Policy proposals for the Brisbane G20 summit

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Overview

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

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

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

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

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

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

The papers submitted by participants in the Think20 meeting are attached. Following is a summary of some of the challenges and policy proposals identified in the papers. The outcome from the Think20 meeting will be submitted to Sherpas.
Think20 participants will also maintain a dialogue on these issues during the course of 2014.

Session 1: The G20 economic/finance process

The challenges

- Five years after the crisis, it is clear that the global recovery will be arduous and protracted.

- The IMF stated in its recent WEO that ‘global growth is still weak, its underlying dynamics are changing, and the risks to the forecasts remain to the downside. As a result, new policy challenges are arising and policy spillovers may pose greater concerns.’

- The global risks include financial imbalances and excessive levels of government debt, and increased volatility of capital flows and exchange rates, as well as rapid growth in some asset prices.

- The phasing down of quantitative easing and the rise in interest rates will pose major challenges to the global economy.

- Economic growth has been declining for the last forty years in developed countries, and a weak growth situation could well persist or even worsen.

- Income inequality is rising.

- The G20 has struggled to deliver a clear, consistent and coordinated message as to how members are cooperating to restore growth and create jobs. It has not lived up to the high ideals of the Framework.

- Pressures toward fiscal austerity in many places are impeding the global recovery, and are leading to countries acting in a non-cooperative manner by seeking to expand demand through export growth, propelled by currency depreciation.

- International cooperation and coordination have a crucial role to play, but policies are ultimately set according to national circumstances.

- It is outside the remit of the G20 presidency to force member states to commit to national rebalancing and growth measures that are domestically unpopular or
unfeasible. Nor is the G20 presidency in a position to make member states agree on a common vision for the global economy when they diverge in outlook and economic philosophy.

- The MAP may be meaningful in enhancing member states’ commitments, but it has had minimal impact in binding their hands.
- There is not an institutional setting for a fully integrated evaluation of global rebalancing, regulatory reform and financial risk assessments. The current disjointed arrangements could result in governance ‘voids’.

**Possible policy options**

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

- Introduce a G20 early warning system to detect and monitor potential threats, including possible spillovers.

- Invite a wider array of parties to participate in MAP discussions, including members of international labour advocacy groups, business groups and women’s rights groups, to ensure that the concerns of these groups are integrated into the global policy discourse.

- Intensify the work on strengthening financial safety nets (firewalls), including the operation of the IMF and cooperation between the IMF and regional financing arrangements (RFAs).

- Strengthen the MAP process by: obtaining specific and timely commitments from G20 members, with a focus on spillovers; expanding discussions based on an ‘explain and justify’ approach; introducing clear timetables and a bilateral monitoring process, not only for assessing the proposed commitments, but also for reviewing
implementation; and streamlining the publication of final MAP results into one coherent G20 document.

- Recognise that most Finance Ministers do not have domestic responsibility for structural reforms, and open up the Finance Ministers’ process so that other ministers directly responsible for the reforms being discussed can attend on an ‘as needed’ basis.

- Improve ministerial oversight of international financial regulation by having the G20 Finance Ministers meeting that takes place at the time of the spring and annual IMF meetings focus on financial regulation. This would remove the current duplication associated with back-to-back meetings with the IMFC.

- Incorporate into the agenda for the summit a specific session where leaders reflect on the future challenges for economic from likely corporate and technological developments and the further integration of economies.

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

Session 2: Trade liberalisation

Challenges

- International trade negotiations are at a crucial stage. Multilateral negotiations, led by the WTO, are in crisis, with regional and sub-regional trade negotiations filling the vacuum.

- The Bali Ministerial conference that will take place a few days before the Think20 meeting is the last opportunity for the WTO to salvage at least part of the Doha round.

- Making progress towards concluding the Doha round is essential for the credibility of the entire G20 process, as this issue has been on the agenda for several summits without any significant progress having been made.

- It is nearly impossible to obtain consensus in a 159-member club (the WTO), where members have such different levels of development and integration into the world economy.
• G20 Trade Ministers’ interactions are infrequent and brief. These are also the same ministers who have presided over the Doha impasse.

• Underneath the Doha impasse are several intractable structural and geopolitical dynamics that block progress. Removing these blockages requires strong political will, leadership and collective sacrifice – qualities so far absent.

• Because of the lack of progress at the multilateral level, a trend to prefer regional trade agreements (RTAs) over multilateral negotiations is inevitable.

• Mega-regional trade arrangements carry the dangers that the parties will be substantially distracted from multilateral approaches to liberalisation, while further alienating key developing countries not included in the processes. At the same time, they may also contribute to strengthening trade liberalisation.

• Although G20 member states have recognised the significance of fighting protectionism since 2008, protectionist measures are still prevalent, particularly ‘murky protectionism’. Of the total number of trade-restrictive measures implemented since October 2008, only 19 per cent have been eliminated.

Possible policy options

• The G20 should encourage members to share information regarding RTA negotiations that they are participating in with other G20 countries.

• The inter-agency work program evaluating protectionist measures by G20 members should be continued and widely publicised.

• A peer review process should be established within the G20 to monitor adherence to the standstill commitment, which will provide an additional incentive for leaders to abide by the commitment.

• G20 leaders should take steps (to be verified in the inter-agency reporting process) to give effect to the commitment to roll back existing protectionist measures.

• One way or another, the Doha round should be ‘concluded’ in 2014. If there is no agreement at the WTO Ministerial meeting in December 2013, the G20 will need to seize the initiative regarding the future of the multilateral trading system.
• The G20 should extract from what is left of Doha a basket of issues amenable to intra-G20 compromises and, where possible, that contains broader appeal to the rest of the WTO membership.

• The discussion of the future of the WTO should be deepened, anchored by the governance of global value chains (GVCs) and their implications for international trade negotiations. This conversation should include: the identification of negotiating issues, incorporating both rules and liberalisation; the work of the World Economic Forum and World Bank on a ‘GVCs plurilateral’; and the needs of the poorest countries in relation to plugging into and upgrading within GVCs.

• Discussions should be held about the resort to plurilateral negotiations as a key mechanism to sustain the WTO’s position at the apex of the global trading system.

• Serious efforts should be made to make the RTAs congruent with building multilateralism.

• Concrete mechanisms for reviewing RTAs in the WTO should be defined.

• Serious conversations should begin on the future of multilateral investment governance under the auspices of the WTO.

• Agriculture should be included in mega-regional trade deals. Any reduction in distortions can ultimately be expected to benefit developing countries as well.

• Support should be given to developing countries to enable them to gain the required expertise to deal with the WTO Dispute Settlement Mechanism.

• A G20 working group on international trade should be established.

• An independent standard body, linked to the WTO, should be established to develop model clauses, treaties and practices for trade and investment agreements.

**Session 3: Financing for investment/infrastructure**

**Challenges**

• Despite widespread accord regarding the economic benefits of infrastructure investment, there remains a substantial deficit in new infrastructure globally.
The problem may be shared by countries, but the reasons differ. For some, limitations might lie in an inefficient financial sector (for example, interest rate controls and limited market access); for others, the government may be the bottleneck; while for others, the incentive structure may not favour long-term investment.

Any new model of infrastructure financing must directly address current concerns surrounding the level of public debt around the world.

An important headwind facing the development of new paths for infrastructure is that bank finance may be limited as a result of changes in global bank regulation and the direct issuance of bonds will be vital in the current investment climate.

Many developing countries do not have deep financial markets.

Financing regional or cross-border infrastructure projects is a particular problem for developing countries.

Public–private partnerships (PPPs) are highly complex and require advanced capacity within the public sector to both negotiate and manage. This is a problem for developing countries.

A challenge facing East Asia is that of recycling countries’ excess saving from foreign exchange reserves within the region into more productive investment.

While there is a focus on accessing pension funds as a source of infrastructure financing, private sector investors face numerous risks when evaluating a new investment proposition. Pension funds are conservative and largely focus on low-risk investments – they are reluctant to finance new infrastructure investment.

Infrastructure investment is not a global public good. The immediate effects that it generates are localised or, at most, regional. It therefore requires a regional approach and the G20 may not be the best place for dealing with specific infrastructure projects.

Connectivity – expanding transportation networks, energy routes and telecommunications infrastructure – has the potential to improve the inclusion of different countries within the global economy.

Possible policy options
Sovereign governments’ budgetary positions should be divided into two distinct parts: an operations account and a capital account. The assets and liabilities of current and future infrastructure projects would be reported in the capital account. The issuance of infrastructure bonds (a liability in the capital account) would finance individual infrastructure projects (an asset in the capital account).

The issuance of infrastructure bonds that are directly linked to each project would create a mechanism by which market discipline is forced upon each infrastructure project, due to the signal sent by the indicative pricing of each series of bonds.

Infrastructure bonds could be issued directly by governments or by dedicated infrastructure financing authorities set up for this purpose.

The G20 should translate the G20/OECD High-level Principles of Long-term Investment Financing by Institutional Investors into action through promoting the exchange of experiences, best practices and lessons so that countries can find tailored solutions for their circumstances.

The G20’s work on promoting sound and efficient financial markets should pay more attention to the challenges facing emerging markets.

An international infrastructure forum should be organised to bring together policymakers, financiers (particularly pension funds and fund managers) and implementers (project sponsors, PPP centres and advisors) to discuss respective needs and requirements regarding long-term infrastructure financing.

The G20 should draw on the experiences of the ASEAN Infrastructure Fund (AIF) in the quest to advance infrastructure investment.

The development of the regional bond market in Asia, including the ASEAN+3 Asian Bond Markets Initiative, could support the reduction of global imbalances by recycling Asia’s excess saving within the region, through more investment in the region.

The G20 should highlight best practices in the area of local currency bond markets such as the Asian Bond Fund 2 (ABF2), and support dedicated information campaigns.
• As a cross-cutting issue, the impact of other G20 initiatives on the long-term investment financing environment should be considered.

• The G20, along with international organisations, should play a role in the development, evaluation and prioritisation of infrastructure projects.

• The G20 should support the coordination of regional development funds, including supporting the Africa50 Fund.

• The development of a cross-border PPP framework would help sovereign states cope with financing issues, and increase harmonisation.

Session 4: Development

Challenges

• Some of the descriptions of the G20 development agenda include ‘invertebrate, flabby and toothless’, ‘diffuse, lacking a coherent narrative and disconnected from the central concerns of G20 leaders and finance ministers’, and ‘it is not always clear what G20 is doing on the development front, what concrete steps and decisions have been taken, what particular results it has helped to achieve’.

• Development ministers do not control the necessary policy instruments: trade, infrastructure, agricultural development, tax, policies on commodity and food price volatility, and anti-corruption are all handled by other ministers.

• Much remains to be done if the Millennium Development Goals (MDGs) are to be met by 2015, and to shape the post-2015 agenda. The imminent arrival of the 2015 deadline for the MDGs provides an immediate need for Brisbane to produce development initiatives that support this key priority.

• The process currently underway for developing Post-2015 Development Goals is likely to result in a valueless, overloaded agenda.

• The real problem with the performance of the G20 regarding development is the lack of resource commitments. This leads the G20 to task international organisations with conducting research and coming up with policy recommendations on various topics, without substantive follow-up action.
• G20 members are reluctant to make resource commitments to strengthen the role of the multilateral development banks (MDBs).

• The *St Petersburg Accountability Report on G20 Development Commitments* does not take into account G20 members’ individual performances, and presents only the results of the implementation of the Seoul summit decisions, omitting those of previous leaders’ meetings.

• The UNFCCC negotiations in Paris in 2015 are intended to produce a new Global Framework Agreement (GFA) on climate change from 2020.

• Climate change has been referenced at every G20 summit since 2008, yet despite the fact that the biggest greenhouse gas emitters are all members of the forum, the G20 has done little, if anything, to help break the climate change stalemate in the UNFCCC.

**Possible policy proposals**

• Development should be returned to the Framework and MAP, including its accountability processes, to help inform a new G20 growth strategy and narrative.

• The cross-cutting nature of development needs to be reflected in the G20’s development agenda and policy approach. Joining the Finance and Sherpa tracks may be conducive to achieving a more consistent G20 development policy.

• Joint meetings with the G20’s Finance and Development Ministers may better integrate the financing aspect of development policy.

• On infrastructure, the G20 should focus on strengthening the financial and technical role of the multilateral development banks, as they can raise capital more cheaply and negotiate more effectively with governments than private investors.

• The G20 should prepare a narrative for the post-2015 agenda, combining vision and principles, together with options for a few concrete and time-bound commitments.

• The G20 should assist in shaping content across the three processes – UN-development, UN-environment, and UNFCCC climate change – through a ‘G20 2015
Strategic Convergence Group’, which would maintain an overview of key political issues which cut across and connect these agendas.

- Momentum on climate change negotiations needs to be built through G20 leaders committing to attend the UNFCCC COP21 in Paris in 2015 and starting a conversation on how best to mobilise the funding needed to finance climate change mitigation and adaptation, including consideration of where the money could be spent.

- Leaders could be commissioned to prepare reports on specific topics for discussion at the Brisbane summit, for example food security, financial inclusion, infrastructure and domestic resource mobilisation.

- Development and trade should be better integrated in the G20 agenda.

- The G20 should build on its previous commitments to boost agricultural growth, with special attention to smallholders, especially women and young farmers.

- The G20 should implement their intention to assist developing countries in capacity building in the area of tax administration.

- The G20 should facilitate the production of an extended ‘Accountability Assessment for Impacts on Development and Growth’ report. The report would identify all development commitments from the St Petersburg summit, rank them for likely development impact, and monitor implementation, starting with the highest-ranking commitments. This monitoring would be undertaken by independent experts.

- Outreach activities, in particular with developing countries, need to be leader-driven to ensure that the outreach process is effective.

Notes

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