the job and looking ahead," including raising capital requirements of banks, ending the "too big to fail" phenomenon.

Second, in those areas of stalemate, transparency has been enhanced and "beggar thy neighbour" behaviour has been restrained to the greatest possible extent. The G20 was unable to bring about a breakthrough for the Doha Round, but it did help control trade protectionism through enhanced monitoring mechanisms. Major economies also improved communications about their monetary and

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<sup>1</sup> Assistant Director, Shanghai Institute for International Studies.

fiscal policies through the Mutual Assessment Process (MAP) among others. At a press conference after the first G20 Finance Ministers' Meeting in February this year, IMF Managing Director Christine Lagarde commented that "thanks to the good cooperation" between attendees the widely expected hostility, disagreement, and adversarial discussions, particularly on the tapering effect of the Fed's unconventional monetary policy did not occur.

Third, the development issue has found its way into the G20 with a more integrated framework. There have long been controversies over whether the G20 should cover development as it could distract the G20's attention. But due to the issue's overwhelming significance, the question is now more about 'how' than 'whether'. Since 2010, each host of the G20 has tried to add favourable items to the G20's agenda, which caused a 'Christmas tree' effect. Australia established a G20 Development Working Group Accountability Framework to relieve the problem.

Fourth, the G20 is entering a period of reflection: moving from building frameworks to delivering details, from making commitments to ensuring implementation, and from expanding scale to pursuing efficiency. How to streamline the development agenda mentioned above is one example. Another was that this year's G20 Communiqué was reduced to just three pages so as to keep the G20 focused and its goals clearly communicated. This year, for the first time, the G20 came out with a five-year growth plan. It is laudable that Turkey declared implementation of past commitments as one of the priorities for the G20 in 2015.

Last, but not the least, with the G20 as a "premier forum for international economic cooperation," nation states, international organisations, entrepreneurs, think tanks and civil society have been incentivised to provide innovative ideas and solutions for our global economic issues with strategic implications. This catalytic role of the G20 should not be underestimated, especially when this could increase the intellectual participation of emerging economies and foster consensus. Furthermore, these non-state actors can also play a role in improving accountability of major economies. Australia has done a great job in strengthening the G20's intellectual role through the outreach activities of Think20, Business20, and others.

A lot needs to be done by the G20 in the future, of course. Priorities for 2015 include:

First, it needs to be flexible enough to respond to new situations. For example, a more comprehensive study on the accumulated effects of changes to major economies' monetary policies, and the impact of global energy markets and geopolitical conflicts on the world economy; a renewed focus on the global financial safety net and candid discussions on specific cases like Russia and Argentina to prevent worsening of their situations.

Second, more assessment is needed on the appropriateness of the new financial regulatory standards for different countries. There are critical views from Chinese commentators.<sup>2</sup> 'Option B' has to be detailed if IMF reform cannot move forward.

Third, broader development issues, including energy and climate, need to be better integrated into the G20 mainstream under the Finance track. Only in this way can the G20 develop its comparative advantage of dealing with global and cross-cutting issues.

Fourth, the intellectual role of the G20 has a lot of potential to exploit. Think20 needs to better reflect cutting-edge economics and bridge gaps between theoretical studies and policy prescriptions. This is a reliable way to keep the G20 strategic in the long run.

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<sup>2</sup> Zou Lixing, "The Deficiencies of Basel III Put Pressure on Developing Countries," *International Finance News*, 3 November 2014.

# THE G20 AT THE END OF 2014: WHERE IS IT AT?

JUN YOKOTA<sup>1</sup>

Just before the Brisbane G20 Summit, the *International New York Times* wrote that “Hopes are Low as G-20 meets.” After the event, reporting in the Japanese press was rather low-key and mostly factual, with only one major economic paper — *Nihon Keizai Shinbun* — commenting that what was noticeable about the Summit was the bickering between its participants on numerous issues and the need for a “rebuilding” of the G20 in order to achieve tangible results against the background of increasing economic clout of its emerging economy members. The article mentioned examples of the areas where differences of positions were apparent: infrastructure, IMF reform, and the use of fiscal measures to boost the economy.

In terms of judging whether the group has delivered tangible results so far, one measure which can be used may be to see how the repeated call in the successive G20 communiqués for standstill and rollback commitments are being observed. In this regard, the latest WTO report on recent trade developments issued on 6 November 2014 paints a rather unflattering picture of the G20’s performance. It says that the stock of restrictive trade measures introduced by the G20 continues to rise despite the pledge, and that G20 economies applied 93 new trade-restrictive measures during the period between mid-May and mid-October of this year. Although one can cite as a mitigating factor that during the same period the same economies introduced 79 trade-liberalising measures and that the number of restrictive measures affecting exports declined significantly, this result is not something that the G20 as a group should be proud of.

In Brisbane, the Australian Government has done a laudable job of achieving world leaders’ commitment to lift the G20’s GDP by at least an additional 2 per cent by 2018, through the implementation of the Brisbane Action Plan. What is more, the Brisbane Communiqué says: “We will monitor and hold each other to account for implementing our commitments.” Although these ‘monitoring’ and ‘accountability’ elements both appear in previous communiqués, this time they seem to have been carried a notch further in order to “ensure our growth strategies continue to deliver.”

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Now, an optimistically inclined person might think that strong economic growth being something that everybody — top leaders included — wants, everyone will gleefully implement all the right policies to stimulate growth making it easy for the G20 to claim that their action plan and the mechanism put in place have done the trick.

Looking at what is happening in Japan to the so called “third arrow” of Abenomics involving structural reform, if the pace of implementation of the different reform policies is slower than some had expected, it is not due to the lack of will by Prime Minister Abe, but rather due to the need to overcome resistance from the parts of Japanese society affected by the reform. It goes without saying that in the process of overcoming such resistance, being a quintessentially domestic and political one, pressure from the international community, even with the best of intentions, plays a rather limited role.

Since an important ingredient for the success of the Brisbane Action Plan is the implementation of structural reform by its members, it seems that the G20 is now more than ever staking its credibility on the outcome of a process which is hard even for a determined political leader to achieve in time and to the full extent.

I do hope that, in spite of this, this time, the commitments by leaders with regard to economic growth will be qualitatively different from the ones on standstill and rollback of trade-restrictive measures so that the target of raising global growth might be achieved.

Having said all this, the G20, being the only forum of its kind providing an opportunity for leaders of this group to meet annually to discuss matters of mutual concern, and, why not, to be used as an occasion to announce some good news like the unblocking of the Bali package, still remains a useful grouping.

# GROUP WITH A CAUSE: THERE IS NO ALTERNATIVE TO THE G20, BUT IT DOES NEED REFORM

KATHARINA GNATH AND CLAUDIA SCHMUCKER<sup>1</sup>

At the moment, there is no alternative to the G20, which remains the only international forum for enabling dialogue on equal terms among both important industrial countries and emerging market economies. But greatly differing interests and circumstances among members make compromise extremely difficult, and the summits have started to lose their lustre. If the G20 wants to remain an effective forum, it must be strengthened and should concentrate on international themes.

In mid-November 2014, the G20 heads of state and government convened in Brisbane, Australia, for their annual meeting. Even though the summits have lost much of their lustre, there is still no alternative to this forum. As the global financial crisis showed all too clearly, there are enormous governance gaps in the international economic system that are still far from being closed — be it in financial regulation, redressing macroeconomic imbalances, or in questions of global tax competition. Because only the G20 enables a dialogue at eye level between highly industrialised states and the major emerging market economies, it remains the only plausible international forum for sounding out possible compromises on these subjects.

Beyond matters of long-term economic and financial policy, the G20 also offers an important platform for its member states to respond with speed and flexibility to current topics and crises. As we saw most recently in Brisbane, the heads of state and government used the opportunity furnished by the G20 Summit for intensive bilateral meetings. In Australia, for example, Germany's Chancellor Angela Merkel met with Russia's President Vladimir Putin to discuss the situation in Ukraine in a talk that lasted more than three hours.

The G20 had an impressive launch, responding swiftly to the near collapse of the international financial system of 2008 and 2009. Since then, however, enthusiasm for the forum has clearly started to wane, as has the overall readiness of its members to cooperate with each other. Large differences in economic cycles, in overall economic conditions,

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and in political interests make it very hard indeed to reach compromise on an international level.

On top of this, the implementation of international G20 agreements depends on the willingness of individual member states and their respective political circumstances. The agreements must also be ratified in part by national parliaments, which can hamper implementation. One example is the United States' political system, with its current political deadlock. The forum's future is therefore uncertain — despite its central importance for global economic governance. If it is to maintain its long-term effectiveness as a forum for dialogue and informal deal-making, the G20 must be strengthened.

## FOCUS ON INTERNATIONAL TOPICS

Billed as a great success of the Brisbane Summit were the more than 800 measures undertaken by individual member states designed to increase global economic growth in the next five years by an additional 2.1 per cent.<sup>2</sup> There is no doubt that the G20 can support changes in national policy such as structural reforms, investments in infrastructure, and national action plans to promote growth. What is ultimately needed, however, is political will for such change, and the reform efforts have to come from the member states themselves; the informal G20 does not have enough direct influence at the national policy level. Because of this, the G20 should stop placing themes like growth through investment and structural reform at the centre of its agenda in the future and instead focus on topics that can only be solved at the international level and on which the forum can contribute direct added value.

Topics on which the G20 could reach decisive compromises in the future include, among others: better international tax cooperation; the removal of blockades in the multilateral trade negotiations of the Doha Round; reform of international financial institutions; and further financial regulation (for example in the area of shadow banking). Moreover, the high-level meetings should above all be used to give political impetus to greater international coordination and better standards. Implementation needs to take place in cooperation with such established international organisations as the International Monetary Fund (IMF), the World Bank, the Organisation for Economic Cooperation and Development (OECD), the World Trade Organization (WTO), and the Basel-based Financial Stability Board (FSB).

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<sup>2</sup> G20 Leaders' Communiqué, Brisbane, 16 November 2014, <http://www.g20.utoronto.ca/2014/2014-1116-communication.html> (accessed November 2014).

## A BETTER ANCHOR FOR THE G20 “TROIKA”

The G20 is a member-driven forum, organised by a presidency that changes every year. Experience has shown that each new G20 presidency places its own items and priorities on the agenda and that these are often the result of national political processes and self-interest. This tends to overload the summit thematically — at the expense of coherence and continuity.

There are frequent calls for the G20 to establish a secretariat, but it would be difficult to align this with the G20's informal character.<sup>3</sup> The forum's dialogue should continue to be driven forward by its members, as this ensures their ownership and commitment. One option for strengthening thematic continuity and providing better anchorage amid the rotating presidencies would be to further develop the “Presidential Troika” made up of the previous, the current, and the future G20 presidencies. Regular meetings and jointly established priorities could thus shape the agenda for three consecutive years. It also makes sense to pare down the G20 agenda to three long-term goals that could be overseen by the respective presidencies in comprehensive workstreams. This would strengthen thematic continuity, keep the regular agenda from getting bogged down, and preserve the necessary freedom and summit time for world leaders to approach and react with flexibility to a range of current subjects and crises.

## TURKEY'S 2015 G20 PRESIDENCY: MORE CONCENTRATION AND CONTINUITY

The fact that systemically relevant states regularly meet at the highest political level provides an added value for governance of the global economy — even beyond the management of acute crises. It is therefore imperative to preserve this forum and to strengthen it. In November 2015, the tenth G20 summit of heads of state and government is to be held in Antalya under the Presidency of Turkey. Turkey has set three priorities for its G20 presidency in 2015: Inclusiveness, Implementation, and Investment for Growth.<sup>4</sup> Within the framework of its presidency, Turkey has taken over many topics from Australia, including trade, employment, infrastructure investment, and energy. The precise areas of focus are still unclear, however. The 11 sub-themes currently on the agenda should be reduced as quickly as possible in order to design specific and realistic goals for November

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<sup>3</sup> See for example Jörg Asmussen's introductory statement for the panel discussion on “The G20 and the Future of Global Economic Governance” at the annual meeting of the Institute of International Finance (IIF) in Washington DC, 12 October 2013, <http://www.ecb.europa.eu/press/key/date/2013/html/sp131012.en.html> (accessed November 2014).

<sup>4</sup> Turkish G20 Presidency, *Turkish G20 Presidency Priorities for 2015*, 1 December 2014.

2015. The focus, moreover, needs to shift away from themes of national growth and set a course toward substantive international topics such as trade and energy.

It is high time for Australia, Turkey, and China to sit down together to establish the main areas of focus and set the agenda for the next few years. There are already close political bonds between Australia and Turkey based on strong historical connections (the Battle of Gallipoli of 1915).<sup>5</sup> China for its part, as a rapidly industrialising country, is surely extremely interested in making the most of its 2016 presidency and in shoring up the G20 as a central forum. This is, therefore, an optimal time to deepen and consolidate the cooperation of the troika and thereby ensure the long-term continuity and coherence — as well as the effectiveness — of the G20.

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<sup>5</sup> ANZAC Day, Australia's most important national holiday, commemorates the First World War Battle of Gallipoli, in which Australia suffered heavy losses against Turkish Ottoman troops. Kemal Atatürk remembered the Australian and New Zealand soldiers who lost their lives at Gallipoli in an important speech in 1934. This joint commemoration furthered close ties between Australia and Turkey. The hundredth anniversary of the battle will take place in 2015 (during the Turkish Presidency of the G20).

# BACK ON TRACK

FAN HE<sup>1</sup>

Global economic growth has lost momentum recently, with the IMF revising its global growth forecast down for both 2014 and 2015 and warning that “growth is uneven and still weak overall and remains susceptible to many downside risks.”<sup>2</sup> Emerging markets are facing an especially tough time. Since the global financial crisis, emerging markets have been the primary force for growth, but they are now suffering an unprecedented slowdown.

Against this backdrop, the challenge is how to unleash the potential for economic growth, and at the same time to increase its resilience. Thanks to the Australian Presidency, the Brisbane Summit meeting has finally returned the G20 to a more normal track. Rather than finger pointing and blame shifting, now member countries are trying to work together on a series of policies to revitalise economic growth.

A growth target has been announced. Member countries committed in Brisbane to lift the G20’s GDP by more than 2 per cent above the current trajectory over five years. If the goal is achieved, \$US2 trillion will be added to the global economy, and millions of new jobs created. Much emphasis has been put on structural reforms in each country. The IMF and OECD will monitor the progress that member countries have made through regular reports.

It is fair to say that the 2 per cent goal does not have any binding power. Each country has its own specific policy measures and there is no way to find a one-size-fits-all solution. However, by publicly pledging oneself to this benchmark, member countries can improve the credibility of much-needed structural reforms. Policy-makers can utilise the peer pressure to overcome domestic political roadblocks, if they want to do so.

It is also encouraging to see that more practical policies have been put on the agenda. Infrastructure investment was another priority for the Brisbane Summit meeting. Although the demand for infrastructure building is huge there is a wide funding gap, with governments facing stricter budget constraints, and there are greater restrictions on banks’ long-term lending associated with new regulatory requirements. Innovations are needed to close this gap. The Brisbane G20 Leaders’ Summit asked the right questions, but was unable to provide satisfactory

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<sup>1</sup> Chinese Academy of Social Sciences.

<sup>2</sup> IMF, *World Economic Outlook: Legacies, Clouds, Uncertainties*.

answers. More ideas and practices will need to emerge in the coming years.

It seems that the G20 is moving forward from phase one, or G20 1.0, to phase two, or G20 2.0. In the immediate aftermath of the global financial crisis, G20 summits helped save the world from more severe economic crisis. The main policy measures that member countries adopted were fiscal and monetary stimulus packages to boost economic growth. However, when crisis subsided, a clash of interests emerged. The legitimacy of G20 is declining, and people are increasingly cynical as to what the forums can achieve. By insisting on economic growth as the priority of the agenda, the success of the Brisbane Summit meeting can help to boost morale. Australia has also tried hard to engage both developed and developing countries, and improve the habits of cooperation. Hopefully, the dialogues and coordination will continue. Turkey has been selected as the G20 Chair in 2015 and China in 2016. Under both presidencies we can expect a continuous and further deepening discussion of all these issues, and a more active involvement of emerging markets.

The G20 could do better by upgrading to a phase 3.0. Economic growth is important, but it is not the answer to all the questions. We have to look beyond the fluctuation of annual growth rates and address the issue of global governance gaps. All long-term issues with global governance and multilateral organisations should be on the G20 agenda.

The current situation is far from optimistic. The future of the multilateral trade system and the World Trade Organization is in trouble. Regional free trade agreements are as messy as a bowl of spaghetti. Many member countries are worried about a clash among blocs and backlash against globalisation. The G20 needs to restore confidence in the world trade system by pushing forward the Doha Round and making sure that any regional trade negotiations should be consistent with WTO rules.

The IMF reforms remain stalled because of continuing deadlock in the United States. The longer the IMF reforms are delayed, the more centrifugal forces will be generated. For example, BRICS countries are working on the proposal of a common currency pool as well as the BRICS Bank, or New Development Bank. These developments are not a challenge to the existing regime, but rather a response to the failure to pass IMF reforms.

The coming two years will be an important period in the evolution of the G20. In the G20's tradition, a "troika" made up of the current, immediate past, and next host countries should work together on the summit agenda. When China takes the 2016 Presidency, the troika will consist of Turkey, Australia, and China.

China is rising steadily and trying to find its place in the new alignment of global power. The G20 is a major platform for dialogue and coordination

between large developed and developing countries. China feels far more at ease at the G20 than in other forums like the G8. It has always been very supportive and is more willing to shoulder greater responsibilities in the international community. China needs the G20 and the G20 needs China. When China assumes the Presidency, it should seek to strike a fine balance between developed and developing countries, which will greatly boost the credibility of the G20.

However, a positive reaction from the international community will also be important. It has to be admitted that many Chinese people still have a deep-rooted distrust of the West, and Chinese leaders are becoming more confident in asserting that China no longer has an interest in pleasing the international community. Domestic politics influence diplomacy, and the evolving economic and political changes in China may reflect on its international stance. A Cold War mindset and zero-sum game approach would jeopardise, and be poisonous to, G20 cooperation. One only has to look at how geopolitical conflicts tarnished the G8. A similar failure within the G20 would be unacceptable for its membership. Each country has its own different diplomatic traditions, but to foster collaborative relationships, they will need to develop habits of thinking collectively about the common challenges of global economic governance.



## WHERE IS THE G20 AT END-2014?

STEPHEN GRENVILLE<sup>1</sup>

The Brisbane G20 meeting sharpened the agenda-setting, shortened the communiqué, and maintained the focus on economic growth. But many still feel that G20 is a group in search of more substance. No one doubts the importance of leaders getting together (Gareth Evans makes a good statement of the case), but there are other meetings where G20 leaders can maintain their personal contacts.<sup>2</sup> If the G20 meeting is characterised as lacking substance, it is only a matter of time before one or more of the key attendees will find some pressing engagement elsewhere, putting the G20's primacy in jeopardy. Thus more needs to be done to create some substantive ongoing core responsibilities for the G20.

Reflecting the complexity of global interaction is the plethora of specialised international agencies, typically operating without direct input from leaders. One possibility would be for the G20 to develop over time its role as a ginger group and steering committee for some of these more specialised international agencies. Whenever this is suggested (sometimes under the rubric of 'One G to rule them all') there is understandable pushback from two quarters: from these international agencies themselves, and from smaller countries not directly represented at the G20.

These agencies see such a move as encroaching on their independence and freedom. That is understandable but not a reason for holding back. Where agencies have been tardy or ineffective in promoting global causes, a push from leaders may be helpful. Even where these agencies are performing competently, their outlook can be narrow, with groupthink always a danger. Feedback and guidance from the highest leadership level can broaden perspectives and set priorities across the wider policy spectrum.

As well, there is resistance from those countries not included in the G20. This may, however, reflect a misunderstanding of how this proposal could be put into practice. These countries are often directly represented in these other bodies (such as the UN, the WTO, or the IMF) and may consider that encouraging the G20 to exert pressure on these bodies

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<sup>2</sup> Gareth Evans, "Why Summits Matter," *Project Syndicate*, 24 November 2014, <http://www.project-syndicate.org/commentary/apec-g-20-and-east-asian-summits-by-gareth-evans-2014-11>.

dilutes or deprives them of their own governance role. The reality, however, is that universal representation provides an ineffectual voice for most members. Reflecting the inevitable conflict between universal representation and effectiveness, de facto control shifts to a smaller group of larger countries, such as the Security Council in the UN or the International Monetary and Financial Committee (IMFC) at the IMF. Where this de facto centralised decision-making process is avoided by giving all members a veto power through a requirement for unanimity (as with the WTO), the decision process is interminable.

The reality is that broad oversight by the G20 leaders would provide a wider representation than the existing governance arrangements. At present the decisions reflect consensus agreement by G2, G7, or long-standing regional coalitions, notably the European Union, where the opportunities for prior self-interested consensus-building are numerous.

This can be illustrated in the case of the International Monetary Fund. All 188 member countries can attend the annual Board meeting, but for most of them the occasion is representational rather than governance. The high-level governance action is with the IMFC. The daily operational issues (often the most important) are in the hands of the Executive Board. Both the IMFC and the Executive Board are limited to 24 members, and while all 188 members are included through constituency representation, the G7 countries still call the shots. It is unsurprising that neither of these two in-house groups has been able to achieve governance reform, particularly to give adequate representation to the fast-growing emerging economies, which are underrepresented in current IMF quotas and voting rights. It was the 2010 G20 meeting in Seoul that moved this issue forward. The G20 is in the best position to bring pressure to bear on the US to implement the Seoul agreement and carry this issue forward in the future.

The key to building the G20's role in this way lies with restrained exercise of leadership, recognising what can and can't be done. The G20 must leave the day-to-day governance of these other bodies to their own (often long-standing and legally-based) arrangements. Its influence comes from the opportunity to develop consensus and refine opinion at the highest level. Even a partial consensus at the G20 can often provide a solid voting majority when the issue comes to be settled in the specialised agency. Specialist agencies and their permanent bureaucracies tend to work at the margin in evolving policy and procedures. Leaders can, from time to time, provide the disruptive shift of mindset that can move stalled or ossified issues forward.

With a more active role like this, the task of the revolving chair would evolve in a useful way. There would be fewer opportunities for distracting new agenda-widening issues (every chair feels the need to leave their mark on the G20) and more on-going continuity.

# THE G20 AT THE END OF 2014: WHERE IS IT AT?

CARLOS HEREDIA<sup>1</sup>

The Bretton Woods institutions, created in 1944, established the rules for commercial and financial relations among the world's major industrial states. Back then, one country, the United States of America, concentrated half of the world's output and together with the Soviet Union represented the two poles of the military balance that prevailed throughout the Cold War.

Seven decades after, in 2014, the world lacks a system of global governance. The political integration of transnational actors aimed at negotiating responses to problems that affect more than one state or region has two key institutions: the UN system that deals with global issues but is often undermined by the global powers that be, and the Group of Seven (G7), which caters to the interests of the West but dictates policy for the rest.

Countries coalesce by affinity of interests. The G7 (United States, Japan, Germany, France, United Kingdom, Italy, and Canada), with 11 per cent of the world's population commands 49.5 per cent of global GDP and has an average per capita income of \$US47 500. In a sharp contrast, the BRICS (Brazil, Russia, India, China, and South Africa), with 41 per cent of the total population, only represent 22.3 per cent of the world's output, with an average per capita income of \$US5300. There is obviously an ongoing shift of power and wealth from the North to the South and from the West to the East; the approach to global issues of these two blocks is often at odds, to say the least.

The rest of the world, which accounts for the remaining 28 per cent of the world's output, tries to carve its own niche in the international system. The G20 can be seen as a maxi-G7, or a mini-UN General Assembly. The ongoing debate on the reform of the Security Council underlines the tension between the will of non-Western countries to bear greater weight on the decision-making processes in international affairs (power sharing), versus their reluctance to take on more commitments, pay higher fees, and assume greater responsibilities in the global institutions (burden sharing).

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The principle of common but differentiated responsibilities has become a focal point of current negotiations on climate change and the post-2015 agenda. While the developing countries want to preserve the principle, the industrialised countries argue that global power structures have changed, and that fair burden sharing must include contributions from emerging economies like China, India, and Brazil to address climate protection and other global challenges.

The November 15-16 G20 Summit in Brisbane, Australia, took place in the midst of a series of challenges that seem unmanageable: Ebola, Syria, Ukraine, ISIS, major powers jockeying for power in the South China Sea, and insufficient collective climate action in light of the financialisation of nature, which all bring greater uncertainty to the world economy. These challenges of course bring fresh questions as to what the identity and the role of the G20 should be. The Turkish Presidency, on the road to the November 2015 G20 Summit in Antalya, believes that G20 countries, accounting for three-quarters of world trade, have the potential to boost global trade growth to pre-crisis levels, provided that an open, predictable, non-discriminatory, and rule-based multilateral trading system is upheld.

#### MEXICO AND LATIN AMERICA IN THE G20: WHERE DO WE GO FROM HERE?

Argentina, Brazil, and Mexico do not work together, nor do they consult among themselves on their decisions at the G20. Furthermore, Brazil and Cuba — whose presence in the region is bound to increase in the aftermath of the December 17th announcement by Washington and Havana that they are resuming diplomatic relations — are the only two Latin American countries that have a presence and a geopolitical agenda in every continent.

Mexico is a middle power that has little or no clout outside North America. The inception of MIKTA (Mexico, Indonesia, Korea, Turkey, and Australia — all G20 countries) responds more to the desire of these middle powers to carve their own niche in the international system than to an agreed upon, clear-cut, common agenda.

A big paradox is that Mexico is the country with the worst average annual per capita growth figure (0.9 per cent) in Latin America between 1994 and 2013, in spite of the fact that it has implemented the orthodox neoliberal disciplines embedded in the North America Free Trade Agreement (NAFTA). The promise of President Enrique Peña Nieto's 11 structural reforms passed by the Mexican Congress in 2012-2014 has been overshadowed by the unrelenting violence derived from the failed 'war on drugs' and by a lethal combination of political corruption and impunity.

The main challenge to global governance is how to manage this power share, in order to balance national interests with global interests, as well

as the aspirations of the masses with the privileges of the few. In the years preceding the First World War, there was simultaneously a boost of world trade and an increase in the polarisation between rich and poor. One hundred years later, austerity measures imposed by governments have resulted in job losses, instability, and social protests, while the privileges of the economic and political elites remain untouched.

Political pluralism plus a market economy were supposed to strengthen the international system; however, more often than not, they have resulted in plutocracies. What exactly will be the value added to the G20 by the countries of Africa, Asia, the Middle East, and Latin America? Will their elites be content with the continuity of the 'order' of the Westphalian system, or will they push for change to bring about global economic and social justice? Judging from their performance, they seem to favour the former over the latter. This does not bode well for the G20 to become an effective tool for systemic stability and global governance.

# G20 AT THE CROSSROADS: THE GOVERNMENT THE WORLD NEEDS

SERGEY DROBYSHEVSKY<sup>1</sup>

The Australian G20 Presidency in 2014 got its success. Over the last year, G20 countries have made a firm step towards mutually agreed approaches to stimulate economic growth, and took responsibility for facilitating higher aggregate GDP growth (of an additional 2 per cent over five years). It was very important that all members agreed to regular peer review of their national growth strategies. This outcome clearly testifies to the fact that the G20 is going to become a real global 'economic government' concerned with dealing with pressing global economic challenges, tied together through a coherent narrative. Other international organisations such as the OECD, the WTO, the ILO, the FSB, the BIS, the IMF, and the World Bank will then perform roles as specific targeted 'ministries' working on G20 priorities. Such a practice advocates for a growing influence of the G20 in the world, and marks a success of the format during the current turbulent time and when the world is still far from a position of re-establishing sustainable economic growth.

Geopolitical factors have played an important role in recent leaders' summits, with the situation in Syria a prominent discussion point during the Saint Petersburg Summit and the situation in Ukraine a prominent discussion point in Brisbane. From the Russian perspective, where the geopolitical situation remains uneasy, I'd like to warn of the risks in the G20 drifting from its role as the 'economic government' to one more of an international institution dealing with international affairs or global security issues. As an economist (and not a diplomat or a specialist in international relations) my view is that there are many international institutions in the international affairs and global security field, including the UN, the G7, the League of Arab States, and the Shanghai Cooperation Organization, among others. The record of these institutions over the last 20 years suggests a rather low level of overall effectiveness. In addition, BRICS countries' tendency to move as a bloc is partly in response to the politicisation of the G20.

The G20 should remain the main economic club in the world, and not risk the effectiveness of international cooperation by focusing too widely.

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<sup>1</sup> Director of Russia's G20 Expert Council, Academic Director of the Gaidar Institute for Economic Policy.

In my opinion, the G20 currently has power and influence over both the global economy and national economies, which is very important right now. The global economy has not yet overcome the consequences of the 2008-2009 economic crisis, the 'ghost' of secular stagnation is walking and as such we cannot afford to lose the G20's well-functioning format for elaborating coordinated economic policy for all countries, whether developed or developing.

It is also important to recognise the value of requiring a consensus in G20 decision-making. This rule gives an opportunity to all member countries to be equal, to use all advantages of the G20 format and to incorporate national interests in final decisions. This arrangement is unique and distinguishes the G20 from other cornerstone international organisations such as the IMF, where current member countries' quotas do not represent their weights in the global economy; or the UN Security Council, where only some countries have a veto.

I consider it a lucky circumstance that Turkey has taken the Presidency during such a challenging period for the world and the G20. Turkey takes an independent position in major geopolitical conflicts and keeps its distance from the confrontation between Russia and the West. The proposed G20 Agenda for 2015 seems to be a logical consequence of ongoing initiatives and is aimed at development of some new vectors in G20 activity, but does not stray into geopolitical measures. As I have outlined, I sincerely hope that the economy remains the G20's main focus in 2015, without any drift into geopolitics. It would be a substantial success if the Turkish Presidency were able to maintain such an approach throughout 2015. In 2016, China will chair the G20, and it will become much more difficult to maintain a safe distance from the geopolitical agenda then.

# HOW AUSTRALIANS WILL REMEMBER THE BRISBANE G20 SUMMIT

MELISSA CONLEY TYLER AND DUC DAO<sup>1</sup>

Public perception is a key element of the success of an international summit. The Brisbane G20 in November 2014 will be judged not just by its impact on the global economy, but also by how Australian public opinion remembers it.

Building on the excellent work of the CIGI National Perspectives on Global Leadership series by Colin Bradford, which views the G20 as a national conversation between leaders and their publics, we have surveyed media coverage of the Brisbane Summit to produce a snapshot of how Australia's G20 Presidency was understood and thus how it is likely to be remembered by the public.<sup>2</sup> We drew on the headlines of the major Australian news outlets including *The Sydney Morning Herald*, *The Age*, *The Australian*, *The Courier Mail*, *The Australian Financial Review*, *Brisbane Times*, and the ABC in the three weeks prior to and during the week following the Summit. From viewing this coverage, four weak and two stronger themes emerged:

- The G20 as a waste of money
- The G20 as an opportunity to gain the spotlight for a cause
- The G20 as a way for Australia to assume its place on the global stage
- The G20 as an embarrassment for Australia on climate change
- The G20 as a vehicle for signature initiatives
- The G20's contribution to global economic governance

We will look at these in turn.

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<sup>1</sup> Australian Institute of International Affairs.

<sup>2</sup> "National Perspectives on Global Leadership," Center for International Governance Innovation, accessed December 2014, <https://www.cigionline.org/project/national-perspectives-global-leadership>.



## TABLE AT CENTRE OF ROW OVER MOUNTING EXPENSES FOR G20 TALKFEST

It was no surprise in a domestic climate of budget worries that Australia's hosting of the G20 drew some coverage regarding spending. Thankfully, this was very limited with only a few articles including a curious discussion on the cost of the conference table.<sup>3</sup> It is an example of the sort of thinking that exists in most countries, but, in this case, at no point did it appear to predominate. Compared to a major sporting event, for example, there were no significant recriminations over the cost involved.<sup>4</sup> This suggests that the Brisbane G20 will not be remembered for profligacy.

## G20 ORGANISERS AWARE OF 21 PLANNED PROTESTS

In the tradition of major international summits, the Brisbane G20 became an occasion for advocacy groups to use the international spotlight to make their presence known.<sup>5</sup> Although there were some anti-globalisation groups, the vast majority of protestors were not challenging capitalism but aiming to bring attention to a specific issue, including indigenous rights, Tibet, Australia's treatment of refugees, veganism, legalisation of marijuana, and South Korea's ferry tragedy.<sup>6</sup>

These demonstrations attracted substantial coverage with many headlines before the event expressing worries about order and safety. Despite these fears the G20 turned out to be mostly peaceful and coverage of protests suggested more of a carnival atmosphere. Protestors were effective in directing media attention to their causes but

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<sup>3</sup> Heath Aston, "Table at Centre of Row over Mounting Expenses for G20 Gabfest," *The Sydney Morning Herald*, 22 October 2014.

<sup>4</sup> There were very few discussions of this type after the Summit with most of them concluding that hosting such important international events would benefit Australia overall, for example Larry Graham, "Are International Gabfests like CHOGM and G20 Worth the Cost," *The Age*, 24 November 2014.

<sup>5</sup> Cameron Atfield, "G20 Organisers Aware of 21 Planned Protests," *The Age*, 15 October 2014.

<sup>6</sup> Louisa Rebgetz, "G20: Indigenous Protesters Rally in Brisbane CBD ahead of Leaders' Summit," *ABC News*, 10 November 2014; Melissa Conley Tyler, "Gender Equality is Key," *G20 Watch* (blog), 17 November 2014, <http://g20watch.edu.au/gender-equality-key>.

this is unlikely to be recalled as the defining episode of the Summit.<sup>7</sup> This is very different from some of the protests of the past.<sup>8</sup>

## TONY ABBOTT PROMISES TO SHIRTFRONT PUTIN AT G20 SUMMIT

Dominating the headlines in the lead-up to the Brisbane Summit was Tony Abbott's threat to 'shirtfront' Vladimir Putin over Russia's handling of the MH17 incident.<sup>9</sup> The Prime Minister's creative use of a term traditionally associated with an aggressive Australian football manoeuvre was a cause of much bemusement.<sup>10</sup> The tension, however, eventually fizzled out with the two leaders amicably cuddling koalas together on the side of the Summit.<sup>11</sup>

Apart from adding a new word to the diplomatic lexicon, media coverage focused on whether it was appropriate that the PM took advantage of the G20 to vent his domestic concerns, most notably when he complained to world leaders about his difficulties passing a tax on visits to the doctor.<sup>12</sup> So, while the suspense around the Putin-Abbott confrontation put Australia's place in the group at the centre of attention, it is unlikely that Australians will remember the Brisbane G20 as a coming of age for Australia on the diplomatic stage.<sup>13</sup>

## CLIMATE CHANGE IN G20 COMMUNIQUÉ AFTER TRENCH WARFARE

An aspect reported as a misstep was Australia's stance on climate change.<sup>14</sup> Before the Summit, Prime Minister Abbott insisted on driving the agenda towards economic growth rather than environmental

<sup>7</sup> Coverage of this issue after the Summit was mostly focused on the success of the organisers in policing the event, such as Cameron Atfield and Kim Stephens, "G20 Brisbane: Passionate, but Mostly Peaceful Protests," *The Age*, 15 November 2014, and Cameron Atfield, "G20 Success Measured by the Lack of Numbers," *The Age*, 17 November 2014.

<sup>8</sup> Roselina Press, "G20s of the Past: Protests in Pictures," *G20 Watch* (blog), 31 October 2014, <http://g20watch.edu.au/g20s-past-protests-pictures>.

<sup>9</sup> Sabra Lane, "Tony Abbott Promises to 'Shirtfront' Putin at G20 Summit," 7.30, ABC, 13 October 2014, <http://www.abc.net.au/news/2014-10-13/tony-abbott-promises-to-shirtfront-putin-at-g20/5810792>.

<sup>10</sup> Brendon Trembath, "'Shirtfront' Named Australia's Word of the Year by National Dictionary Centre," *AM*, ABC, 10 December 2014.

<sup>11</sup> Andrew Taylor and G20 Australia, "Tony Abbott and Vladimir Putin Cuddle Koalas at GOMA," *ABC News*, 16 November 2014.

<sup>12</sup> Latika Bourke, "G20 summit: Tony Abbott Laments to World Leaders His Failure to Pass Tax on GP Visits," *The Sydney Morning Herald*, 15 November 2014.

<sup>13</sup> The Courier-Mail, "G20 summit: Tony Abbott laments to world leaders his failure to pass tax on GP visits," *The Courier-Mail*, 20 November 2014.

<sup>14</sup> Tom Allard, "Climate Change in G20 Communique after 'Trench Warfare'," *The Sydney Morning Herald*, 16 November 2014.

sustainability.<sup>15</sup> This proved embarrassing when climate change ultimately made it to the final communiqué due to pressure from the majority of G20 members, with Australia and Saudi Arabia the only two members reported to be opposed to putting climate on the Summit agenda.

For many Australians, a key memory will be Australia being shown as out of step with world opinion on climate issues.

### JOE HOCKEY TAKES TAX CRACKDOWN ON GLOBAL GIANTS ON G20

For the interested public there was coverage of signature G20 initiatives. One that received substantial coverage in the lead-up to the Summit was cooperation against transnational tax avoidance schemes.<sup>16</sup> There was also much positive media coverage following the Summit's greater attention to women's empowerment worldwide and Sydney's host of a new global infrastructure hub.<sup>17</sup> That some initiatives cut through into public consciousness suggests that the G20 Summit will not be remembered purely as a talkfest, as can easily happen given inflated public expectations of international meetings.

### G20 AN IMPORTANT FORUM FOR SERIOUS ECONOMIC ISSUES

The most serious coverage recognised that, in the end, the G20 is still about the economy. Observers were anxious to see if the G20 could live up to its promise of being an important forum for global economic governance.<sup>18</sup> It was thus an optimistic sign that the majority of reactions were positive about what the Brisbane Summit had achieved commending G20 leaders for producing important declarations on major global issues.<sup>19</sup>

What then can we conclude about how Australians will remember the Brisbane G20 Summit? For one, the widespread media coverage is testament to the continuous conversation between the Australian public

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<sup>15</sup> James Massola, Nick O'Malley, Philip Wen, "Tony Abbott Says Jobs and Growth, Not Climate, Top of the G20 Agenda," *The Sydney Morning Herald*, 13 November 2014.

<sup>16</sup> David Crowe, "Joe Hockey Takes Tax Crackdown on Global Giants on G20," *The Australian*, 10 October 2013; Rosie Lewis, "G20 to Launch 'Aggressive' Attack on Tax Avoidance among Multinationals," *The Australian*, 14 November 2014.

<sup>17</sup> David Crowe and David Uren, "G20 to Target the Gender Gap," *The Australian*, 3 November 2014; and Greg Earl, "Infrastructure Hub Draws G20 Together," *The Australian Financial Review*, 12 November 2014.

<sup>18</sup> Tom Allard, "G20 a Chance to Boost Global Economic Health," *The Sydney Morning Herald*, 15 November 2014.

<sup>19</sup> Mark Kenny, "G20 United on Tax Loopholes, Trade, Global Warming, Banks and Ebola," *The Sydney Morning Herald*, 16 November 2014.

and its leaders on an event of consequence to the country's international image. As always occurs, Australia's Presidency of the Summit was utilised to a certain extent as an arena for domestic political struggle. However, Australia's chance for international leadership was a focus of coverage its own right. Australians may well have been left with the impression that the G20 has taken another step as the premier forum for global economic governance and that Australia, despite a few missteps, has made a key contribution to this end. If so, those involved should not be too unhappy with how the Brisbane Summit is remembered.

# STRONGER OUTREACH BUT G20 NARRATIVE STILL NOT RESONATING WITH CITIZENRY

DR SUSAN HARRIS RIMMER<sup>1</sup>

The G20 'outreach strategy' refers to the diplomatic meetings and communications strategies used by the host state to let the rest of the international community know the priorities of the G20 summits, to consult with non-member states, regional and international organisations, and their own citizens on their priorities, and take on board their suggestions and reactions. The strategy should aim to address the tension between effective crisis management by a small number of key G20 members and the long-term objective to be a legitimate global actor whose decisions are supported by non-members and citizens. As former G20 Chair Gordon Brown said: "we will not pass by on the other side."<sup>2</sup>

In a dedicated Lowy Institute G20 Monitor in January 2014, a group of expert contributors considered how to improve the G20's overall communication and transparency, and made the following key findings:<sup>3</sup>

- The G20's work has myriad implications for non-member countries. The G20 process needs to reflect this in a meaningful way
- The first step for the G20 in assuming its broader, global responsibility is to push ahead with its efforts to promote growth in the G20 economies, since other countries will also significantly benefit from a stronger, more sustainable, and more balanced recovery in the world's biggest economies
- The G20 can do a lot to address non-member countries' concerns without losing its focus and core agenda. Promoting reform in international organisations and facilitating productive cooperation with non-members and invited guests are two key areas

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<sup>1</sup>Asia Pacific College of Diplomacy, Australian National University.

<sup>2</sup>Robin Davies, "A View to Antalya: Can the G20's Development Agenda Be Saved?," *DevPolicy* (blog), 15 December 2014, <http://devpolicy.org/a-view-to-antalya-can-the-g20s-development-agenda-be-salvaged-20141215/>.

<sup>3</sup> *G20 Outreach and Non-G20 Member Views on the G20*, G20 Monitor No. 7, (Sydney: Lowy Institute for International Policy, 2014).

- Now that the G20 is approaching its sixteenth anniversary, the effectiveness of its outreach process warrants a constructive and outcome-oriented debate. Outreach is of critical importance to the G20's long-term success. In addition to enhancing its outreach efforts, the G20's accountability and outcome focus need to be strengthened in order to manifest its position as the world's "premier forum for international cooperation"

As the troika transitions from Russia-Australia-Turkey to Australia-Turkey-China, it is time to assess the success of the Australian Presidency in outreach terms and consider the prospects for Turkey and China.

## INVITEES

The ability of invitees to participate fully in the year-long meetings schedule has still not been fully addressed.<sup>4</sup> Australia invited Singapore, New Zealand, Spain, Myanmar as ASEAN Chair, Senegal as chair of NEPAD, and Mauritania as President of the African Union. Turkey has invited Singapore and Azerbaijan, as well as Spain (the permanent guest), NEPAD, the AU, and Malaysia will represent ASEAN. This is a high-water mark for ASEAN participation.

Singapore as chair of the Global Governance Group (3G) participates actively and brings a representative role to its fifth G20 outing, but it is not always clear whether countries are able to fully participate on the basis of a one-off invitation.

## TRANSPARENCY

The [www.G20.org](http://www.G20.org) website was generally kept up-to-date in 2014 with lots of resources for interested parties. However, there is still not a clear list of sherpas or other officials, or any record of what happened at meetings not followed by a Ministerial Declaration. Twitter became an important outreach tool during the Australian Presidency (with 1.02 million tweets about the Brisbane Summit), and this is likely to continue.<sup>5</sup>

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<sup>4</sup> Susan Harris Rimmer, "Explainer: Who Gets Invited to the G20 Summit and Why," *The Conversation*, 3 November 2014.

<sup>5</sup> Peta Mitchell, Axel Bruns, Darryl Woodford, and Katie Prowd, "From Selfies to Climate Change: The #G20 Debate on Twitter," *The Conversation*, 20 November 2014.



Source: QUT Social Media Research Group.

## ENGAGEMENT GROUPS

The Australian Sherpa and Ministers have worked with each of the engagement partners, the L20, C20, T20, Y20, G(irls)20, and B20. It is clear the B20 has been most influential in its policy recommendations, assisted by Boston Consulting. However, outside of the 'Ban Putin' debate and interest in possible protests, awareness of the G20 by the general community in Australia remained low.<sup>6</sup> Turkey has pledged that it "aims to ensure that discussions within the G20 resonate with the majority of our citizens."<sup>7</sup>

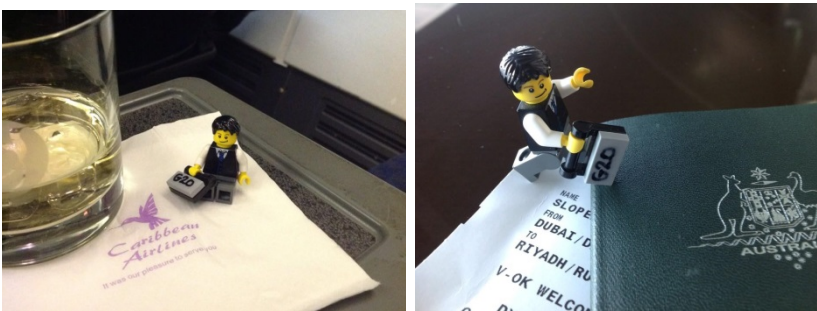
## OFFICIAL OUTREACH ACTIVITIES AND NARRATIVE

Outreach to other countries has been far more transparent and systematic than is apparent from practice in years past, with Australia

<sup>6</sup> Susan Harris Rimmer, "A G20 for the People? Not Yet," *Devpolicy* (blog), 16 December 2014, <http://devpolicy.org/a-g20-for-the-people-not-yet-20141216/>.

<sup>7</sup> Turkish G20 Presidency, *Turkish G20 Presidency Priorities for 2015*, 1 December 2014.

trying to reach as many groupings as possible, reminiscent of the campaign for Australia to be elected to the UN Security Council. In his travels and outreach efforts, Daniel Sloper, the Special Representative for the Australian Department of Foreign Affairs and Trade even introduced a hint of whimsy by posting Lego versions of his presentations.



Source: Photos posted on twitter by Daniel Sloper, <https://twitter.com/G20SR>

Turkey already has a clear narrative about ‘robust’ growth. The challenges facing the LIDCs will be raised more vocally by the G20 as “one of the defining aspects of the Turkish Presidency.” There are many challenges on this front as Robin Davies has posited.<sup>8</sup>

China does not allow certain social media platforms, and so will face challenges communicating its G20 messages internationally, but may reach its own citizens through Sino-Weibo. The world will be watching carefully as China takes centre stage in this fashion for the first time.

My advice to the Turkish and Chinese presidencies would be simple: try not to let military and security issues, both domestic and international, overwhelm the Summit, as some progress must be shown on the core agenda. In previous summits, ‘hot’ security topics have swept other issues off the table, and so releasing the Ebola communiqué was probably a good strategy.

The challenges likely to be inherited by Turkey and its new Sherpa are immense. This may be the first time since the Second World War that a majority Muslim country has held the reins of global economic governance. Turkey is not in the BRICS or G8, so, as with Australia, it will need to forge alliances in the region and beyond, and use the MIKTA grouping for support. Like Australia, the opportunity of hosting the G20 needs to be weighed by a disciplined approach in order to see what can realistically be achieved

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<sup>8</sup> Davies, “A View to Antalya.”



One fascinating question is whether the G20's Muslim member nations (Saudi Arabia, Turkey, and Indonesia) feel a responsibility to advocate Islamic conceptions of finance and banking or sharia economics within the G20; and whether, and how, these nations provide outreach about their G20 discussions to other Islamic states or MENA countries. Turkey's hosting of the 2015 G20 Leaders' Summit provides a timely opportunity for an open enquiry on Islamic nations' role in global economic governance.

# PRIORITIES FOR THE G20 IN 2015

STEPHEN PICKFORD<sup>1</sup>

The Brisbane Summit took place against the background of a deteriorating outlook for the global economy, with the International Monetary Fund (IMF) warning that the global recovery was “uneven and brittle.”

At the same time confidence in the G20 as an effective body to tackle the most pressing global economic concerns is ebbing. Despite strong efforts by Australia to focus the agenda and get agreement on a few key concrete actions, the G20’s members have some fundamental differences of view about the underlying problems, and find it difficult to prioritise the forum’s efforts. It is becoming less effective as a forum for economic cooperation.

The 2014 Brisbane Summit made tangible progress in some areas: the agreement by G20 countries to take action to boost global growth by 2 per cent; new structures to support infrastructure investment; and a commitment to make further progress in dealing with international tax abuses are all welcome. But the final communiqué covered a much wider range of issues, in most cases without agreement on concrete outcomes.

Given the economic risks still facing the global economy, the 2015 Summit is likely to face even greater challenges than in 2014. To rise effectively to these challenges, the G20 needs to focus firmly on the key priorities, and to design and agree to concrete and measurable responses.

Turkey, as the Presidency country, is already inheriting a substantial agenda from Brisbane. In addition to ensuring that countries deliver on their growth commitments (through a stronger Mutual Assessment Process — MAP), the Brisbane communiqué promised specific actions in 2015 including:

- Completing the financial regulation reform agenda
- A report by labour and employment ministers on youth unemployment, labour markets, social protection, and workplace safety and health
- Supporting the United Nations (UN) post-2015 Development Agenda

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<sup>1</sup> Chatham House.

- Finalising work on international tax rules and the Base Erosion and Profit Shifting (BEPS) Action Plan
- Developing further options for IMF quota and governance reforms, in the event of failure by the US Congress to ratify the 2010 reforms
- A report by energy ministers on further energy collaboration
- Working together for a successful outcome on climate change at the UN Climate Change Conference (COP21)

Turkey has also set out a further list of issues that it also wants to focus on during 2015, including development, inclusion of developing countries, and small and medium-size enterprises (SMEs). Unless the Presidency focuses on a few key issues, there is a strong risk that little will be achieved. And it needs strong support for its priorities from the other troika members, Australia and China.

Given the overriding need to strengthen global growth and guard against risks, we propose four categories of priorities for 2015:

## TRADE AND DEVELOPMENT

Trade is a major driver of global growth, but the growing list of bilateral and regional trade agreements is risking sidelining the multilateral system, and the World Trade Organization (WTO) as its centre. A priority for the G20 should be to ensure that the WTO reforms itself to adapt to the new world of global value chains, integrated global standards, and transnational investment flows.

## INVESTMENT AND EMPLOYMENT

Major steps have been taken this year to put in place processes and institutions to support infrastructure investment. But these need to be translated into projects on the ground.

As well as ensuring that countries' pledges are put into action, the G20 should use the political momentum behind investment to ensure that these projects are job-rich, and emphasise the employment potential when selecting projects.

SMEs have a big role to play in creating jobs in all countries, and the G20 should ensure that its set of 'leading practices' prioritise opportunities for SMEs to participate in investment projects and global value chains; and ensure that development banks, including the World Bank Global Infrastructure Facility, emphasise the role of SMEs.

## STRENGTHENING THE INTERNATIONAL FINANCIAL SYSTEM

Given the risks facing the global economy, a priority also is to strengthen the international financial system and its support for countries in crisis. There are a number of elements of unfinished business that need to be addressed:

First, reforms to the basis for quotas and representation at the IMF. If the US is unwilling or unable to ratify the outstanding reforms agreed, the G20 should put its weight behind changes to the Articles of Agreement to remove the ability of one country to stand in the way of quota changes.

Second, to build up financial safety nets for countries in difficulties, including a permanent network of swap arrangements between G20 central banks; strengthening the links between the IMF and regional financing arrangements, such as the European Stability Mechanism (ESM) and the Chiang Mai Initiative Multilateralization (CMIM); and allowing the IMF to borrow from the markets to boost its resources.

Third, to put in place a permanent international system for restructuring sovereign debts of countries in crisis. The case of Argentina demonstrates that the current system is not fit for purpose. Collective action clauses are a useful step forward, but they are not sufficient.

## ENERGY AND CLIMATE CHANGE

There is a changed dynamic to the willingness of major countries to take action on climate change, with the US, China, and Australia signalling their willingness to act. The Climate Funds are a useful step forward, but a new legally-binding protocol is needed to underpin further international action on climate change. Finding a way to bridge the differences that remain between G20 countries would be a major step towards a comprehensive UN agreement at the COP21 meeting in Paris next year.

Reaching agreements on concrete action in these priority areas will be extremely challenging. Extending the agenda to cover other areas would risk spreading the energy and political capital within the G20 too thinly, so that far less is actually achieved.

The G20 also needs to develop more inclusive processes to build wider support and legitimacy. There are currently ad hoc arrangements in some areas to involve a broader range of countries beyond the 20, and to involve groups in society (such as business, labour, youth, civil society, and think tanks) in G20 deliberations. But structures should be formalised to ensure that a comprehensive range of interests — including social partners, youth, and women — can feed directly into the G20 process, and that a broader range of countries are involved.

Strengthening these processes would increase the legitimacy of the G20 and increase its effectiveness.

# ESSENTIAL PREREQUISITES THAT COULD FACILITATE THE SUCCESSFUL PROMOTION OF THE THREE I'S OF THE TURKISH PRESIDENCY

FARIBORZ MOSHIRIAN<sup>1</sup>

The Turkish Prime Minister, Ahmet Davutoglu recently announced the focus of Turkey's agenda for its 2015 G20 Presidency. It has been labelled the "three I's of the Turkish Presidency."<sup>2</sup> In 2015, Turkey will be stressing the three broad topics of inclusiveness, implementation and investment. Prime Minister Davutoglu, in his closing address to the 2014 G20 Pre-Summit conference, indicated that the Turkish Presidency would be a symbolic deviation from the "narrow agenda focused on economic fundamentals" of the Australian 2014 presidency.<sup>3</sup>

## INCLUSIVENESS

Prime Minister Davutoglu stated in a Brisbane conference that: "During our presidency we want to be the voice of everybody."<sup>4</sup> It is clear that the Turkish Presidency is deeply concerned with the ways in which the G20 may comprehensively embody, voice, and act upon, the concerns of all participants.

The notion of inclusiveness is said to operate on two levels; domestically and globally. Among Turkey's focuses is the need to ensure that all parts of society are able to access the benefits of growth, on a domestic level. In order to achieve this, Turkey will address issues of gender equality, particularly in relation to employment, and stress issues relating to small and medium sized enterprises (SMEs) and youth unemployment. On an international level, Turkey's Presidency intends to enhance the voice of low-income, developing countries in the G20, and has gone so far as to

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<sup>1</sup> Institute of Global Finance, UNSW Business School, University of New South Wales, Sydney, Australia. The author wishes to thank Sarah Webster for her excellent research for this paper.

<sup>2</sup> Turkish G20 Presidency, *Turkish G20 Presidency Priorities for 2015*, 1 December 2014.

<sup>3</sup> Tristram Sainsbury, "Turkey Sets Its G20 Agenda for 2015," *The Interpreter* (blog), 14 November 2014, <http://www.lowyinterpreter.org/post/2014/11/14/Turkey-sets-its-G20-agenda-for-2015.aspx>.

<sup>4</sup> Jane Wardell, "Incoming G20 Leader Turkey Says Group Must Be More Inclusive," Reuters, 13 November 2014.

say: “This will be one of the defining aspects of the Turkish Presidency.” The Prime Minister of Turkey has highlighted the link between inclusiveness and growth, indicating that enhancing the representation of low-income countries is necessary to achieve inclusive, balanced, and sustainable growth globally.<sup>5</sup>

Another way in which the topic of inclusiveness may be interpreted pertains to the need to ensure that most citizens of the involved countries are able understand and obtain meaning from the G20 discussions. Turkey’s Presidency has articulated this as a goal to “ensure that discussions within the G20 resonate with the majority of our citizens.”<sup>6</sup>

Indeed, one of the current challenges with the G20 is that there is no strategy of an inclusive approach to economic growth, particularly when the gap between the rich and poor is widening, both between the developed and developing countries, and within countries. The current G20 policy framework of “Strong, Sustainable, and Balanced Growth” could be complemented by the idea of inclusive, strong, sustainable, and balanced growth. While balanced growth was included earlier in the G20 Communiqué, which referred to the gap in economic growth between China and the US or the EU and some other G20 members, inclusive growth will ensure a more meaningful outcome of economic growth for global economic prosperity.

At the same time, a large proportion of the world’s population is not included in the member countries forming the G20 and so raising the awareness of people to achieve a truly inclusive approach could inspire policy-makers to look at the elements of current global governance and the actual governance of the G20. An inclusive approach to some of the key policies within the G20 will also ensure greater ownership of the policy directions that the G20 promotes and hence more connection between the grassroots and the policy-makers within the G20.

## IMPLEMENTATION

The Turkish Presidency has emphasised that with the G20 members having agreed to undertake the Brisbane Action Plan and the thousand or so commitments that it entails, 2015 will be a year of doing as opposed to talking; a year of policy implementation.<sup>7</sup> Prime Minister Davutoglu explained: “Now is the time to act. As the G20 Chair, Turkey

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<sup>5</sup> G20 Australia Summit Brisbane, *Introductions and Leaders’ Perspectives: Building the World We Want to Live In*, Newsdesk Media, November 2014.

<sup>6</sup> Turkish G20 Presidency, *Turkish G20 Presidency Priorities for 2015*, 1 December 2014.

<sup>7</sup> G20 Australia Summit Brisbane, *Introductions and Leaders’ Perspectives: Building the World We Want to Live In*.

will spare no effort in fulfilling its critical responsibilities, to steer the platform so that we achieve our ambitious targets.”<sup>8</sup>

This may entail consideration of the ways in which the G20 can improve its executive power and the coordination of the actions of its constituent members throughout the year. There are a number of challenges with respect to the decision-making process within the G20. The actual policies to be implemented may take some time to be achieved. Secondly the decisions made at the G20 are not nationally binding and it is up to member countries to adopt them, generally if it fits into their national priorities and agenda. The current G20 ‘peer review’ policy is not an effective mechanism to enforce policy agreements or recommendations. Moshirian highlighted the evolution of regional and global institutions and the way these new institutions tend to refine and improve their operations.<sup>9</sup> Moshirian also highlighted the way systemically important financial institutions should be supervised and their operation globally coordinated.<sup>10</sup> In relation to the progress and initiatives made in the 2014 Summit, Christine Lagarde, Managing Director of the IMF, commented that: “Implementation is now critical, with a strong accountability framework to monitor progress, supported by the IMF.” Lagarde points to an IMF-supported accountability framework to ensure that all members see their commitments through with “decisive policy action.”<sup>11</sup> While the IMF’s push for a more accountable framework is noteworthy, a number of global and regional issues may well distract some of the members from the key policy decisions of the G20. With the exception of 2008 and 2009 when member countries coordinated well to ensure that the world economy would not experience another Great Depression, the track record of the G20 since then has not always been effective. The push by Turkey to highlight accountability and promote more effective coordination amongst member countries is an important step towards a more refined and effective operation of the G20.

## INVESTMENT

The Turkish Presidency has demonstrated a desire to focus on investment to drive growth and increase employment, and has referenced the OECD estimate that \$US70 trillion of global infrastructure

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<sup>8</sup> World Bulletin News, “Turkish Presidency of G20 Focuses on Action for All,” *World Bulletin*, 2 December 2014.

<sup>9</sup> Fariborz Moshirian, “The global financial crisis and the evolution of markets, institutions and regulation.” *Journal of Banking and Finance*, 35, 502-511, 2011.

<sup>10</sup> Fariborz Moshirian, “The future and dynamics of global systemically important banks,” *Journal of Banking and Finance*, 36, 2675-2679, 2012.

<sup>11</sup> International Monetary Fund, *IMF Managing Director Christine Lagarde Welcomes G20 Growth Strategies, Says Implementation Critical*, Press Release, 16 November 2014, IMF.



investment will be required over the next 15 years.<sup>12</sup> This will involve addressing investment gaps and bottlenecks through the development and implementation of investment strategies.

The Prime Minister of Turkey has called for development banks to enhance the degree of cooperation amongst themselves. He has also demonstrated support for Australia's 2014 emphasis on promoting greater private sector investment, and to achieve this, has encouraged the development of "alternative and innovative financial instruments."<sup>13</sup>

In order to enhance private sector investment it is likely that attention will be drawn to the need to "improve the investment climate" and generate greater confidence in the global financial system, amongst corporations.<sup>14</sup> An environment of increased financial stability may be required to encourage the private sector to invest, particularly in infrastructure and SMEs. The focus on SMEs has been explained by the fact that SMEs, in many countries, are the "primary engines for growth and job creation" and, as such, the Turkish Presidency seeks to encourage their growth by enhancing their financing opportunities.<sup>15</sup> Turkey has urged the establishment of a World SME Forum by the International Chamber of Commerce in order to develop a forum in which SMEs can voice their concerns to members of the Business20 and G20.<sup>16</sup> The Turkish Presidency has also indicated that they will place great emphasis on non-traditional lending sources, including equity-based financing and New Modalities of Asset Based Financing.

Since the recent global financial crisis, many large companies have accumulated a significant amount of assets and cash that could be invested for productive purposes, such as investment in infrastructure. However, one of the key conditions for the private sector to invest more is the state of the global financial system and its soundness. Large multinational companies are far more cautious in their investment strategies, given the slow recovery of the large US and Euro-zone economies and the unsettled political climate in major parts of the world. Furthermore, global policies that could minimise global systemic risk and ensure a more stable global financial market will be crucial for the private sector to take more risk and expand its investment activities. Arnold,

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<sup>12</sup> G20 Australia Summit Brisbane, *Introductions and Leaders' Perspectives: Building the World We Want to Live In*.

<sup>13</sup> Tristram Sainsbury, "Turkey Sets Its G20 Agenda for 2015." G20 Australia Summit Brisbane, *Introductions and Leaders' Perspectives: Building the World We Want to Live In*.

<sup>14</sup> Turkish G20 Presidency, *Turkish G20 Presidency Priorities for 2015*, 1 December 2014.

<sup>15</sup> G20 Australia Summit Brisbane, *Introductions and Leaders' Perspectives: Building the World We Want to Live In*.

<sup>16</sup> Turkish G20 Presidency, *Turkish G20 Presidency Priorities for 2015*, 1 December 2014.

Borio, Ellis, and Moshirian and Ellis, Haldane, and Moshirian highlighted the role of good governance and policies promoting financial stability and the need to contain global systemic risk as essential to creating an environment more conducive to private sector investment.<sup>17</sup> The private sector should be reassured that some of the G20's current policies to restructure the foundations of the global financial system are working and capital can readily move to where the marginal rate of return is high enough without fear of uncertainty. The role of SMEs will be crucial and more attention to this sector has great potential to create significant new jobs and increase economic activity. Therefore, "Investment" should be used as a way of highlighting the interdependence of investment with a number of financial and economic issues including the current international financial architecture, the soundness of banking systems, good management of shadow banks and money market funds.<sup>18</sup> Information sharing about promising infrastructure projects around the world that could offer a high rate of return and be sustainable would be crucial. A more coordinated approach in this area amongst some key institutions, including amongst development banks, the private sector, host governments, and investment banks would be essential.

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<sup>17</sup> Bruce Arnold, Claudio Borio, Luci Ellis and Fariborz Moshirian, "Systemic Risk, Basel III, Financial Stability and Regulation," *Journal of Banking and Finance*, 36, 3123-3124, 2012; and Luci Ellis, Andrew Haldane, and Fariborz Moshirian, "Systemic risk, governance and global financial stability," *Journal of Banking and Finance*, 45, 175-181, 2014.

<sup>18</sup> Fariborz Moshirian, "Global governance: Global banks and shadow bank supervision," *Journal of Banking and Finance*, 45, 307-311, 2014.

# COGNITIVE DISSONANCE AND THE G20: THE 2 DEGREE TARGET, STRANDED ASSETS, AND EXPLORATION SUBSIDIES

BARRY CARIN<sup>1</sup>

“...subsidies that encourage fossil fuel exploration are the greatest culprits, creating incentives for corporations to continue to find new oil, gas, and coal reserves when proven reserves are already three times the amount that can be safely burned.”  
Overseas Development Institute

Governments would not subsidise exploration activity to add to carcinogenic asbestos reserves. Governments would not subsidise the manufacture of additional tobacco products. The puzzling fact is that government's treatment of fossil fuels ignores the atmosphere's limited capacity to absorb CO2 emissions.

In psychology the term cognitive dissonance refers to the mental stress experienced by an individual who holds two or more contradictory beliefs or ideas. G20 governments appear to suffer no discomfort embracing conflicting behaviors:

- The G20 has accepted the target of a global warming limit of 2 degrees Celsius (relative to pre-industrial levels)
- The 2 degree target implies a cumulative global quota or budget of CO2 emissions between now and 2050
- No more than one-third of proven reserves of fossil fuels can be consumed prior to 2050, if the world is to achieve the consensus 2 degree goal.<sup>2</sup>
- The G20 have repeatedly endorsed the elimination of inefficient fossil fuel subsidies
- Yet the G20 spends almost \$US50 billion a year subsidising exploration activity to add to proven fossil fuel reserves

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<sup>1</sup> Senior Fellow, Center for International Governance Innovation.

<sup>2</sup> International Energy Agency, *World Energy Outlook*, 2012.

Scientists have long argued that continued reliance on fossil fuels would eventually destabilise the climate. In 2010, in Cancun, governments agreed that emissions need to be constrained so that global temperature increases are limited to 2 degrees Celsius above pre-industrial levels to avoid dangerous climate change.<sup>3</sup> G20 governments have repeatedly endorsed this target. If all already proven reserves were burned, atmospheric CO<sub>2</sub> would rise to more than 700 ppm, guaranteeing the 2 degree target will be exceeded.<sup>4</sup>

Uncertainties complicate estimates of CO<sub>2</sub> emissions consistent with the 2 degree target. There is uncertainty with respect to future economic activity, the energy mix, the energy intensity of that activity, and the impact of land use changes. Another uncertainty is the ability of the climate system to continue to absorb carbon dioxide through land and ocean sinks. Potential positive feedbacks (such as melting permafrost as temperatures increase) are unclear. "The collective policy implication of these uncertainties is that a precautionary allowance may need to be made when considering an emissions budget for a given temperature limit: this would invariably lower the amount of allowable emissions from human activities."<sup>5</sup>

Using conservative assumptions, the quota or budget for global fossil fuel emissions between 2015 and 2050, for a 50 per cent chance<sup>6</sup> of not exceeding the 2 degree target is somewhere in the range of 1000 to 1500 GtCO<sub>2</sub>.<sup>7</sup> More than 3000 GtCO<sub>2</sub> are embedded in proven reserves.<sup>8</sup> The Carbon Tracker Initiative estimates as much as 80 per cent of coal, oil, and gas reserves of private companies (such as Exxon Mobil and Peabody Coal) are now 'unburnable' potentially 'stranded' assets.<sup>9</sup>

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<sup>3</sup> United Nations Framework Convention on Climate Change, "Background on the UNFCCC: The International Response to Climate Change," [http://unfccc.int/essential\\_background/items/6031.php](http://unfccc.int/essential_background/items/6031.php), accessed December 2014.

<sup>4</sup> Hans-Holger Rogner, "An Assessment of World Hydrocarbon Resources," *Annual Review Energy and Environment*, 22:217–62, 1997.

<sup>5</sup> Australian Government Climate Change Authority, *Global Emissions Budget Expert Roundtable Summary*, June 2013.

<sup>6</sup> Bill McKibben would not agree that accepting a 50 per cent probability is reasonable, comparing it to the odds of "playing Russian roulette with a six-shooter." Bill McKibben, "Global Warming's Terrifying New Math," *Rolling Stone*, 19 July 2012.

<sup>7</sup> Emissions from land use changes and from GHGs other than CO<sub>2</sub> historically have been about 20 per cent of fossil fuel emissions. See Potsdam Institute for Climate Impact Research, "On the Way to Phasing out Emissions: More than 50% Reductions Needed by 2050 to Respect 2°C Climate Target," media release, 30 April 2009; and Malte Meinshausen, Nicolai Meinshausen, William Hare, Sarah C. B. Raper, Katja Frieler, Reto Knutti, David J. Frame, and Myles R. Allen, "Greenhouse-Gas Emission Targets for Limiting Global Warming to 2 °C," *Nature* 458, 1158-1162, 2009.

<sup>8</sup> Future levels of "proven" reserves vary with the price of oil.

<sup>9</sup> Carbon Tracker Initiative, available at <http://www.carbontracker.org/resources/>, accessed December 2014.

At the Pittsburgh G20 Summit in 2009, the G20 committed to phase out inefficient fossil fuel subsidies. The G20's 2013 Saint Petersburg Declaration and the Brisbane Leaders' communiqué reaffirmed the commitment. However G20 governments continue to subsidise exploration for fossil fuels by spending \$US88 billion every year through investment by state-owned enterprises of around \$US49 billion; direct spending and tax breaks of \$US23 billion; and public finance from banks and financial institutions that amounts to another \$US16 billion per year.<sup>10</sup>

Two recommendations seem clear. The G20 should agree to immediately phase out exploration subsidies as a first step towards dealing with their intent to phase out inefficient fossil fuel subsidies. In addition, the G20 should agree that their financial institutions and the Multilateral Development Banks and sovereign wealth funds should discourage investment in fossil fuel exploration and immediately eliminate its subsidies. Otherwise the G20 should acknowledge that the 2 degree (or even a 4 degree) target is in the rear view mirror and should prepare the world for adaptation to a higher temperature increase.

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<sup>10</sup> The Carbon Tracker Initiative reports that financial institutions owned by the governments of Canada, China, Japan, the Republic of Korea, and Russia are prominent in financing for exploration around the world. Through MDBs, the G20 provided an average of \$US521 million every year for fossil fuel exploration between 2010 and 2013. Almost two-thirds of this total originated from the World Bank Group, with most of the exploration portfolio in fossil fuels held by the International Finance Corporation.

# REFORMING THE GLOBAL ECONOMIC GOVERNANCE SYSTEM: 'PUBLIC GOODS' AND BALANCE OF POWER

ANTONIO VILLAFRANCA<sup>1</sup>

Today's global economic governance system is not representative of the actual international balance of economic power. The required rebalancing in economic and political power gives rise to an urgent need to identify the nature of 'global public goods' that countries expect the global financial and monetary system to provide.

G20 Declarations — especially the last one in Brisbane — made it clear that the main objective recognised by all participants is the attainment of strong, stable, and balanced economic growth. In order to achieve this goal a number of ancillary tasks have consistently appeared in such Declarations between 2008 and 2014. Among them, one should include the use of national monetary policies (in such a way as to make domestic objectives consistent with stable and balanced international capital and trade flows), fiscal sustainability in the long term, preservation of an open global economy, and reform of the Bretton Woods institutions.

These tasks appear to be listed without a clear-cut and coherent ranking. However, if all the listed objectives are conceived as subservient to the overarching goal of ensuring global economic growth, it is urgent that they are pursued with a consistent strategy, a clear timetable, and an effective monitoring mechanism.

As a result, the very rationale behind the redistribution of power in international institutions should be turned upside down. First, the current and prospective contribution of each country to the provision of global "public goods" should be gauged, and then votes/quotas in international institutions should be re-distributed accordingly.

In this view, it is noteworthy that at the 2008 Washington summit, G20 leaders found that "inconsistent and insufficiently coordinated macroeconomic policies" were at the root of the crisis. Given that fiscal policies coordination is not in sight, at least in the near future, the question then arises: is global coordination of monetary policies feasible, or even desirable?

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A way to address this question is to consider how rapidly the conventional wisdom about monetary matters has evolved since the beginning of the global crisis. Until 2007, central banks tended to treat bubbles with benign neglect: they were hard to detect and harder to deflate, so better to leave them alone. Today, no central bank would admit to such benign neglect any longer.

A related debate has to do with the effectiveness of monetary policy. Two starkly different views, stemming from very different theoretical traditions, seem to be defending the very same argument, i.e. that monetary policy is largely ineffective in the face of looming macroeconomic imbalances of a global scale. However, these still-open debates in the scholarly community frequently spill over to the policymaking community as well. International leaders find themselves at cross purposes over the conduct of monetary policy, and it is not infrequent that they accuse each other about whether to take a certain decision or do nothing. In short, G20 leaders should commit to further study of monetary issues in order to clarify what objectives of monetary policy should be pursued and, in doing so, they should keep in mind that coordination of monetary policies is a “public good” to be defended.

In addition, as far as the so-called global currencies are concerned, G20 countries have been debating at length the role they play in the international monetary system. Supporters of the reduction of global imbalances have long advocated for selected currencies to play a more dynamic role, thus switching from a US dollar-dominated world to a “multipolar reserve currency system.” This call is usually complemented with the request to improve the role of the IMF’s Special Drawing Rights (SDRs) as a reserve currency.

The current IMF criterion for including currencies in the SDR basket is their relative importance in the world’s trading and financial systems. According to the global financial transactions system, SWIFT, by the end of 2013 the yuan was the eighth most traded currency in the world. However, the yuan still accounts for little more than 1.5 per cent of global payments. Unless new criteria for the SDR composition are agreed upon, current calls for the yuan to enter the SDR basket practically imply that Beijing’s currency would not count for much more than 2 per cent. This also entails that the Australian dollar, the Swiss franc, and the Canadian dollar should be taken into account when computing the SDR value and would count more than the yuan. In sum, current financial and monetary conditions do not seem to fully support a more relevant Chinese role in the international system.

If, on the one hand, global coordination of monetary policies seems to be far off in the horizon, on the other hand, a collective contribution to the stability of currency markets appears feasible and desirable. Our proposal is that the more countries agree to take up a role on global currency markets, contributing to its reform and stability, the more they

should be 'rewarded' in terms of their place in global economic governance institutions.

Recent IMF reforms may turn out to be insufficient if compared to the shift in economic power that has occurred in the last two decades. The current reforms imply just a 5.6 per cent global realignment in terms of quotas, and an even slimmer 5.4 per cent realignment in voting shares. Advanced economies would lose some ground, but would still retain 57.6 per cent of quota shares (and 55.2 per cent of the votes).

Moreover, at Seoul it was agreed that IMF reforms should be in place by November 2012. But, as of December 2014, they are yet to be ratified by the US Congress, and this is delaying the start of the next round of IMF reforms.

The current deadlock is understandably frustrating, especially for BRICS countries. Although BRICS are a heterogeneous group of countries, the mere fact that they managed to agree upon alternative institutions — i.e. the recently created New Development Bank — is of legitimate concern for those interested in assessing the state of global governance institutions.

In our opinion, G20 countries should prioritise objectives and act upon the recognition that their main mission is to increase the growth potential of the world economy, while at the same time guaranteeing its sustainability. Furthermore, they should strive to agree on what policies are best suited to reach this aim, given that the consensus over how to address monetary and currency issues is nowadays consolidated, at least in some areas.

In addition, G20 leaders should reach a political agreement over country-specific priorities, with clear timetables and a monitoring mechanism. From this perspective, the reform of Bretton Woods institutions should be directly linked to the achievement of country-specific priorities.

The rationale is that the more a country contributes to the provision of 'global public goods', the more it should benefit from voice and representation in the institutions.

By establishing alternative institutions to the World Bank and the IMF, an effort should be made by BRICS countries to design such institutions as regional complements, not as direct competitors. The best way to go beyond the current formal balance of power within the Bretton Woods institutions is to push harder for their reform, not for their replacement.

These recommendations are ambitious and their implementation may prove anything but easy. However, a key concern of G20 leaders should be to avoid the fate of a paralysis of international institutions and, at the same time, prevent a 'spaghetti bowl' effect. These results may be, in the long run, beneficial to no one.



# GROWTH THROUGH INFRASTRUCTURE DEVELOPMENT

YONG WANG AND GREGORY CHIN<sup>1</sup>

China will host the G20 in 2016, after Turkey in 2015. These two nations have a good opportunity to advance the infrastructure investment agenda that was announced at the G20 Brisbane in 2014. By helping to forge a more globally coordinated and coherent effort on infrastructure development, the G20 members will help to catalyse strong, sustainable, and balanced growth.

## GLOBAL SLOWDOWN

The global economy could be facing a significant slowdown as the main drivers of growth coming out of the 2008-09 financial crisis appear to be entering into a period of lower growth themselves. The Chinese economy is slowing down to a new normal. Oil prices are crashing and Russia is suffering, as seen in the devaluation of the ruble. Europe continues to struggle with recession, and there are warnings of a new debt crisis. The United States is showing signs of recovery, but employment and quality jobs remain a widespread concern at the everyday level. Growth in Canada and Australia are slowing as global energy and commodity prices weaken.

The world needs better arrangements for managing global growth and development. We appear to be entering into a new period of urgency and crisis prevention.

One way to stave off a global slowdown would be to stimulate growth in the real economy via infrastructure investment. One of the key outcomes of the G20 Summit in Brisbane, Australia, is the attention given to infrastructure investment, and the decision to set up a new Sydney-based “global infrastructure hub” as a virtual and physical base for sharing data and knowledge between companies, governments, and financiers that are looking to support infrastructure projects.

Another positive outcome of the Australian G20 Presidency was the strong work that Australia put into coordinating with Turkey and China, the next two hosts of the G20 summit. Australian officials also made sure

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to link the agenda of the Brisbane G20 Summit to that of the APEC Leaders' Summit in Beijing, which took place immediately prior to the G20. The respective hosts of the APEC and G20 Summits each made sure to focus on the economy, and both gave priority to infrastructure investment on the Summit agendas.

## WHY INFRASTRUCTURE

Investment in infrastructure can be a key means for offsetting the slowdown in global growth, and a direct channel for surplus countries to direct excess financial resources to less-developed countries and regions, as well as to developed countries in need of infrastructure upgrades.

Infrastructure development is a precondition for sustained growth in developing countries. Yet there are major gaps in infrastructure financing globally, and especially in the developing world. According to the African Development Bank, the Inter-American Development Bank, and ADB, there is huge demand for infrastructure investment across their regions.

Some of the traditional leading economies, including the United States and Britain, have identified infrastructure modernisation as a priority for the future. The Obama White House has made infrastructure a priority for 2015, but it is facing resistance in Congress.

Increasing investment in infrastructure would also be a means to rebalance the global economy, and to reduce its over-reliance on the virtual economy and financial innovation.

The Turkish G20 Presidency can make an important contribution to strong, inclusive, sustainable, and balanced growth by maintaining the focus on infrastructure investment, and by helping to forge a more globally coordinated and coherent agenda on infrastructure financing.

It is a good sign that Turkey has made “inclusive growth” and “infrastructure investment” top priorities for the upcoming 2015 G20 Summit.<sup>2</sup> As a demonstration of its seriousness, Turkey will host the Investment and Infrastructure Working Group Meeting on 29-30 January 2015, as one of the first working group meetings under the new G20 President — immediately after the Framework Working Group meeting.

## FOR CHINA'S G20 PRESIDENCY

China has heavy interest in a global discussion on infrastructure investment.

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<sup>2</sup> Turkish G20 Presidency, *Turkish G20 Presidency Priorities for 2015*, 1 December 2014.

In 2012, the BRICS countries initiated the idea of establishing a new intra-BRICS development bank, and this bank was launched in July 2014. Also in 2014, China advanced the idea of a new Asian Infrastructure Investment Bank.<sup>3</sup> In 2013, Chinese President Xi Jinping proposed the idea of “one belt, one road” to reconnect the countries of the original Silk Road across the Eurasian landmass; but, this time, with new rapid transportation lines. Beijing offered new financing for “Silk Road” projects, including for the creation of a \$US40 billion Silk Road Fund, and also additional financing for a Shanghai Cooperation Organization Bank. The Chinese Government has been consulting with the nations involved, and it has the means to finance these various infrastructure projects. The implementation of these plans will contribute to growth in the region, and beyond, over the next decade.

However, in assuming the G20 Presidency for 2016, China has a unique opportunity to foster some needed coordination and coherence between the various international infrastructure initiatives that were vying for attention at the Brisbane G20 summit, including the World Bank’s Global Infrastructure Facility and the Asian Development Bank.

Global infrastructure financing demand still outstrips the supply, despite the burgeoning of institutional arrangements. The G20 member states should work together to forge a global agenda for global infrastructure development; *and*, in so doing, forge strong, sustained, and balanced global growth.

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<sup>3</sup> Yong Wang and Gregory Chin, “The Asian Infrastructure Investment Bank: Prospects for a China-led Institution,” *Sheffield Political Economy Research Institute* (blog), 31 July 2014, <http://speri.dept.shef.ac.uk/2014/07/31/asian-infrastructure-investment-bank/>.

# SYDNEY THINK20 SEMINAR OCTOBER 2014

TRISTRAM SAINSBURY<sup>1</sup>

## INTRODUCTION

On 28 October 2014, the G20 Studies Centre at the Lowy Institute for International Policy hosted a Think20 seminar in Sydney. The Think20 involves representatives from think tanks drawn from G20 countries. It is a relatively new addition to the G20's formal outreach with the broader community. Since the G20 reached out to business representatives at the Toronto Summit in 2009, the G20's formal engagement has expanded to involve five engagement groups: business (B20); civil society (C20); organised labour (L20); think tanks and the academic community (Think20 or T20); and young people (Y20).<sup>2</sup>

The first Think20 meeting took place in February 2012 and was organised by the Mexican G20 Presidency in collaboration with COMEXI, the Mexican Council of Foreign Relations. Russia continued the process when it assumed the G20 Presidency for 2013, with a Think20 meeting organised in December 2012 by the Russian Presidential Academy of National Economy and Public Administration. The Australian Presidency also supported the Think20, appointing the G20 Studies Centre at the Lowy Institute for International Policy to coordinate the 2014 Think20 process. During the Australian Presidency, Think20 events have become formalised, the Think20 network has been strengthened, Think20 meetings and seminars organised more frequently, and expectations have increased for experts from think tanks and the academic community to contribute to G20 efforts to improve the global economy.

The October 2014 seminar, the final meeting Think20 convened during the Australian Presidency, consisted of four sessions. Session 1 assessed major challenges facing the global economy, risks to global growth, and whether the G20's 2 per cent growth target will be a 'game changer'. Session 2 considered whether global economic cooperation is on the rise or in decline, the consequences of delays in IMF governance reform and at the WTO, and implications of rising geopolitical tensions. Session 3 was devoted to whether the G20 operates as the premier forum for economic cooperation, assessing how the G20 has progressed

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<sup>1</sup> Research Fellow, G20 Studies Centre, Lowy Institute for International Policy. The summary reflects the impressions of the author, and any errors or omissions are mine.

<sup>2</sup> A prospective sixth group focussing on gender issues, the Women's 20 (W20), was being discussed in late 2014.

in 2014, and exploring the challenges confronting Turkey as chair in 2015. Finally, Session 4 examined the role of the Think20: its contributions to the G20 process, how it compares with the other G20 'engagement partners', and what can be done to make it more effective.

The following is a summary of some of the points raised during the seminar.

## SESSION 1: THE STATE OF THE GLOBAL ECONOMY

Session 1 set the scene for the seminar by discussing the economic backdrop that would underpin discussions at the Leaders' Summit in Brisbane. It was suggested that the major challenges facing the global economy have moved on dramatically from the Russian Presidency. In early 2013, the topical issues were fiscal consolidation, currency wars, energy prices, and trade protectionism.

Today the story is very different. One point raised was that global growth remains disappointing with many countries forecast to grow below their potential growth rates combined with downward revisions in their growth potential. While the emerging markets had been the growth engine since the crisis, emerging market growth rates had declined from around 7 per cent to around 5 per cent. Growth rates in advanced economies had also weakened over the course of 2014 and there is discussion about secular stagnation.

There is also a marked slowdown in convergence of the growth performance between advanced economies and emerging markets. It was noted that convergence trends are still there, but at a reduced rate relative to the 2000s. Moreover there was a sense conveyed that notwithstanding the very rapid growth in emerging markets in recent years, associated with globalisation and the information revolution, these high compound growth rates will be very difficult to maintain.

There is also a loss of momentum in global trade. Historically, global trade grew faster than global GDP; however, in recent years global trade is growing slower than global production. It was suggested that, in part, this reflects the weakening in the global economy, but trade growth itself has dropped independently of the economic slowdown.

It was noted that monetary policy continues to play a prominent and potentially disruptive role in economic management. In the US and UK, discussions are around the exit from unorthodox monetary policy. In contrast, Japan is accelerating its quantitative easing and the European Central Bank is edging towards greater stimulus. This divergence in monetary policies will have implications for the US dollar and financial markets. One point raised was that more work is needed to understand the spillovers, and a greater effort is required on international cooperation on monetary policy settings.

A further observation was that global financial markets have seen a long period of what could be termed as being 'too-quiet' although there has, recently, been a burst of volatility. The concern is that markets are still mispricing risk.

Some country-specific observations include that Chinese growth is continuing its path of slowing, although the magnitude and timeframe of the slowdown is uncertain. While there have been some predictions of a dramatic slowing in the growth of the Chinese economy, it was pointed out that it still has a long way to go to catch up to the wealth levels of advanced economies. It was noted that at a sustained 5 per cent per annum growth rate, China will reach OECD wealth levels in 2050. To maintain higher growth, productivity will have to be increased and this, in turn, will require structural reform.

India faces challenging structural reforms. A potential approach is for India to use the international financial institutions to promote reform. However, it was suggested that the international organisations currently do not have sufficient leverage in India to achieve such an outcome. Instead, reform will have to be internally driven.

Against this backdrop, the challenge is how to increase sustained global economic growth. The infrastructure agenda was seen to be a key area, but reforms needed to go beyond infrastructure investment and cover all policy areas, including monetary policy and fiscal policy. A common theme in the policies recommended by the IMF and OECD was the need for a greater emphasis on social aspects of growth.

Adding 2 per cent to the projected level of G20 country GDP may be tough but it was viewed as achievable. Structural reforms will be key drivers of growth, but these are country specific, raising questions about the role for the G20.

It was suggested that while the growth target may be a crude instrument, it has communication value in that it allows leaders to signal that a) there is a problem; and b) they can do something about it. It also provides a performance benchmark against which countries can be assessed. Questions were raised about whether the target was ambitious enough — a more modest target may be good for the EU but not enough for the global economy. More generally, structural reforms are slow-acting reforms that create winners and losers, and although countries can do these unilaterally (and there are examples of this being successful) peer pressure may be needed to affect change. It was considered to be a good thing if the G20 can provide peer pressure/review to generate additional commitments from countries.

An alternative take was that country-specific policies should simply be left for countries to implement. The recent IMF downgrade to growth projections (both near and medium term) shows the challenges in meeting the task, and implementation risks raise serious questions about

whether the 2 per cent target can be achieved. Further, doubts were raised as to whether, as a structural process, the G20 can be helpful in overcoming domestic political roadblocks.

The view was raised that the value of the 2 per cent growth target comes from the nature of the signal that leaders are sending. If the target is connected with medium- to long-term benchmarks then there may be value. But leaders have to take it seriously, specify the sources of growth and hold themselves accountable. For summits to be effective, behaviours have to change. There also needs to be a pledge from all members within the forum to not publicly detract from the target. Finally, expectations need to be carefully managed, as the 2 per cent target cannot be seen as the answer to everything.

## SESSION 2: THE STATE OF GLOBAL ECONOMIC GOVERNANCE

In this session, participants' focus turned to the current state of global economic governance. There were concerns that the evidence suggested global economic governance is in decline. In a stark (but possible) global scenario, it was suggested that the state of multilateral organisations and forums in a year's time could involve:

- *IMF*: Not reformed from the continuing deadlock in the US
- *World Trade Organization*: Not reformed from the continuing deadlock
- *World Health Organization*: Still lacking the mandate and resources to do its job effectively, and no clear process for reforming arrangements for dealing with health emergencies
- *BRICS New Development Bank, Asian Infrastructure Investment Bank (AIIB)*: unresolved as to how these institutions fit with the existing international structure
- *United National Framework Convention on Climate Change*: Another disappointing climate change conference in Paris, after receiving no direction from G20 leaders
- *Post 2015 Millennium Development Goals*: No strong, clear outcome
- *Tax*: edging slowly towards the establishment of an international tax organisation that could manage country-by-country reporting on international tax issues

In addition it was suggested topics like development, sovereign debt restructuring and immigration are cross-border issues and there may be no real progress in pursuing these issues in international forums.

Problems in areas such as the Bali trade agreement and IMF reform have contributed to the development of blocs and factions among the international community, particularly the BRICS grouping (Brazil, Russia, India, China, and South Africa). In addition to the BRICS, there is the G7 (US, Canada, Germany, UK, Japan, France, and Italy), and the recent grouping MITKA (Mexico, Indonesia, Turkey, Korea, and Australia). Concern was expressed that blocs or factions may work against achieving the global economic cooperation that is required. Such blocs may impede achieving the compromises that are often needed to advance international issues.

In particular, attention has been drawn to the BRICS grouping, which has been united by its frustration with the established global order. This has led to the establishment of the BRICS New Development Bank and the currency reserve pool. In addition, China has launched the AIIB. These arrangements have commonly been described as a challenge to the established order.

The BRICS New Development Bank was viewed as more of a geopolitical statement than an economic one, with the money at stake relatively small compared to development needs. The state of events is partly due to the grouping being less united on how they specifically wish to go against the established order, and the grouping will face ongoing challenges on how to sustain cooperation.

It was recognised that the new institution faces many problems. For example, South Africa insisted on equal votes in the BRICS New Development Bank, which will constrain the growth potential of the bank's resources. The opportunity cost for the funds coming from the South African taxpayer is significant.

It is not clear what role the currency pool will play for each member, and indeed what benefit there is from the arrangement. However, it was suggested that the driving force behind its establishment was the failure to pass IMF reform. And the longer necessary reforms to the IMF, agreements at the WTO etc, are delayed, the more of a lightning rod these delays will be for fast-tracking the progress of alternative arrangements.

The current Chinese approach to international institutions is not defined by its status as a major power, but rather as an emerging market. The view was expressed that China recognises that, like the other BRICS, it is a non-Western power that has no choice but to negotiate with Western powers over Western-dominated global institutions like the IMF and World Bank. In this context, regional/cross-regional initiatives are viable alternatives. Further, China's approach to participation in the existing structures of regional arrangements is influenced by a perceived lack of trust from existing powers, as well as competing priorities. For example, the AIIB offers the potential to promote Chinese interests and domestic priorities in the Asian region in a way that, due to constraints, the ADB



and World Bank cannot, and China believes that it has expertise in infrastructure.

It was noted that the existing and new arrangements have the potential to be complementary, and it was highlighted that the ADB President has welcomed the AIIB as an additional source of funding for infrastructure in the Asian region. Although the AIIB and BRICS arrangements will not kill multilateralism, they raise questions around the effectiveness of groupings like the G20. Moreover, it was suggested that history has demonstrated that multilateral arrangements have to be demonstrably useful if they are to endure.

### SESSION 3: THE STATE OF THE G20

This session focused on how the G20 has progressed since 2008. It was suggested that there has been a formalisation of the G20 since the global financial crisis as the key forum for global economic cooperation, with continuous work by a taskforce on global economic challenges. Further, the habits of cooperation are improving through regular cooperation between officials involved in G20 Working Groups.

There was a widespread view that the G20's legitimacy as the premier forum for resolving global economic governance issues has declined as the immediacy of the crisis has waned. People are disillusioned and increasingly cynical as the forum delivers slower and lower levels of progress. It was remarked that if another financial crisis were to occur in the near future, there would be serious image issues for the forum.

That said, the G20 with its narrower focus in 2014 is still relevant, and the world would be in a worse position if the forum were not in existence. A point raised was that governments need to cooperate and the G20 can play a very positive ongoing role, building on successes such as in financial regulation and the standstill on protectionism. It is still maturing, and non-G8 countries are still listening and learning about how to steer global affairs.

In many respects the G20 is now in a second phase following the initial response to the crisis, and is now focusing on lifting the potential growth rate of countries that were adversely affected by the crisis. In this regard, the 2 per cent target can provide the forum with much-needed momentum. However, some participants noted that this is an area where countries have divergent interests and involves country-specific policy settings.

The point was raised that in order to make advances in international economic governance, all the long-term issues with multilateral organisations and forums noted above should be on the G20 agenda. A focused agenda including these items does not necessarily need to address country-specific actions.

It was recognised, however, that some of those issues are extremely tough to solve. For example, it is difficult to be optimistic about the future of the WTO. The key challenge facing the G20 is to mobilise the political momentum for reform while managing expectations and achieving the right balance between ambition and realism.

There was a widespread view that the Australian Presidency has delivered a functional process that has contributed to improvements in the habits of cooperation. Reports from officials in G20 countries noted improvements in managing time, the length of speeches, and the relevancy of discussions. Important characteristics that have been maintained have been the peer-to-peer conversations and informality of interactions.

The Australian Presidency's approach has been energetic. Outreach has been extensive. For example, efforts have been made to bring the perspectives of developing countries into the G20's work on combatting tax evasion and avoidance.

There have been efforts by Australia to improve interactions with the engagement groups. The B20 has had unprecedented influence over the G20 chair in 2014. A challenge for Turkey in 2015 will be to further enhance the involvement of all the engagement partners.

In general, it was noted that there is a lack of public understanding of the G20. People don't know what the forum does. In the eyes of the Australian public, the main G20 issues are likely to involve the interactions between Prime Minister Abbott and President Putin. As regards media interest in the G20 in Canada, there has been one recent television news item, about protestors camping out several weeks ahead of the event.

That said, Australia has done comparatively well in setting out clear objectives for the G20 in 2014. In particular, the BEPS agenda has cut through in terms of Australian media interest in the G20.

The G20's rotating Chair and increases in the expenses of hosting the G20 puts pressure on the Chair for the Summit to achieve major outcomes. While the rotating Chair is unlikely to change, it was considered that the G20 process has to evolve from being a 'once in a career event' for the Chair to a meeting that comprehensively and consistently advances multi-year issues.

The likelihood of a 2016 Chinese G20 Presidency is shaping up to be an important point in the G20's evolution. In the past, the approach by China to the G20 has included a willingness to play the part of a good global citizen, although it has not taken actions that are considered detrimental to national interest but would benefit the global economy overall.

The point was made that there are reasons to be optimistic about China's chairing of the G20 in 2016 because it will require China to focus on progressing global outcomes. The US and China have shown a willingness to work with each other, and there have been recent improvement in relations between China, Japan, and Korea. If these relationships continue to strengthen, it can alleviate the tensions associated with the lack of trust.

However, the point was also made that China's actions in driving the various alternative arrangements can also be seen as a mark that is not looking to please the international community any longer. And it is important to keep in mind the evolving economic discussions and politics in China and that it is a sensitive period in terms of its response to the international community.

If the new institutions belie a revealed preference, it is indeed a risk to ongoing G20 cooperation and raises the spectre that the geopolitical failures of the G8 may also translate across to the G20 in time. If, for example, tensions between the US and China result in an invitation to the 2016 Leaders' Summit being withheld from the US President, the forum could be irrevocably impacted.

#### SESSION 4: THE STATE OF THE THINK20

The final session turned attention towards the Think20, and how think tanks and the academic community could best input into the G20 process.

The Think20 seeks to contribute to the G20 process by providing analysis, ideas and commentary. Since the first Think20 outreach in the 2012 Mexican Presidency, the involvement of engagement groups such as the Think20 has become more formalised. The Think20 retains a different character to other engagement groups in two important respects. First, the other engagement groups advocate specific issues and spend considerable time seeking consensus on the issues to be progressed. In contrast, the Think20 is not an advocacy group and, consistent with its comparative advantage in providing analytical depth and ideas, does not seek to achieve agreed positions. Secondly, the think tanks and academics involved, who could be described as professional G20 observers, provide a degree of continuity that does not exist to the same extent with the other, more domestically oriented, engagement groups.

The activities of the Think20 in 2013 and 2014 have included:

- May 2013: Regional Think20 seminar
- December 2013: Think20 meeting involving all G20 countries

- December 2013: Publication of the book *Think20 papers 2014: Policy Recommendations for the Brisbane G20 Summit*
- Publication of 14 editions of the G20 Monitor over the course of 2013 and 2014, which contained articles covering all issues on the G20 agenda
- Think20 representation by the G20 Studies Centre at the Lowy Institute at various G20 official events throughout 2014. Close engagement with the C20, B20, L20, and Y20
- Conferences, roundtables, and other events across 2013 and 2014
- October 2014: Think20 seminar

Some of the lessons from the Think20 experience under the Australian Chair include the importance of starting early, recognising that the best time to influence the agenda for the G20 is before the country assumes the Chair on 1 December. It was also noted that focusing research on the areas that are the priority of the Chair is important, as is providing specific policy recommendations. The point was also made that an area where think tanks have a comparative advantage is in focusing on global governance gaps, a topic that is unlikely to receive attention by the other engagement groups.

One point made was that the G20 effectively influences a large component of the research agenda of the international organisations in terms of the various requests that the G20 directs to these bodies. As such, an area the Think20 could focus on is suggesting areas where the international bodies could be tasked to undertake work.

In terms of strengthening the Think20 process, a troika structure similar to the governance arrangements of the G20 Presidency was considered useful. The *Think20 papers 2014* were considered very useful, particularly the focus on short papers with specific policy recommendations. This process should be continued. It was considered that to strengthen the persuasiveness of future Think20 papers, a number of joint papers should be produced. In addition, two reviewers for each paper could be nominated. It was recognised that to pursue such an approach, additional time would have to be factored into the production process.

One suggestion raised was to invite observers from other organisations; for example, ACUNS, BRICS academic forum, and ASEM think tanks. However, the Think20 process is an open coalition of think tanks and there are no restrictions on who attends Think20 meetings. Money has been the main limitation.

One idea raised was to establish an academic G20 journal — although how such a publication would be organised or funded was not discussed. As noted previously, in 2014 and 2013, the G20 Studies

Centre at the Lowy Institute had regularly produced the G20 Monitor that consisted of papers from think tanks and academics on G20 issues.

## CONCLUSION

Overall, the seminar provided an insightful discussion around the economic and institutional challenges facing global economic governance, the G20, and the Think20.

There seemed to be a general consensus among participants that the core focus of international economic discussions is currently on how to increase sustained global economic growth, in light of disappointing growth in many countries and expectations of lower potential growth into the future. As a result the G20 — still considered to be the premier multilateral economic forum — is in many respects now into a second phase that focuses on lifting growth potential, and countries are forming better habits of cooperation. However, its legitimacy appears to be declining as people become disillusioned with the G20's slow progress on key international governance issues. A side effect is the development of 'workarounds' such as alternate regional architecture and geopolitical blocs and factions, which will be a key challenge for the Turkish Presidency.

There also appeared to be agreement on the growing significance of the Think20. There was broad recognition that the efforts of Mike Callaghan and the Lowy Institute's G20 Studies Centre over a number of years constitute a major step forward in realising the vision of the Think20 — to allow experts to improve the workings of the global economy. There was a sense that by continuing to focus on priority issues for G20 members, the Think20 can help to set the direction for research and policy-making on a global scale.

That said, the Think20 initiative is still in its formative phase, and there remains significant scope for refinement. Some proposals that future hosts may consider include: a formal Think20 troika arrangement that mirrors G20 processes; producing more jointly-authored T20 papers; establishing an academic G20 journal; strengthening peer review mechanisms for contributions; and a greater focus on the future work tasks of international bodies.

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