Regional ‘Think 20’ Seminar

‘The G20 Leaders’ Process Five Years On: An Assessment From an Asian Perspective’

22-24 May 2013
Lowy Institute for International Policy, 31 Bligh Street, Sydney

One of the most significant developments in global economic leadership in recent years has been the development of the G20 Leaders’ Summit.

After a positive start, particularly with the 2009 London G20 Leaders’ Summit, the G20 has more recently been criticized as losing focus and making little headway in dealing with major global economic issues.

After seven G20 Leaders’ Summits, it is an appropriate time to take stock and assess the performance of the G20 and identify what has worked and what has not. This is important if the G20 is to be strengthened such that it can live up to its self-appointed role as ‘the premier forum for international cooperation.’

This is the objective of the ‘Regional Think 20 Seminar.’ It is an extension of the initiative that was launched by Mexico in 2012 to convene a meeting of think tanks from G20 countries in order to provide input and analysis to the G20 Chair on the G20’s agenda. Russia repeated the Think 20 exercise and Australia will do the same when it chairs the G20 in 2014.

The regional Think 20 seminar that is being hosted by the Lowy Institute, ADBI and the KDI is to bring a specific Asian perspective to developments in the G20. Emphasizing a regional perspective is important because much of the discussion and policy initiatives coming from the G20 have been influenced by economic developments in Europe and the US. Economic developments in Asia have not featured prominently in the G20. The objective of the seminar is to help correct this situation.

The papers being presented and discussion at the seminar will be important inputs to Australia’s preparation for chairing the G20 in 2014.
Regional Think 20 seminar summary

Hugh Jorgensen

Introduction

Over May 22-24, the G20 Studies Centre at the Lowy Institute, in conjunction with the Asia Development Bank Institute (ADBI) and the Korea Development Institute (KDI), hosted a ‘regional Think 20’ seminar in Sydney titled ‘The G20 leaders’ process five years on: an assessment from an Asian perspective.’

The seminar, held under the Chatham house rule, brought together representatives from think tanks and universities from around the Asian region. Australian G20 officials and representatives from the Russian G20 Sherpa’s office - responsible for coordinating this year’s G20 – also attended the seminar.

As the collated materials from seminar participants in this document show, how or whether the G20 can transition from ‘crisis management-forum’ to an effective ‘global governance steering forum’ underpinned much of the discussion. In this regard, participants reflected on the G20’s evolution as a ‘premier forum for global economic cooperation’ since the first leaders’ summit in 2008, on progress towards commitments made at G20 leaders’ summits, and on whether the G20’s priorities should be more inclusive of perspectives from the Asian region.

On the G20’s role as a ‘premier forum for global economic cooperation’

Although the G20 proved to be a successful venue for coordinating macroeconomic stimulus measures in the immediate period after Lehman brothers’ collapse, the urgency and resolve of G20 members to also pursue long-term policy coordination appears to have waned. Seminar participants considered the reasons why the G20’s momentum had slipped (or whether this was merely a matter of perception), as well as various ways in which the G20 could be ‘reinvigorated’ as a ‘premier forum for global economic cooperation.’

For example, on the G20’s commitment to redressing global economic imbalances, it was suggested that the G20 might gain traction by spending less time on what constitutes an acceptable metric of fiscal surplus or deficit, and more time on tackling the actual structural impediments to debt and deficit consolidation within and between G20 countries. However there was some debate as to whether a granular approach to rebalancing would require a formal G20 backed mechanism capable of pressuring non-compliant countries, and if so, whether a more realistic and discretionary form of coordination built around indicative guidelines is actually better suited to an informal forum like the G20.

The issue of perception versus reality with regards to the internal dynamics of the G20 was a contentious one, particularly on whether G20 members are divided within the forum according to their status as an advanced (G7) or an emerging economy (BRICS), or whether G20 members in fact engage on a more issue-specific basis – for instance, such as whether they are a surplus or deficit economy when it comes to discussing global imbalances.

Regardless, given the G20’s exclusive membership, participants agreed that the G20’s credibility depended on the forum being – and being perceived to be – a more consistently effective forum of global economic governance. In this regard, several participants suggested
the G20 would benefit by better incorporating the historical experience of non-G7 countries (from both within and outside the G20), in dealing with post-crisis structural reform, so as to enhance the willingness of non-G7 G20 members to invest more time and energy into the forum, and thereby enhance its legitimacy. Being more inclusive of the knowledge and experiences of small countries - the ‘canaries in the coal mine’ of the global economy - was raised as one potential avenue for further exploration, as small states like Singapore depend heavily on stable global economic governance, and arguably have an incentive to work more closely with the G20.

The response of countries and institutions within Asia during and after the Asian Financial Crisis (AFC) was highlighted as a ‘case-study’ from which the G20 could learn. Several participants noted the increasingly high level of economic integration between Asian countries post the AFC that has been facilitated by regional free trade agreements (FTAs), the Association of South East Asian Nations (ASEAN), the ASEAN+3 and Chiang Mai initiatives. Although such institutions and initiatives are often criticized for replicating the work of broader-based multilateral bodies such as the WTO or World Bank, it was felt by many that this ‘duplication’ might actually be positive in that it increases the ‘institutional space’ in which key decision makers are able to hammer out consensus on contentious but important issues. The role of the ADB in promoting infrastructure investment in Asia, in conjunction with the World Bank, was put forward as one such example. Accordingly, it was suggested that there might be similarly mutually beneficial gains to be made by linking the G20 agenda more effectively with the work of these regional bodies - possibly bolstering the political legitimacy of both processes.

In light of the above, consideration was also given to how Australia’s G20 presidency in 2014 might be able to build upon the Seoul G20 Summit of 2010. Seoul was notable in that it represented the first G20 leaders’ summit to have been hosted in an emerging economy, as well as in Asia. The Korean hosts sought to build upon this symbolism by actively working to promote the influence of emerging market and developing economies (EMDE) in forming the G20 agenda, and also through pursuing greater representation for EMDEs within key international financial institutions – most publically through IMF quota reform. It was noted that while a number of objectives from the Seoul summit remain a work in progress, Australia’s presidency represents a potentially significant opportunity to ‘re-energise’ objectives of the 2010 Korean hosts, namely: boosting Asian and EMDE participation in the G20, utilizing ‘knowledge networks’ like the ‘Think 20’ to bolster the work of the Troika, and delivering more focused and shorter communiques.

**Progress towards commitments made at previous G20 summits**

The seminar also saw participants engage in a progress assessment of key commitments within the G20 agenda, particularly those relating to the ‘framework for strong sustainable and balanced growth’ that leaders approved at the 2009 Pittsburgh Summit. Specifically, analyses were offered on the G20’s Mutual Assessment Process (MAP), its efforts at reforming the international financial architecture and international monetary system, financial regulatory reform within G20 members’ markets, as well as the G20’s role in promoting international trade, investment and sustainable development.

Views on the success of the MAP were mixed. A handful of participants regarded the MAP as an essential component in the G20’s efforts at staving off a second great depression – by galvanizing financial reform within certain G20 member states, as well as greater cooperation between G20 economies, the MAP was identified as a useful tool for comprehending
structural issues at the basis of macroeconomic imbalances. However, most participants agreed that the MAP left much to be desired. The slow recovery from the global financial crisis, record levels of unemployment, and persistent currency misalignments all suggest the incentives for major economies to speedily and diligently comply with their MAP commitments remain unsatisfactory.

Other attendees viewed the MAP’s implementation more harshly, noting that where evidence of global rebalancing between 2008-2011 was discernible (in data provided by the IMF’s world economic outlook), it was mostly the result of cyclical factors, such as the decline in global demand and varying rates of currency appreciation, rather than the outcome of any serious structural reform instigated by the MAP. Moreover, even where the MAP does address imbalances, its methodology is not as well aligned to contemporary trade practice as it could be, as it still uses balance of trade figures based on total ‘end product’ value – rather than the actual value-added contributions of each country to products that, realistically, are now ‘made in the world.’ However, it is difficult to get G20 countries to agree on any process that relies upon ‘naming and shaming’ intransigent countries. Hence, absent of any independent global arbiter on matters relating to current account and currency misalignments, the G20 and initiatives like the MAP remain a substantially useful venue for at least debating what is and what is not possible in terms of potential cooperation on these issues.

Echoing earlier discussions, several participants pointed to the opportunity that the G20 had to revitalize the international financial architecture (IFA) by backing an increased role for Asia within core institutions like the IMF. Yet it was also noted that this would require a concerted reciprocal effort from the Asian countries to ‘speak up.’ While there is an apparent desire among Asian states to retain their privileged position within the G20, many discussants conceded there was, to date, a hesitancy and tentativeness in the way Asian representatives had engaged with the forum.

This is perhaps not surprising - much of the post 2008 agenda for the G20 has reflected the experience of governments and financial institutions in North America and Western Europe, in a way that is not as well matched to their Asian counterparts, who face a different set of circumstances and challenges. Yet a continuation of this trend may lead to a dwindling interest in the G20 from Asia, and exacerbate the drift in global economic governance away from multilateral economic institutions towards a more fragmented system of regionally focused cooperation. However, as the world’s foremost region of economic growth, the future legitimacy of the IFA is arguably dependent on securing Asia’s resolute backing, and this is an area where the G20 can make a real contribution.

Further food for thought for the G20

Trade and development are two areas where the G20’s credibility hangs in the balance. With regards to trade, the declining resolve of the G20 to realise the Doha development agenda (DDA) is evident in an analysis of G20 leaders’ communiques: at the 2009 summits in London and Pittsburgh, leaders committed to an “ambitious and balanced conclusion” of the DDA and set a deadline for 2010; by 2012, with the self-imposed deadline clearly unmet, leaders merely consented to ‘continue to work towards concluding the DDA.’

Hence, although the standstill on protectionism agreed to by G20 leaders at the 2008 Washington summit appears to have forestalled a repeat of depression-era protectionism, making an actual positive contribution to the multilateral trading system will likely require a concerted restoration of trade to the ‘heart’ of the G20 agenda. Whether this ‘renewal’ of the trade agenda is sought through resurrecting the DDA (or at least Doha-lite), an updated trade
round that is better matched to the 21st century economy, or accepting and accommodating the devolution of the multilateral system to regional agreements like the TPP and TTIP, is a matter for debate.

Regardless, as many participants noted, growing awareness of the role of global value chains, the turn towards regional and preferential trade agreements, and the incorporation of China into the global trading system, have significantly altered the practice of international trade and the channels through which it is conducted since the DDA was launched. The key point for the G20 is that its own reputation, and that of the WTO and the multilateral trading system in general, depends on the forum being able to produce a clear and well-articulated position on these issues sooner rather than later.

Participants also sought to assess whether the underlying principles of development within the G20’s ‘framework for strong sustainable and balanced growth’ were adequate. For example, whether the G20 was sufficiently inclusive of the demographics and countries that are subject to its commitments on development was a matter of contention. Many felt the G20 could do a better job of incorporating the views of major developing countries like China and India in the G20’s development working group, as well as the domestic-level experiences of countries like Indonesia in the area of infrastructure investment. Precisely how the G20 could value-add to issues like the post-2015 development agenda, labour mobility and enhancing opportunities for women in a non-superficial way was also cause for debate. The main suggestion put forward was that the G20 should start with a principle of ‘do no harm’ on these objectives, and then proceed to more effectively integrate them into the broader G20 agenda in a strategic and comprehensive fashion, rather than simply create new working or study groups on development issues and thereby exacerbate G20 ‘mission creep’ or ‘bloat.’

Conclusion

To date, the incorporation of the experiences and voice of Asia within the G20 has not been commensurate with the economic weight of the region, and this has been to the detriment of the G20 agenda’s relevance and inclusiveness. In this regard, the regional think 20 Seminar highlighted the need for the G20 to develop a more focused agenda and a more clearly articulated understanding of its own role with respect to the multilateral institutions of global economic governance – not least those in Asia. More broadly, seminar discussions about the various policy ‘streams’ of the G20 process also emphasized the importance of maintaining an integrated and holistic understanding of the G20 agenda and how (or whether) it relates to the domestic experience of all its members in a meaningful way.

Ultimately, from trade to financial regulation and from current account imbalances to fighting unemployment, all G20 members have an incentive to regularly step back from the ‘institutional minutiae’ of the G20 process and assess whether the forum itself, and global economic governance more generally, is headed in the right direction, or in need of recalibration. This was the objective of the regional Think 20 seminar, and it is hoped that the discussion started in Sydney will be an ongoing one throughout Australia’s presidency of the G20 and beyond.
AGENDA

Wednesday, 22 May 2013

DINNER

Venue: Aria Restaurant
1 Macquarie St, Sydney

6.15pm Meet in the lobby of Sofitel Wentworth for coach bus to Aria
7.00pm – 9.30pm Keynote Speaker: Ian Macfarlane AC. Former Governor, Reserve Bank of Australia

DAY ONE

Thursday, 23 May 2013

Venue: Lowy Institute for International Policy
31 Bligh Street, Sydney

8.00am REGISTRATION

8.30am OPENING REMARKS
Dr Michael Fullilove, Executive Director, Lowy Institute
Dr Wonhyuk Lim, KDI
Dr Masahiro Kawai, Dean ADBI

9.00am VIEWS FROM THE RUSSIAN G20 SHERPA
Dr Ksenia Yudaeva, Office of President Russian Federation

9.15am VIEWS FROM THE AUSTRALIAN G20 SHERPA
Dr Gordon de Brouwer PSM, Department of Prime Minister and Cabinet

9.30am SESSION 1: PART I
OVERVIEW ASSESSMENT OF G20 - WHAT HAS WORKED, WHAT HAS NOT?
- What are the lessons from the performance of the G20 since 2008?
- What is the regional perspective on the G20, what is its relationship with regional organisations?
Chair: Mike Callaghan PSM, Lowy Institute
Speakers: Dr Chetan Ghate, ICRIER
Dr David Skilling, Landfall Strategy, Singapore
Dr Stephen Grenville AO, Lowy Institute
10.45am  **Session 1: Part II**  
**A look back at the Seoul G20 Summit**  
- Reflections on the Seoul Summit  
**Chair:** Mike Callaghan PSM, Lowy Institute  
**Speakers:** Dr Heenam Choi, Ministry of Strategy and Finance, Korea  
Dr Junkyu Lee, ADB

11.15am  **Coffee**

11.45am  **Session 2**  
**Are we on track to achieve strong, sustainable and balanced growth?**  
- Is the Framework and MAP delivering intended results?  
- Can the Framework and MAP be strengthened?  
- Is the Framework relevant to regional surveillance?  
- Is the Accountability Framework effective?  
- How can the Russian priorities on financing for investment and public debt management be incorporated?  
**Chair:** Mark Thirlwell, Lowy Institute  
**Speakers:** Dr Rajat Kathuria, ICRIER, India  
Paul Blustein, CIGI

1.00pm  **Lunch**

2.00pm  **Session 3**  
**How much progress has been made in reforming the international financial architecture?**  
- Has the focus on reforming IMF quota and governance been appropriate? Is it contributing to an enhanced performance by the IMF?  
- What is the state of play on strengthening safety nets? What are the lessons from the experience of the IMF in European programs?  
- What are some of the lessons from managing volatile capital flows?  
- Where do we stand in efforts to enhance the effectiveness of the international monetary system?  
- Are there lessons from Europe for the operation of safety nets, both global and regional?  
- What are we missing?  
**Chair:** Barry Sterland PSM, Australian Treasury  
**Speakers:** Dr Masahiro Kawai, Dean ADBI  
Dr Yoon Je Cho, Sogang University  
James Roaf, IMF  
Dr Ye Yu, Shanghai Institute for International Studies
3.30pm  **Coffee**

4.00pm  **Session 4**

**Financial Regulation — what progress has been made towards a safer and more efficient financial system?**

- Is the regulatory response too complex? Will the regulatory changes make a real difference?
- Has sufficient attention been given to ensuring that the financial system is serving the needs of the real economy?
- Do the reforms meet the requirements of all countries, particularly emerging markets and developing countries?
- Does the relationship between the G20 and FSB need to be clarified?
- Are the regulatory changes altering the scope of financial regulation? What are some of the longer-term trends in financial intermediation and will there be implications for the region?

Chair:  **Dr Junkyu Lee**, ADB  
Speakers:  **Dr Jae Ha Park**, ADBI  
**Professor Ross Buckley**, University of NSW  
**Mike Callaghan PSM**, Lowy Institute

5.30pm - 7.00pm  **Conclusion of Day One Program**

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**Social Dinner**

7.00pm - 9.00pm  **Venue:** Sofitel Wentworth  
                   61-101 Phillip St Sydney

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**Day Two**

**Friday, 24 May 2013**

**Venue:**  Lowy Institute for International Policy  
            31 Bligh Street, Sydney

9.00am  **Session 5**

**Trade and Investment: a success or a failure for the G20?**

- How effective has the G20 been in resisting protectionist pressures and promoting trade liberalization?
- Where to with the Doha round; what contribution can the G20 make?
- Implication of growth in global value chains?
- Consistency between regional trading agreements and the multilateral system?
- Is there a case for a multilateral investment agreement?

**Chair:** Dr Masahiro Kawai, Dean ADBI  
**Speakers:** Professor Yong Wang, Peking University  
Mark Thirlwell, Lowy Institute  
John Ballingall, NZIER  
Professor John Ravenhill, ANU

10.30am  **COFFEE**

11.00am  **SESSION 6**  
**Sustainable Development - has the G20 got the right priorities?**  
- What contribution has the G20 made to the development agenda?  
- What more can the G20 do?  
- What can be done to advance investment in infrastructure in developing countries?  
- Do we have the infrastructure in place to effectively promote green growth?

**Chair:** Dr Heenam Choi, Ministry of Strategy and Finance, Korea (confirmed)  
**Speakers:** Dr Maria Monica Wihardja, CSIS Jakarta  
Dr Susan Harris-Rimmer, ANU  
Dr Wonhyuk Lim, KDI

12.30pm – 12.45pm  **WRAP UP**
I am delighted to be here and would like to extend my thanks to Lowy, ADBI and KDI.

I’d like to focus on two issues.

First, is how the G20 has made a difference and what it should now be doing.

Second, is how we ensure the G20 operates as effectively as it can to deal with the economic problems of the day and to strengthen the resilience of the global economy.

G20 has made a difference and can continue to do so.

The G20 is an informal and political body that brings together the leaders of the world’s biggest economies. Leaders essentially do two things.

First, they address the real economic problems of the day, deciding what their countries can do individually and collectively to deal with those problems. Given the high economic interdependence between countries, so well demonstrated in 2008, G20 is as much about domestic economic policy as it is about international policy.

Second, leaders are sorting out in a rapidly changing world their approach to the international norms, rules, standards, practices and institutions of international economic engagement. The world has changed and will continue to change, not just in terms of technology but also in terms of the economic size and influence of countries, especially the rapid growth, size and importance of emerging market economies – and much of this change is happening in Asia.

How the norms are applied and updated in this changing world, and how credible, inclusive and effective the institutions that write and apply the norms are, both matter. They matter because the choice countries face is whether to work explicitly toward a cohesive and largely global approach to economic problem solving that secures and shares prosperity, or end up with a fractured and largely globally incoherent approach. Precisely because it is a meeting of leaders from key advanced and emerging market economies, G20 has played, and can continue to play, a big part in this underlying transformation.

In both of these dimensions, I think the G20 has achieved a lot.

In terms of dealing with the problems of the day, the G20 has

- set and delivered a major program of financial reform;
- headed off imminent global economic collapse in London in April 2009;
- established a framework for economic growth that has subsequently been structured by action plans, country-led peer review, and transparency;
- boosted the financial resources of the IMF in order to buttress the global monetary system; and
- prevented, so far, a large-scale breakout of protectionism and insularity in domestic economic policy.

In terms of global governance, the G20 has

- strengthened rules on finance and anti-corruption; and
- made key institutions more inclusive, notably the IMF and Financial Stability Board, even though there is still an awful lot more to do.
Looking to the future, this year under Russia’s leadership, and in the next few years, G20 also has the potential to achieve much more.

In terms of the economic problems of the day, Russia has framed the problem around jobs and growth. The Australian Government could not agree more that the real problem is that jobs and growth are inadequate. Under Russia’s leadership, the G20 is focusing on getting the balance right between short-term flexibility in macro policy and medium term policy credibility, as well as how structural reform can sustain growth. G20 has initiated work on investment, including infrastructure, this year. It is looking at how to strengthen open trading systems. All of these issues are complex and have multi-year dimensions. The G20’s achievements will depend on how it uses continuity in the agenda this year, next year and beyond to drive depth of action and materiality of outcomes.

In terms of effective governance, there is still a lot to do and the discussion continues, not just in the finance domain (IMF, World Bank and FSB) but also in trade, energy and other areas.

I would observe here that there is a reported sense of frustration that maybe G20 has slowed down outside of crisis and is less effective. G20 has to be sensitive to this criticism (because people will stop listening to leaders if the forum is not credible) but I do think some of the criticism is misplaced. Very few summits will rewrite the world as Washington did with its epic 48 point Action Plan in November in 2008 or London did in April 2009 with its $5 trillion stimulus and $1.1 trillion package for the IMF and World Bank. Leaders responded quickly and in a significant way to the crisis.

While it does not grab the headlines, countries and leaders are now working through the grind of coming to grips with a changing world, building a shared understanding of what is happening, working through what is in their individual and collective economic and strategic interests (especially as they look to what sort of economies they are going to be in five or ten years’ time), working through the role of markets and the state in their economies, understanding the myriad connections between domestic and international economic policy in an interdependent and connected world, building up trust, and working out patterns of interaction and behavior between themselves, not least whether they are tied to old sentiments of a north-south divide. Building up patterns of cooperation between leaders and between their government networks in this sort of world takes time and is hard but, frankly, it is the only basis for successful transformation.

Ensuring the G20 is effective

Much of the discussion over the next few days will also be focused on how to ensure that the G20 is as effective as possible. Mike Callaghan and others have written on ways to achieve this and their contribution is welcome and valuable.

The sorts of things that matter to effectiveness here include:

- keeping the nature of G20 as a leader-led forum, to ensure that it focuses on the real problems that require using the political power of the leaders of the biggest countries in the world.

That means retaining focus on the issues that matter; ensuring meetings enable open, frank and strategic dialogue as much as possible; explaining clearly and directly to the public what leaders see as the challenges and what they and their governments are doing (or, in jargon, ‘getting the narrative right’); always looking for action, even if it is incremental; retaining ambition and enthusiasm; and delivering on commitments by ensuring the discipline that comes from transparency and accountability.

- keeping countries’ eyes on shaping the future and not reliving the battles of the past.

We are all creatures of our pasts but we don’t want to be prisoners of our pasts. The G20 is more effective as a problem solving tool if countries are engaged flexibly and work to build coalitions for action. We now have two sub-groups in G20: the G7/8 and BRICS. There are elements of commonality within these sub-groups but there are also many, and possibly more, elements of common interest that cut across these groups. They have a flavor of past north-south divides, not current and future...
interests. They risk creating brittleness in interaction and domestic political and bureaucratic cultures that look first for cooperation between the north or between the south, and hence limit our sense of the possible and our common purpose at the G20 table.

- **working more closely with non-G20 countries, international organisations and our communities, including business, organised labour and civil society.**

Once G20 leaders said at Pittsburgh on 25 September 2009 that the G20 is the premier forum for their economic cooperation, everyone else’s interest in what G20 says and does rose greatly.

The G20 does not claim to speak for the world but only for itself, and it works very carefully to respect the decision-making mechanisms of global economic institutions. But the fact of who is speaking when G20 speaks, and the consequences for everybody when it acts, mean that broad and real engagement beyond G20 and beyond governments is absolutely essential.

Engagement has been progressively strengthened, with other countries, institutions (especially the UN), and our communities through bodies like B20, L20, C20, Y20 and, of course, Think20. This is now an essential feature of G20, and all the more so now because action requires careful thought and support to be articulated and implemented, and that can’t be done without broad-based support. Russia has taken this a step forward in officials’ meetings and should be congratulated for it.

For Australia, we would ourselves highlight the participation of Asia in G20 – that six members of the G20 are Asian and that this did not occur by chance (the alternative model in 2008 was a G8+5 model, excluding Australia, Indonesia and South Korea, and one of the reasons President Bush called a meeting of G20, rather than G13 or G14, in November 2008 was the participation of these three countries). Australia puts particular importance on the participation of the chair of ASEAN as a guest of G20, which will be Myanmar in 2014, on active engagement with Asia on G20 issues (such as this meeting), on the coherence and resonance with regional forums like APEC and EAS (noting that we have worked closely with Indonesia and Brunei as chairs this year and will do so with China and Myanmar as chairs in 2014), and on strengthening the Asian voice in the outreach groups mentioned earlier.

- **building close working relations between the members of the G20 management team, the troika.**

At Cannes in November 2011, leaders said they would formalise the troika, rather than go down the route of a secretariat which was canvassed in Prime Minister Cameron’s report on G20 governance as one way to ensure G20 is effective over time as chairing passes between countries.

My first sight of the internal workings of the troika is this year, when Australia entered the troika under Russia’s presidency. It is clear to me that Russia has taken the commitment to strengthen the troika to heart and worked hard with Australia and Mexico to pre-test its tactics and strategy, to build support for its agenda, to ensure that it is long lived and does not end with its presidency, and to strengthen outreach and engagement with non-G20 countries. Russia and Australia both have a strong interest in the continuity, depth and credibility of the G20 agenda, and that common interest is a powerful incentive for cooperation. This is a feature we intend to continue in our presidency, continuing our strong working relationship with Russia and developing one with Turkey.
Regional Think 20 Seminar

Chetan Ghate

Indian Statistical Institute - Delhi Center

Lowy Institute for International Policy, May 22-24, 2013
Background

- Own description of itself from the erstwhile G7
  - G7 focus would be on security issues
  - G20 would be primary forum for international economic issues

- Overdue recognition of the fact that the structure of the global economy was being challenged
  - Natural move (credit to the G-7)

- The issue of legitimacy lingers
  - Does the importance of the G20 derive from the fact that it includes countries with 80% of the world’s GDP?
  - Initial accolades have been dented by a weak global economic recovery
Legitimacy concerns has led to a demand for outreach

- Replication of G20 at other ministerial levels
  - Russian Presidency - Finance and Labor Ministers Meeting
- T20, Y20, L20
- NGO/civil society meeting (C20)
  - But who is a representative NGO?
- Outreach to business (B20)
  - This can be a useful forum.
  - Are Bilateral FTA’s a good thing?
  - India doesn’t have a FTA with the US, but it has with ASEAN, Korea and Japan
  - What are better? Multilateral or bilateral FTAs
Structure of this talk

- Assessing the G20 Macro policy response
  - Policy response tempered by lessons learned from the Great Depression
  - Cooperation versus Coordination
  - What are the welfare gains from policy coordination?

- Assessing the G20 as a Model for Global Economic Governance
  - Country Specific commitments
    - Financial Sector Reforms
    - Development Agenda
Macro policy response: Cooperation versus Coordination

- Basic rationale for coordination is to counteract externalities and remedy market failures.
  - Without coordination - governments will be tempted to pursue policies that are globally sub-optimal.
  - Uncoordinated approach to economic policy is Pareto inefficient.
  - Coordination will lead to Pareto efficient gains.
    - Not technically correct.

- Policy coordination can take two forms:
  - Rule based or discretion based
  - Attempts to coordinate behavior seem to favor rule based coordination
    - is there an effective mechanism for deterring non-compliance?
  - Discretion based coordination is only superior when there are exceptional events for which the existing set of rules cannot cope.
Some examples

- The G20 has focused on key issues that require coordinated advice
  - Very successful dealing with the GFC of 2008/2009
  - Attempt to organize discretion based coordination at the London Summit of April 2009.
  - But motivation for a coordinated approach weakened after this.

- Other examples where rule-based coordination failed:
  - Stability and Growth Pact
    - Not all countries abided by the rules / no effective mechanism for deterring non-compliance.
  - IMF "multilateral consultations"

- Eurozone sovereign debt crisis has not been handled effectively. Europe’s new compact not a good example of coordination.
  - Universal balance across current accounts, private sector, and public accounts goes against the idea of a monetary integration
1. Eurozone Crisis and the Fiscal Compact

Are fiscal deficits the whole story? Figure (Bird, 2013)
1. Eurozone Crisis and the Fiscal Compact

\[ X - M = (S - I) + (T - G) \]

- Fiscal deficits \((T - G < 0)\) may be associated with crises when they outweigh private sector surpluses \((S - I) > 0\) and the resulting current account deficits are not sustainable.
  - If the supposition is that \(T - G = 0\) (fiscal compact) will lead to \(X - M = 0\)
    - \(\Rightarrow S - I = 0\) for all European countries
  - But this is at odds with the basic purpose of monetary integration
    - For some countries, \(S - I > 0\), others \(S - I < 0\)
    - Current account balance requires public sector balances to be in deficit in some countries, and surplus in others.
In general, extremely difficult to substantiate the causal effects of deficits on output shortfalls.

- Shortfalls may be more significantly linked to private sector imbalances
  - Output Crises $\rightarrow I \downarrow$, while $S$ remains roughly unchanged $\rightarrow (S - I) \uparrow$
  - Whether fiscal deficits are excessive depends on a range of other things
  - Need a more rounded approach
  - Allow for an appropriate mix of expansionary and contractionary policies across Europe

Fiscal coordination should recognize that imbalances can take the form of surpluses as well as deficits

- Recessionary bias of asymmetry

Correcting imbalances will be replaced by financing imbalances.
2. Global Imbalances

- G20 spent a lot of time identifying quantifiable targets for measuring excessive imbalances
  - Outward manifestation of these imbalances is the pattern and distribution of BOP deficits and surpluses.
- But it failed to identify the driving forces behind the imbalances!
  - BoP disequilibria are just the "tip of the iceberg"
    - Underlying them are the macroeconomic disequilibria
      \[ X - M = (S - I) + (T - G) \]
    - CA balances depend crucially on \( S \geq I \) and the size of this balance relative to the size of \( T - G \).
The takeaway

- Policies aimed at reducing CA deficits will only be effective if they are simultaneously accommodated by appropriate policies in CA surplus countries: Global BoP adjustment is "zero-sum"
  - Requires international policy coordination
  - Will this happen without a formal agreement?
- Or accommodate differences using "indicative guidelines" (present them as non-binding)
  - Example of discretion based coordination
- No mechanism to put pressure on countries who fail to comply with the guidelines
  - Will this constitute a failure in policy coordination?
G20 and Global Economic Governance

- Country specific commitments
  - Introduced in Seoul
  - Enhanced in Cannes (Cannes Action Plan)
  - Assessment of country commitments (Los Cabos)

- For EMDEs, there are two main shocks post GFC
  - "Sudden stops" of capital inflows and a collapse in export demand
  - How do you deal with negative shocks and unrealistic expectations?
G20 and Financial Sector Reforms

- Much of the G20’s debate on financial regulation reflects problems in the US and Europe.
- Regulatory concerns of EMEs are different given their development needs.
- Regulatory philosophy in EMEs (and India) different
  - capital and liquidity standards are high
  - Basel III standards are easily achievable for Asian countries.
  - Excess burden?
- Bank credit (India) is partly driven by financial inclusion
  - misleading indicator of stress in EMEs
- Stringent capital standards (Basel III) may disproportionately affect EMEs
  - Globally active banks may reduce their exposure to EMEs to meet new stringent capital standards
The Development Agenda

- Development is one of the pillars of the G20. Has it added any value to the debate on development?
- "Development is all about enforcement"
- No adequate input on whether MICs or transitioning economies need support.
- In India, lack of protectionist or dirigiste response in the wake of the GFC
  - Even in China, there is a move back towards state capitalism; in India, the objective (if not the practice) is one of reduced state involvement.
- India’s biggest development challenge is the decline of public institutions and state capacity
  - arguably, the difference in China is not their reliance on markets but in the capacity of their government to deliver basic services and build infrastructure.
Concluding Remarks

How should we think about cooperation, coordination, and commitments?

- What are the welfare gains from policy coordination (e.g., imbalances, regulation of banks, fiscal policy)?
- Preliminary answer: cooperation without commitment can be counter-productive!

Need to anticipate conditions necessary for coordination to work

- Political Realities. Don’t have unrealistic expectations.

The G20 should not be seen as dictating

- Forum where issues are discussed
- Leave it to countries on how to handle commitments politically

Can something useful be achieved at the regional level?

Thank you
The G20: A small advanced economy perspective

David Skilling

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1. Introduction

A common small country critique of the G20 is that it is non-representative. The G20 may account for about 85% of global GDP and about two-thirds of the world’s population, but G20 membership does not directly include about 90% of the world’s countries (including 25 of the 34 IMF advanced economies). Singapore, responsible for initiating the Global Governance Group in 2009 to better link the G20 with the UN, notes that “Unlike the UN, where we all have a voice, the G20 process is closed”.¹

Of course, the G20 is by definition more representative than the G7 or G8. But the concern is that the G20 – a self-styled premier global economic policy forum – regards itself as a more representative body than it actually is. Non-members worry that, over time, more of the global policy debate and decision-making that used to take place in the IMF and other multilateral institutions will instead take place at the G20. Even if the G20 continues to use these bodies as its ‘operational arms’, fewer of the important debates will occur there.

In this light, small countries fear that the G20 is part of a process of weakening the multilateralism that has supported the strong, rules-based process of globalisation over the past 60 years. Although the strong influence of large economies in global decision-making pre-dates the establishment of the G20, small countries were at least able to actively participate in the work of the multilateral institutions in a way that they now feel is at risk.

However, although the traditional multilateral institutions are formally more inclusive than the G20, they are also increasingly struggling for effectiveness. Global negotiations on climate change and trade are stalled. The world needs effective global economic governance, which will likely require a limited group of countries. So although the G20 is not fully inclusive it does at least offer the prospect of more effective global economic governance. As many have noted, if the G20 didn’t already exist something like it would need to be created.

The fundamental problem is that trading off inclusiveness for effectiveness only works if the G20 is in fact effective. But small countries can reasonably point to concerns about both the effectiveness and the legitimacy of the G20’s operations. The G20 is struggling to deliver impact after the immediate crisis response, its expanding membership and agenda makes its position relative to existing organisations unclear, and the G20’s policy behaviour collectively and among member countries is not always consistent with a global leadership role.

The deep exposure of small countries to the global economy means that these issues affect their vital national interests. This note describes some possible responses that would go some way to addressing these small country concerns about the effectiveness and legitimacy of the G20.

¹ Statement by Ambassador Vanu Gopala Menon, Permanent Representative of Singapore to the United Nations, on behalf of the Global Governance Group, 29 June 2010.
2. How has the G20 performed to date?

The G20 got off to a high-profile start with its response to the global financial crisis. Announcements of stimulus and of policy resolve were made, which had an impact in terms of stabilising sentiment (even if many of the actual policy decisions would likely have happened anyway).

However once the immediate crisis passed, the differences in interest and perspective among G20 members made it difficult to achieve a consensus on meaningful issues (such as guidelines on external balances). Although useful contributions have been made to increase the IMF’s resourcing, little of policy substance has happened. It has been argued that we have a G-Zero rather than a G20, with no effective global leadership. In fairness, this is not a criticism that is unique to the G20 with other international groupings not making much progress either.

Another issue that is increasingly apparent is the unclear nature of the G20 agenda. The agenda has been expanded, many initiatives launched, and the Summit hosts often use an ambitious agenda as a national branding exercise. The Summits are also frequently overtaken by fire-fighting. For example, the wide-ranging substantive agenda at the Cannes Summit was dominated by the Eurozone crisis. This agenda creep dilutes the impact of the G20.

In addition, the G20 has experienced membership creep – growing from the initial 20 members to 35 countries and regional or international organisations in attendance at the 2012 Summit in Mexico. Not only does this large participant list, combined with an expanding agenda, compromise the effectiveness of the G20, it also makes the G20 look less like a complement to the existing multilateral institutions and more like a substitute (increasing the concerns of the small countries). Increasingly, the G20 has the worst of both worlds, facing many of the same issues with respect to effective decision-making as the multilateral institutions but without the organisational legitimacy that these institutions have.

3. What problems does the G20 now face?

In addition to the failure to deliver much beyond the immediate crisis response, there is a concern that G20 members are not offering the leadership that is required. And particularly, that some G20 economies are contributing to the serious problems now facing the global economy; variously accumulating imbalances, running overly loose macro policy, not dealing with serious structural issues, and engaging in protectionist activities.

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One way to think about these policy settings in large economies is in terms of the parallels with the ‘too big to fail’ financial institutions. As is the case with large financial institutions, large economies do not internalise the full costs of their policy decision-making on others (such as loose monetary policy that has an impact on other economies); are somewhat insulated from market pressures (the US is regarded as a safe haven despite its public debt load); and are more likely to receive official support when they encounter problems (e.g. the IMF in the Eurozone).

Although the G20 economies provide a valuable engine of demand as the largest spenders in the global economy, and although some also provide liquidity through issuing reserve currencies, substantial global risk exposures can be created when these economies pursue unsustainable policies. And arguably, we have moved from a situation in which large economies provided ballast in the global economy, stabilising it and managing risks, to a situation in which this weight is breaking loose and is acting as a destabilising force.

As noted in the IMF Spillover Reports, there are concerns about the cross-border effects of the Eurozone crisis, the short-term fiscal cliff and structural fiscal imbalances in the US, the aggressive monetary easing in many developed economies, and the risks of a hard landing in China. Large economies are increasingly a source of systemic risk, which may compromise the performance of the global economy. The deep exposure of small economies to the global economy means that the global risks created by G20 economies are of particular concern to them.

Given the ‘too big to fail’ parallels, some of the proposals to constrain the risk profile of systemically important financial institutions are likewise relevant to the G20 debate. Although large countries are clearly not about to break themselves up for this reason, global risk can be reduced through more conservative policy settings – and a greater focus on structural reform – in the systemically important large economies. Large countries should face some pressure to consider the impact of their policies on other countries.

In other policy areas, such as trade, G20 members like Argentina are not acting as global leaders. Of course, there is variation in performance across the G20; countries like Australia, Germany and South Korea, for example, tend to exert a positive force. But there is room for improvement across the G20.

4. What should the G20 do next?

So from a small country perspective, the G20 has a mixed record of achievement as well as an unclear agenda and ambition. And the G20, individually and collectively, is not acting in a way fully consistent with its global leadership role. But the importance of a functioning G20 remains – the world needs effective global economic governance.

There are some steps that can be taken to address these issues, within the constraints of the current international environment, and to make the G20 more effective and legitimate. Specifically, here are three ideas from a small country perspective for strengthening the G20.
• **Focused agenda and membership**

For the G20 to play a forceful global economic governance role, it needs to be organised appropriately. The G20 agenda should be sharper and focused only on those economic and financial issues on which it can make a distinctive contribution; for example, managing major systemic economic risks, international economic policy coordination, and discussing the possible shape of a global trade deal.

There should be particular clarity on how the G20 relates to existing institutions such as the IMF or the WTO. To the maximum extent possible, the G20 should act to strengthen the existing multilateral institutions and to make them more effective. Such clarity would contribute to the effectiveness of the G20 by better focusing its efforts (and managing expectations), as well as building the G20’s legitimacy among non-G20 members.

The need for clarity extends to G20 membership, which has expanded substantially. The G20 should be restricted to those countries or regions that are systemically important and are making a positive contribution to an open, stable global economy. Twenty should be an absolute maximum for membership, not a starting point. Again, this would make the G20 more effective and strengthen its legitimacy by making it clear that the G20 is a limited group of systemically important economies.

• **Independent accountability process**

Given their self-appointed role, it is reasonable for the rest of the world to expect that G20 members behave as responsible stewards of the global economy; to contribute to global growth and stability and to an open global system. They should also be accountable for their individual policy behaviour. Such accountability would help address the G20’s credibility gap with small countries.

There are existing accountability mechanisms through the G20’s Mutual Assessment Process, in which the IMF reports on whether “policies pursued by individual G20 countries are collectively consistent with more sustainable and balanced trajectories for the global economy”. Several reports have been prepared, and the accountability mechanisms are being adapted over time. However, this process is owned by the G20 members and has not been particularly hard-hitting or led to significant changes in policy behaviour.⁵

Greater accountability could be achieved by coupling the existing accountability mechanism with an independent assessment of the G20 by a group of other countries. Small countries could play a valuable role in this respect, providing independent judgement on whether the G20 group – and individual G20 members – are playing their expected role. Indeed, the acute exposure of small countries to the global economy – and their deep stake in its effective functioning – means that small countries are well-placed to make such an independent assessment, and may identify issues that G20 members do not focus on.

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⁵ Pisani-Ferry, G20: Decreasing returns. Ignazio Angeloni, The G20 should rise to the challenge (but probably won’t). In Bruegel, 12 June 2012: http://www.bruegel.org/nc/blog/detail/article/813-the-g20-should-rise-to-the-challenge-but-probably-wont/
To the extent that G20 members are acting responsibly, it will help with the effectiveness of the G20 in achieving better outcomes – and also with its legitimacy. Realistically, it is difficult to imagine sanctions being attached to this process, but an independent accountability process would still provide a useful discipline.

- Active, structured external engagement

Although the G20 members account for much of global GDP, they do not have a monopoly on policy wisdom – and they need to be open to other ideas and perspectives. Indeed, a limited group like the G20 faces an expectation that it will be open to the ideas of others.

Insights from small countries with respect to the global economy are particularly valuable because they have a deep sense of the emerging global challenges and opportunities – and the types of policy responses that might be appropriate. Indeed, many of the strongest performers in the global economy, and the countries with sustained records of policy innovation, are the small advanced economies. This experience means that small countries will be able to provide distinctive perspectives on the priority items in the focused G20 agenda, as well as insights on how large economies can respond effectively to globalisation.

To the extent that small countries organise themselves coherently around well-developed, insightful perspectives on the G20 agenda, there should be an opportunity to shape the G20 agenda and discussions. Practically, this can be done through a stepped-up version of current G20 engagement efforts. The current outreach efforts occur in a variable way, depending on the G20 chair and the attitudes of specific G20 members. To improve this, there should be a structured process of active engagement with the group of high-performing, innovative small countries that is more than a compliance exercise in stakeholder management.

Small countries will achieve more by investing in developing valuable ideas and perspectives than by arguing for greater representation. And the G20 will benefit from the insights of small countries that are performing well, have a record of policy innovation, and have a deep stake in the health of the global economy.

5. Concluding remarks

The ideas offered in this note are aimed at strengthening the G20’s ability to contribute to effective, legitimate global economic governance. Rather than focusing on issues of representation at the G20, the proposed actions target a streamlined G20 membership that has a clear view on how and where it can make a distinctive contribution; that is willing to be held accountable for its behaviour and performance by independent countries; and that adopts an active, structured approach to engaging with credible countries to seek perspectives on priority agenda items and insights on appropriate policy responses. Small countries have an important contribution to make on all of these proposed areas of reform.
Although these changes do not address the substantial differences in interests and perspectives among key G20 members that make collective action difficult to achieve, they will make a positive contribution to the effectiveness and legitimacy of the G20. This is in the vital national interest of small countries, and small countries should be actively engaged in this process.

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About the author

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About Landfall Strategy Group

Landfall Strategy Group is a Singapore-based research and advisory firm that provides distinctive perspectives on the shape of the emerging global economic and political environment. The foundation for our work is an understanding of the position and experience of small developed countries in the global environment. The underlying beliefs are that small countries face distinct strategic challenges and opportunities, which required targeted analysis and advice; and that small countries provide insightful perspectives on the global context.
G20 and the regions

Stephen Grenville

International economic interaction increasingly takes place at a regional level, rather than bilaterally or through multilateral agencies and forums such as the G20, the UN, the IMF or the WTO. With trade, for example, much of the action over the past decade has been with regional FTAs rather than through the WTO framework and the Doha round. Within East Asia, ASEAN and ASEAN+3 provide the vehicle for very substantial economic interaction, not just through the Chiang Mai Initiative\(^1\) but also through the regular meetings of economic ministers and through AMRO, ERIA, the Asian Bond Initiative and EMEAP.\(^2\) These regional arrangements often involve duplication or layering with multilateral institutions, as reflected in the regional development banks, each overlapping the territory of the World Bank, but which are nevertheless valuable because they bring special regional characteristics and considerations into the global discussion. The ADB itself performs an active and valuable role in coordination of regional arrangements\(^3\).

This regional aspect of international relations should come as no surprise. International groupings can be seen as ‘clubs’\(^4\) which form to reflect common interests, trading off some individual sovereignty and decision-making in return for the advantages of achieving cooperation, common rules\(^5\) and greater bargaining power. Of course these ‘clubs’ don’t form just along regional lines. The G20 itself can be seen as a club, and there are other clubs (APEC, BRICS etc.) with a variety of motives, often specialising in a single aspect of international relations.

\(^{1}\) Now multilateralised as CMIM

\(^{2}\) Respectively: the ASEAN+3 Macroeconomic Research Office, the Economic Research Institute for ASEAN and East Asia, and the Executives’ Meeting of East Asia Pacific Banks.


Within the variety of arrangements, regional ‘clubs’ have a strong logic: geographically close countries are more likely to find they have issues in common (and greater opportunity to find collective benefits) with their neighbours rather than with a universal collective. Neighbouring countries care more about each other, often have shared history, impinge more on each other and there is frequently an important strategic dimension. Caucusing and coordination give regional groupings greater weight than that of the individual countries acting alone. Many international issues can best be addressed following the principle of subsidiarity -- getting the decision-making to the lowest feasible level consistent with necessary coordination – which is often the region. Often universal global-wide rules are not necessary, and regional uniformity is enough.

Given these overlapping and disparate clubs, what degree of coordination and cooperation is optimal between them? A useful analogy might be with the various levels of government (national, state, local) routinely found within many countries. There will be different specialisations and delegation of responsibilities between them, but there is inevitable overlap and a need for information-exchange, agreements on shared responsibilities, performance comparison and coordination.

The starting point here is that much of the substance of international relationships now occurs with these regional arrangements, while at the same time often-overlapping (and perhaps conflicting with) global issues that are being addressed by The G20. This paper explores how the G20 might link more effectively with these regional ‘clubs’, to the benefit of both.

**Current Practice**

To date, G20 coordination with regional groupings has been ad hoc, coming through:

- the EU’s G20 membership;
- the invited presence of some regional organisations as temporary guests at G20 meetings;
- the outreach process; and
- Common membership between regional groupings and G20

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6 Some of these ideas are explored in [http://www.asiapathways-adbi.org/2012/10/g20-membership-horses-for-courses/](http://www.asiapathways-adbi.org/2012/10/g20-membership-horses-for-courses/)
The European Union provides a unique (it’s tempting to say ‘extraordinary’) example of integration of regional arrangements with G20. The EU is represented by the Presidents of the European Commission and the European Council, both as permanent members. This gives the EU special advantages in G20 through increasing its representation (voice and votes) around the table (with several EU countries and the regional body itself being full G20 members). This gives the opportunity for EU members, through their many regular meetings, to develop consensus positions which can then be taken to the G20 with substantial backing.

It can be argued that this unbalanced representation and the prior consensus-building are unhelpful to the G20 discussion as it gives a substantial advantage to one regional viewpoint and inhibits the exploration of the full range of issues in the discussion at the G20 meeting. More importantly, however, this ‘model’ cannot be given wider application. The substantial advantage which already accrues to the EU cannot be offered to other regional bodies for two reasons. Not only would this represent an unwieldy increase to an already-strained membership total, but there are no other well-defined region-wide groupings which have the degree of development and established internal consensus-building capacity as the EU. ASEAN, for example, is long established and has the organisational arrangements to develop consensus positions, but its traditional membership group covers Southeast Asia only, rather than the whole of Asia. The widest related grouping, the East Asia Summit, is not only newly-established and untested, but it now has membership from outside the geographic region.7

The second ‘model’ is exemplified by the current practice whereby the G20 host invites representatives of regional organisations and/or specific guest countries which act as representatives of regional bodies. This seems somewhat ad hoc, with different countries and organisations invited to fulfill what is largely a token role, with little continuity of experience or prior consensus-building. These representatives can play little effective role in the meetings. ASEAN, for example, has been represented by senior officials and by the revolving ASEAN chairman, who may or may not make an active contribution to the G20 meeting.

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7 It might be possible to envisage, ultimately, a framework in which other regions are represented by organisations similar to the EU, but this model would have no role for individual country membership.
The third channel of communication has been through the outreach process, which depends on the diligence and effectiveness of the host country. It is, at best, a largely one-way process where the G20 host communicates what is happening at the G20 level and listens politely to comments. There is no mechanism in this outreach process which would form and articulate a consensus opinion among the non-G20 countries (or even a sub-set of them): thus it is inevitably a monologue rather than a dialogue.

Of course this still leaves the fourth channel: common membership between regional groupings and G20. Countries like Indonesia will inevitably be influenced by the frequent and wide-ranging discussions that have taken place within the ASEAN community but this, just as inevitably, falls short of formulating and presenting an ASEAN view at G20 meetings. In terms of developing consensus views, the BRICS (a non-regional grouping) may be making a more conscious effort to develop concerted views to take to the G20, although with modest success so far.

What is missing from the current arrangements is effective coordination of the work being done at the regional level which also has implications at the global-level discussion. This requires a two-way conversation rather than the largely top-down one-way channel of outreach.

**What might be done?**

What regional issues might be more closely linked to G20?

(a) Trade.

While Doha in its current format has reached an impasse, there are efforts at a variety of levels (WTO itself, APEC) to modify the format and push forward. The G20 should add its voice here. The various trade initiatives (e.g. the Regional Comprehensive Economic Partnership) provide another example of regional activities which might usefully be discussed with the G20, particularly in the context of the need to retain and develop the effective elements of WTO such as dispute resolution.

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8 There might be useful discussion here on other (non-regional) trade groups (e.g. the Trans Pacific Partnership)
(b) International economic policy coordination

This routine G20 agenda topic tends to focus on external imbalances or other topics that fit more closely within the Mutual Assessment Process (MAP) framework, a process whereby G20 members ‘mutually assess’ and review one another’s progress towards meeting shared G20 policy objectives. However, the emerging countries may be more interested in the impact of the sustained accommodative monetary policy in many advanced countries. The current discussion on these topics at the regional groupings, such as the ASEAN Finance Ministers (the Economic Review and Policy Dialogue) or AMRO, may well be relevant to G20 discussion but at present this potential link relies on one of the member countries taking the initiative to carry the discussion to the G20 meetings.

(c) Financial regulation

The post-2008 reformulation of Basel Rules for bank supervision has been dominated by the issues of large global banks, but these core rules will apply to banks in the very different circumstances of many emerging countries. Regional discussion (in ASEAN and EMEAP) provides an opportunity to explore variations or flexibility which might make the overall framework more suitable for emerging financial systems. Much of this discussion belongs at the Financial Stability Board (FSB), but there will be issues of principle which belong at the Leaders’ or Finance Meeting, which may include guidance to FSB. At the same time there may be more effective forums for the discussion of this topic, in closer coordination with the IMFC.

(d) Regional safety nets

Combined operations between the IMF and a regional safety net arrangement have occurred in the past (e.g. during the 1997-8 Asian crisis) and currently (the euro crisis, with Greece and Cyprus coming under substantial criticism), but the arrangements have been ad hoc and put in place after the crisis had already begun, when urgency precluded full
discussion. Randal Henning has suggested the broad outline of a protocol which might be put in place beforehand. There has already been considerable discussion on this topic within the G20 community and agreement has been reached on six principles, but these are very high-level and are not yet the basis of an operational agreement. The discussion reflects the difficulty of achieving an overall one-size-fits-all framework, particularly given the diversity of the regional safety-net arrangements, perceptions of when and how they would be used and their different stages of development. The safety net most relevant to this region, CMIM, has yet to be used (despite the need of several countries in 2008 for assistance) and there are substantial barriers in the way of joint operations between it and the IMF, despite the logic of such cooperation.

(e) Bond market legal infrastructure

The Asian Bond Initiative is another example of a regional activity with global implications, as these bond operations need financial infrastructure which encourages global participation from investors who will be looking for clearance/settlements arrangements and dispute procedures which are consistent with international norms. Related to this, the current issues with Argentine sovereign debt require a global approach. As well, the G20 may be able to assert useful pressure on the credit-rating agencies to recognise the changing credit standards in emerging economies more quickly.

Modest objectives

In practice there are few opportunities to insert ideas or new topics into the time-constrained Leaders’ agenda, although there may be more opportunities in the

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9 ‘Given its momentum, regionalism poses the most important long-term challenge to the IMF and its role in the international monetary system. … The IMF and regional financing arrangements should therefore arrange key elements of cooperation in advance, rather than negotiate them in the midst of crises as they have done in the past.’ ADB/Peterson (2011) page 21

10 ‘The G-20 finance ministers and summit meetings are the appropriate forums in which to discuss the relationship between the IMF and regional financial arrangements. The member states of the G-20 are the leading members of both multilateral and regional financial institutions. These governments were principally responsible for creating both sets of institutions, while giving insufficient thought to coordinating the mandates and work among them, and are thus principally responsible for solving the problems thus created. The G-20 cannot dispose of these matters itself, but the group can prepare decisions to be taken with the other members of the IMF and regional institutions to strengthen the connections between them.’ R. Henning (2011) ‘Coordinating Regional and Multilateral Financial Institutions’ Peterson Institute Working Papers 11/9 (March) page 21


11 See IMF (2013) ‘Stocktaking the Fund’s engagement with regional financial arrangements’ April

12 See http://www.bis.org/publ/othp15.pdf
Finance Meeting. The number of countries and organisations which want to have their voices heard will always greatly exceed the feasible capacity of the forum. These regional/G20 initiatives are likely to be most effective in assisting the G20 discussions if they fit within the usual G20 agenda structure, rather than attempt to break entirely new ground.\textsuperscript{13}

The initiative needs to come from the regional groups and, in particular, from their G20 members. What is required, in already-busy agendas, is specific discussion of the linkage opportunities during regional meetings, caucusing to reach consensus positions (as is done routinely among the EU countries), taking this message forward to the G20 meetings, and then reporting back.

If these efforts put more substance into the region-G20 relationship, this might help to strengthen G20 cohesion. Emerging countries, now the main dynamic elements in the world economy, currently play an under-weight role in the G20. This is partly through inadequate representation (Europe is still grossly over-represented) and the strength of the G7 ‘old-boy’ network, but much more importantly, these countries have not always found effective ways of projecting their voices in this forum. Even when issues come up which could advance their collective interests, they have not been able to quickly mobilise an effective quorum. IMF governance reform and appointments at the top of the IMF and World Bank illustrate the issue.

Some of the non-G7 members may feel like second-class members of the club, where the decisions are dominated by a sub-set of members, often centred around G7 although sometimes including some of the BRICS\textsuperscript{14}. Speaking for a broader constituency and articulating a coherent consensus view may embolden these non-G7 countries to assert their equal place in G20. As well, there is the perennial problem that G20’s lack of universal membership leaves outsiders with a feeling of exclusion from a decision-making process that impinges on them. To the extent

\textsuperscript{13} Kawai and Petrie (2010) summarise their own similar suggestion this way: ‘that federalism be introduced on a global scale by creating hierarchies of global and regional organizations with overlapping ownership structures in various functional areas (as is already the case with the World Bank and regional development banks in the area of development finance).’ Abstract

\textsuperscript{14} The development of the BRICS group may be, at least in part, a manifestation of this discontent. To the extent that the G20 is a successor to the G7, it is to be expected that countries not included in the initial grouping will tend to be in a weaker position than the incumbent members of the initial ‘club’, with their long-established relationships.
that linking a wider group of countries to G20 via an active regional caucus gives the non-G20 countries a voice, this criticism might be softened.

Of course this will not be enough in itself to overcome the perception that G20 is a ‘Big Boys’ club,’ dominated by the G7. But it would be a useful starting point in an ongoing process.

**Conclusion**

The regions are where much of the economic diplomacy is now taking place. This action is not well connected with G20, leaving the regions imperfectly coordinated with global aspects, while at the same time G20 does not have the benefit of this regionally-focused input.

One way to make these voices more powerful, coherent and effective over time is to amplify them through the sounding board of existing regional arrangements. This is a two-way process: these efforts should also be seen as a way of encouraging the regional arrangements to take a more global view within their own meetings. Both the G20 process and the regional organisations would benefit.

Why is this issue especially appropriate for a discussion of Asian regional arrangements? The well-developed and long-standing Asian regional arrangements, centred on ASEAN but now extending the EAS, are uniquely placed to promote the two-way linkages over time. Europe is, of course, already inside the G20 club and has no need for this development. Regional arrangements elsewhere are less well developed, or more narrowly-based on trade (e.g. NAFTA). No other region is similarly placed to take this forward.
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I. Preparation for the G20 Seoul Summit

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- A year-long process carefully planned
  - the Presidential Committee for the G20 Summit
    (composed of both government officials and private experts)
  - constant communication with member countries
    (60 face-to-face meetings, video conference, teleconference)
  - preparing for the events in previous
    (venue, transportation, security, media, delegation)
  - Private sector participation
    (Seoul Summit emblem competition, 7,500 volunteers, Youth G20)
II. Outcomes of the G20 Seoul Summit

- Bridge-Builder between AEs and EMEs
- Legacy Agenda
  - G20 Framework for Strong, Sustainable and Balanced Growth
  - IMF Reform
  - Financial Regulation
- Korea Initiatives
  - Global Financial Safety Nets
  - Development
II. Outcomes of the G20 Seoul Summit

- **G20 Framework for SSB Growth**
  - *Indicative Guideline*: enhanced mutual assessment process
  - *Seoul Action Plan*: each country’s commitments for SSB Growth

- **IMF Reform**
  - *under-represented and emerging countries quota increase*
  - *shift of two chairs of advanced Europe to emerging countries*

- **Financial Regulation**
  - *Basel III*, measures to better regulate SIFIs
  - *macro-prudential policy, EMDC issues, shadow banking*
II. Outcomes of the G20 Seoul Summit

- **Global Financial Safety Nets**
  - *Key agenda as a non key currency country*
  - *Agreement on enhancing the FCL and establishing the PCL*

- **Development**
  - *Focus on the capacity building of DCs and LICs*
  - *Seoul Development Consensus for Shared Growth*
III. Assessment on the G20 after Seoul

- Recent criticism over the G20
  - “Premier forum of the global economic cooperation”
  - VS
  - “Glorified talk shop”

- What matters?
  - Initiatives of the Chair are overemphasized
    (France: IMS, Commodity Price / Mexico: DRM, Financial Inclusion)
  - Credibility is hampered by the delay of implementation
    (DDA, IMF quota reform, Quota formula review)
IV. Expectation & hope for Australia

- Agreements at the previous Summits should be implemented
  - *The best way to gain credibility*

- Views from AEs and EMEs should be reflected in a balanced way
  - *Legitimacy and representativeness of the G20*

- Communiques should not be lengthy, unfocused and issued too often
  - *Clear message to markets*
Thank you!
Are we on track to achieve strong, sustainable and balanced growth?

Rajat Kathuria
**MAP framework**

- Global financial crisis (2008-10) warranted a much stronger framework to correct global imbalances through coordinated economic policies.

- Consequently, the Mutual Assessment Process (MAP), which is an innovative approach to policy collaboration, has been evolved by the G-20 leaders.

- The objective is to ensure fiscal, monetary, trade and structural policies are collectively consistent and lead to strong sustainable and balanced growth.

- To meet this goal, “Framework for Strong, Sustainable, and Balanced Growth” was launched at the Pittsburgh summit 2009.
• ‘Framework’ is intended to initiate a multilateral process through which G-20 countries identify objectives and related policies to improve global economic growth. These shared objectives are then assessed mutually through a process.

• Collaborative policy action is crucial to avoid conflicting macro policies. The MAP is therefore important to implement essential policies and carry out structural reforms for promoting balanced and sustainable economic growth.

• All G-20 countries have recognized the benefits of the framework. The key take away from this exercise is that well-designed, collaborative policy actions by the G-20 economies can produce outcomes that will make everyone better off.
Is the framework and MAP delivering intended results?

• MAP framework played and exemplary role in forestalling Second Great Depression. The global recovery has strengthened, though largely uneven.

• The progress made so far has been a genuine success. It has provided an opportunity for further and deeper cooperation amongst the G20 economies.

• One of the crucial assignments conducted under MAP include identifying country/regional specific economic challenges and related policy actions that would lead to strong sustainable and balanced growth.

• This exercise comprehended structural issues that were the root cause of macroeconomic imbalances. Hence, structural reforms bestowed foremost importance. Country-level structural reforms would make global coordination much easier.
• Each of the action plans, since Seoul summit (2010), identified commitments like
  – fiscal consolidation: to reduce fiscal deficit and debt-GDP ratios in the near-term and stabilise fiscal health in medium term
  – increasing exchange rate flexibility: moving towards market-determined exchange rate system as quickly as possible
  – price stability: monetary policy will try to maintain price stability over medium term
  – structural reforms:
    • Advanced economies committed to stabilise their financial sector, labour and product market reforms and try to build confidence to stimulate growth.
    • emerging economies will change their macro policies to enhance their domestic demand. Surplus economies will move towards domestic-led growth.

• MAP framework also played a vital role in promoting financial sector reforms, which have been proceeding under the guidance of Financial Stability Board.
• India, an emerging economy, is committed to the policy reforms proposed at all G-20 Summits.

  – It has committed to revert to a path of fiscal consolidation through targeted reduction in its public debt-GDP ratio, regulating monetary policy to achieve price stability, greater exchange rate flexibility and structural reforms by increasing investment in infrastructure, supporting green growth etc.

  – India has entered into free trade agreements with ASEAN countries, Japan and South Korea with a focus on improving South-South trade. Also, India is on the verge of signing a trade pact with the European Union (EU).
Are we on the track to achieve SSB growth?

- World growth is continued to be weak. Various IOs’ forecasts in below chart show bleaker prospects.

World growth Forecasts from IMF, WB and OECD (%)

![World growth Forecasts from IMF, WB and OECD (%)](image-url)
• Broadly, the issues facing the global economy are twofold.
  – In advanced economies, growth remains subdued and high unemployment persists. Progress towards developing credible fiscal consolidation plans in some advanced economies is very slow.

**GDP growth and Unemployment rate in advanced (%)**

![Graph showing GDP growth and Unemployment rate from 1990 to 2018](image)

Source: WEO, IMF 2013

  – Recovery from global financial crisis (2008-10) is feeble compared to pre-crisis standards.
  – Unemployment seems to remain at record levels.
Emerging economies continue to improve but growth rates are slowing down, inflationary pressures are building up and structural bottlenecks are posing challenges.

Demographic changes are going to play a vital role. Aging may add to fiscal pressures in advanced economies while emerging economies having competitive advantage in terms of demographic dividend.

Source: WEO, IMF 2013
How can MAP be strengthened?

• Challenges in MAP are substantial.
  – Enforcing globally co-ordinated policies is a tough task. Further, ensuring compliance with commitments is a bigger challenge.
  – Economies should stick to their commitments and implement them strictly.
  – Peer review of policy objectives, which will make countries more answerable at global level, play a vital role in assuring adherence to commitments.

• Internal policies to be strengthened
  – It is important that every country has to focus on in-house policies including fiscal, monetary and structural reforms to enhance growth prospects, along with coordinated polices, to achieve strong, sustainable and balanced growth.
• Increasing accountability
  – It is important to improve accuracy of commitments in terms of targets and time horizons.

  – Ensuring execution of commitments within timeline is crucial. To do this, in 2012 summit, countries have agreed to follow “comply or explain” approach.

  – Further, agreed to strengthen “peer review process that includes review and discussion of members’ policies and in-depth assessments from the international organisations (IO)”.

  – Additionally, IO’s may also explain all countries the adverse effects of not fulfilling commitments within the agreed timeframe.

  – It will also be useful to define benchmarks to measure progress towards commitments.
Is the accountability framework effective?

Global imbalances

• Global imbalances has gone down, however, cyclical factors dominate the structural factors.

• Policy needed to reduce the global imbalances remains unchanged
  – Two major surplus economies (China & Germany) need to increase consumption (WEO 2013).
  – US need effective fiscal consolidation to increase national saving and structural reform to rebuild competitiveness (WEO 2013).
  – Further exchange rate adjustment in China.

Source: WEO, IMF 2013
Exchange rate flexibility and reserve accumulation

- Rate of accumulation of foreign exchange reserve has declined considerably in developing Asia in last three years.
- However, it is primarily because of slowdown in global economy which resulted in reduction in CA surplus.
- No major change in policy toward exchange rate and reserve accumulation.
- Quantitative easing in advanced economies like US and Japan depressing the exchange rate has become another concern.

**International Reserves**

![International Reserves Graph](image)

Source: WEO, IMF 2013
Fiscal consolidation

  - Committed to at least halve fiscal deficits by 2013.
  - Stabilize or reduce government debt-to-GDP ratios by 2016.

- Achievements
  - Most of the countries have adhered to the commitments of reducing fiscal.
  - Growth adversely affected because of sharp fiscal correction, particularly in Euro area.

![Fiscal Deficits Chart](source: WEO 2013 and own calculations)
Fiscal consolidation contd…

WEO projected data shows stabilization of debt in 2016 in advanced economies as committed.

- However, given the widespread criticism of austerity policies, pace of fiscal consolidation might slowdown or reverse.
- Achieving debt target would be difficult in that scenario.

**General government gross debt (% of GDP)**

Source: WEO 2013 and own calculation
Price Stability

- Despite ultra easy monetary policy in advanced economies, prices are becoming more stable in global economy.
- Decline in energy prices and food prices important factors in achieving price stability in emerging and developing economies.
- In emerging market and developing economies slowdown in economic growth has also contributed in containing the inflation.

**Global Aggregates: Headline Inflation**

Year-over-year percent change

Source: WEO 2013
Financial sector Reform

- The G20 has made substantial progress on financial sector reforms—especially on
  - Pushing the Basel III framework for improving the quality and level of capital, liquidity and capital buffers, and reducing leverage
  - Measures to indentify global SIFIs (G-SIFIs), framework for better resolution and supervision, and supplementary prudential requirements for increasing their loss absorbency capacity;
  - Mandating all trading of standardized OTC derivatives on exchanges or on electronic trading platforms, clearance through central counterparties (CCPs) and reporting to trade repositories (TRs)

### progress in implementation of the Basel capital by Basel Committee member jurisdictions

<table>
<thead>
<tr>
<th>Number of countries which have issued final rules and implemented them</th>
<th>As of October 2012</th>
<th>As of end-March 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basel II</td>
<td>Basel 2.5</td>
<td>Basel III</td>
</tr>
<tr>
<td>22</td>
<td>20</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number of countries which have issued final rules, but have not yet implemented them</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basel II</td>
</tr>
<tr>
<td>1</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Number of countries which are at various stages of finalisation of rules</th>
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</thead>
<tbody>
<tr>
<td>Basel II</td>
</tr>
<tr>
<td>4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number of countries which have not initiated any significant action to put in place the rules</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basel II</td>
</tr>
<tr>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>27</td>
</tr>
</tbody>
</table>

Source: BIS 2013
Financial sector Reform contd…. 

• Variations in the estimates of risk weighted assets (RWAs) a major shortcoming of implementation of Basel III.

• To reduce variations following policy options being considered by Basel Committee’s Regulatory Consistency Assessment Programme (RCAP) seems appropriate (BIS 2013).

  – improving public disclosure and regulatory data collection to aid the understanding of banks’ calculations of RWAs
  – narrowing the modeling choices for banks
  – Further harmonizing supervisory practices with regard to model approvals
India on the path to achieve strong sustainable growth

Growth declined from 9.3 percent in 2010-11 to 6.2 percent in 2011-12 and 5 percent in 2012-13.

- Slowdown in global economic growth resulted in fall in export demand
- Deterioration of domestic investment climate in last few years.

Likely rebound in economic growth

- Economy is expected to expand by 6.1-6.7 percent in 2013-14
  - Global economic growth is likely to increase
  - Domestic investment climate shows signs of improvement
    - Containment of Fiscal deficit
    - Moderation of crude oil prices in global market
    - Decline in inflation
    - Reform measures

Projected GDP Growth Rate of India

<table>
<thead>
<tr>
<th></th>
<th>Finance Ministry (GoI)</th>
<th>RBI</th>
<th>IMF</th>
<th>Goldman Sachs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013-14</td>
<td>6.1 – 6.7</td>
<td>5.7</td>
<td>5.7</td>
<td>6.2</td>
</tr>
<tr>
<td>2013-14</td>
<td>2013</td>
<td>2013</td>
<td>2014</td>
<td>2013-14</td>
</tr>
</tbody>
</table>
Fiscal Consolidation

- Despite slowdown in Economic growth, government managed to contain the fiscal deficit between 5-5.2 percent of GDP by reducing the expenditure.
- Projected increase in economic growth in 2013-14 and 2014-15 is expected to further consolidate the government balance sheet.
- Target for next two year are modest. In the absence of any major accident, India should comfortably achieve the fiscal consolidation targets.

<table>
<thead>
<tr>
<th>As a % of GDP</th>
<th>2011-12</th>
<th>2012-13</th>
<th>2013-14</th>
<th>2014-15</th>
<th>2015-16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal Deficit</td>
<td>5.9</td>
<td>5.2</td>
<td>4.8</td>
<td>4.2</td>
<td>3.6</td>
</tr>
<tr>
<td>Revenue Deficit</td>
<td>4.4</td>
<td>3.9</td>
<td>3.3</td>
<td>2.7</td>
<td>2.0</td>
</tr>
<tr>
<td>Gross Tax Revenue</td>
<td>10.1</td>
<td>10.4</td>
<td>10.9</td>
<td>11.2</td>
<td>11.5</td>
</tr>
</tbody>
</table>

Source: RBI & Union Budget of India (2013-14)
External position likely to improve

- Current account has widened sharply in last few quarters because of deterioration of trade balance and sluggish growth in service export.

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>CAD/GDP</td>
<td>-1</td>
<td>-1.3</td>
<td>-2.3</td>
<td>-2.8</td>
<td>-2.7</td>
<td>-4.2</td>
</tr>
</tbody>
</table>

Recent Trend

<table>
<thead>
<tr>
<th></th>
<th>Quarterly Q2 2011-12</th>
<th>Quarterly Q3 2011-12</th>
<th>Quarterly Q4 2011-12</th>
<th>Quarterly Q1 2012-13</th>
<th>Quarterly Q2 2012-13</th>
<th>Quarterly Q3 2012-13</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAD/GDP</td>
<td>-4.2</td>
<td>-4.4</td>
<td>-4.5</td>
<td>-3.9</td>
<td>-5.4</td>
<td>-6.7</td>
</tr>
</tbody>
</table>

Likely improvement

Given the increase in exports and fall in crude oil in international market, current account deficit is likely improve

- CAD is likely to be around 4 percent of GDP in Q4 2012-13 and around 5 percent of GDP in 2012-13.
- If the positive trend persists, the CAD would be in much more comfortable range of 3-4 percent of GDP in 2013-14.
Exchange Rate Flexibility

- More flexible exchange rate policy
- Magnitude and frequency of interventions in the foreign exchange market by RBI has declined

Source: Thomson Reuters Datastream
**Price stability**

- Inflation rate has declined; however, price stability remains a challenge.
- Supply bottleneck in agriculture remains a major impediment in achieving price stability.
Financial sector Reform

- Indian financial system was largely insulated from the global financial crisis because of better regulatory structure.
- However, financial sector in India is still underdeveloped; therefore, the challenge that lies before regulatory authorities is to maintain the resilience of the system with financial deepening.
  - Low access to banking services (low financial inclusion)
  - Poor domestic credit to GDP ratio (Table)
  - Low participation in equity market
    - High investment in gold
    - High investment in real estate
  - Underdeveloped corporate bond market
- Keeping its commitment at G20, India has started the Basel III implementation in a phased manner.

<table>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>43</td>
<td>87.6</td>
<td>71.9</td>
<td>74.5</td>
<td>96.9</td>
<td>95.8</td>
<td>95.2</td>
<td>98.3</td>
</tr>
<tr>
<td>China</td>
<td>53.3</td>
<td>89.4</td>
<td>119.7</td>
<td>134.3</td>
<td>120.8</td>
<td>145.1</td>
<td>146.3</td>
<td>145.5</td>
</tr>
<tr>
<td>Euro area</td>
<td>93.6</td>
<td>97</td>
<td>119.4</td>
<td>127.3</td>
<td>142.8</td>
<td>152.6</td>
<td>156</td>
<td>153.6</td>
</tr>
<tr>
<td>India</td>
<td>37</td>
<td>50</td>
<td>51.4</td>
<td>58.4</td>
<td>67.7</td>
<td>70.4</td>
<td>73</td>
<td>75.1</td>
</tr>
<tr>
<td>Russia</td>
<td>-</td>
<td>-</td>
<td>24.9</td>
<td>22.1</td>
<td>23.9</td>
<td>33.7</td>
<td>38.4</td>
<td>39.6</td>
</tr>
<tr>
<td>US</td>
<td>120.2</td>
<td>151</td>
<td>198.4</td>
<td>225.4</td>
<td>222</td>
<td>234.9</td>
<td>232.9</td>
<td>233.3</td>
</tr>
<tr>
<td>World</td>
<td>93.5</td>
<td>130.6</td>
<td>158.9</td>
<td>162.1</td>
<td>154.7</td>
<td>169.1</td>
<td>167.4</td>
<td>165.3</td>
</tr>
</tbody>
</table>

Source: Sahoo (2013)
Increasing investment

- Infrastructural bottlenecks in developing economies a major hurdle in achieving sustained high economic growth.
- Difficult for developing countries to raise significant amounts of long-term financing.
- If the gaps are closed, it would be beneficial for both developing and advance economies.
- According to Lin and Doemland 2012 “US $1 increase in investment in developing countries is likely to be associated with a US$0.35 increase in exports from high-income countries.”

Estimated infrastructure spending and spending needs

<table>
<thead>
<tr>
<th>Region</th>
<th>Need (average annual 2010-2020)</th>
<th>Estimated actual spending (2005 $ billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ billion, 2005 constant</td>
<td>of projected GDP</td>
</tr>
<tr>
<td>East Asia and Pacific</td>
<td>408</td>
<td>5.5</td>
</tr>
<tr>
<td>Central Asia</td>
<td>13</td>
<td>5.2</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>81</td>
<td>2.6</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>75 to 100</td>
<td>10.0</td>
</tr>
<tr>
<td>South Asia</td>
<td>191</td>
<td>10.8</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>93</td>
<td>9.8</td>
</tr>
<tr>
<td>Weighted average</td>
<td>7.2</td>
<td></td>
</tr>
</tbody>
</table>

Source: Supporting Infrastructure Development in Low-Income Countries- Submission to the G20 by the MDB Working Group on Infrastructure
Financing for investment

Some measures to increase Investment in infrastructure

• Channelizing surplus global savings through MDBs into infrastructure projects in emerging and developing economies.

• Sharing the successful PPP models

• Shifting government expenditure from subsidies to infrastructural development in developing countries

• Policy consistency, particularly in emerging economy.
Thank You!
The Framework and the MAP: We Have Seen This Movie Before
(the producers’ claims to the contrary notwithstanding)

Paul Blustein
Brookings and CIGI
Results so far: Unimpressive

“Any decline in global current account imbalances has mainly been the result of cyclical factors.”


Why so little progress?

History offers some elucidation
There were efforts in the late-20th century to shrink imbalances...

- Bonn Summit, 1978

- U.S.-Japan trade negotiations

- Plaza Accord, 1985
But there are crucial differences between the late 20th century and current circumstances:

• U.S. geopolitical power has diminished; the world is more “multi-polar”

• China, not Japan, is the major surplus country of concern

• U.S. enjoys far less leverage with China than it did with Japan

...Thus more recent events (2005-2008) are more instructive regarding the Framework/MAP
2005-2006: Imbalances are large, arousing concern about the global macroeconomy. The need for multilateral action is evident.

Reasons for multilateral initiatives:

1. Fear of global financial instability, i.e. collapse in the US dollar

2. Pressure from US on China regarding “manipulation” of the renminbi, and resultant worries about a trade war

3. Proposals for IMF to intervene (e.g. UK’s Mervyn King and Canada’s David Dodge) by acting as an “umpire” or “arbiter” of the international monetary system
The Upshot:
One Flop (the Multilateral Consultations),
and One Debacle (the IMF’s 2007 Decision on
Exchange Rate Surveillance)

• Neither initiative ended well, as news reports and
  scholarly commentary have long made clear
• But behind these basic, publicly-known facts lies a much
  richer and illuminating tale, recounting episodes that
  were secret up to now, as well as information about key
  turning points that have been only hazily understood
• Much of the following research is based on interviews
  with scores of policy makers who were involved, and on
  thousands of pages of confidential documents never
  previously disclosed
These initiatives were based on different approaches

- **Multilateral Consultations**: a collaborative exercise, bringing policy makers together to tackle a common problem.

- **2007 Decision**: an exercise in devising rules for the international system, with provisions for identifying violators, to spur compliance.
But both would run up against cold, hard facts

- Sovereign nations, especially big and powerful ones, can’t be compelled to act in the global interest (even when their people would broadly stand to benefit)
- International institutions such as the IMF have little leverage over major countries, or even minor ones (other than those to whom they’re lending money)
The Multilateral Consultations

• In Sept. 2005, IMF’s De Rato proposes “multilateral dialogue,” to be held in the IMFC. This idea falls flat.
• Then, at a conference not dissimilar to this one, in February 2006…

…Yusuke Horiguchi proposes “special consultation missions” to U.S., China, Japan and Eurozone, with IMF issuing “scorecards” and holding “follow-up consultations” for “economies judged to be not performing.”
The Fund tries a pure collaborative approach, akin to trying to sing “Kumbayah” in five-part harmony.

As per Horiguchi’s proposal, the main participants include U.S., China, Japan, and Eurozone. Also included: Saudi Arabia. … but the IMF gets no umpire/arbiter role.
**The IMF has high initial hopes**

Excerpts from the Fund’s confidential wish list for the five participants:

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**Table 1: Summary of Proposed Measures**

<table>
<thead>
<tr>
<th>Country</th>
<th>Measures</th>
</tr>
</thead>
</table>
| United States | **Step up fiscal adjustment** to ¾ percent of GDP per year.  
Encourage private savings through shift to indirect income taxation and increasing enrollment in 401(k) plans. |
| China     | **Allow greater exchange rate flexibility** leading to a near term currency appreciation.  
Boost private consumption through strengthening financial intermediation and rebalancing public expenditure. |
…And the meetings go nowhere; a variety of factors are blamed

- Lipsky’s passivity
- Replacement of John Snow by Hank Paulson, who had little interest in the IMF
- More fundamental factors?

"UNDERSECRETARY] ADAMS WAS AGAIN DISENGAGED—APPELLANTLY REFLECTING...THE U.S. TREASURY’S LACK OF ENTHUSIASM FOR THE MC..."
A Big Letdown:
Unbeknownst to anyone but the participants, China pulls back from a tentative move regarding its foreign exchange policy

Email from Japan’s vice finance minister to Lipsky: “Regrettable if a [the proposed Chinese action] is not included...[It] is potentially the greatest achievement of the Multilateral Consultation process. Losing it is in fact a step back...”
Lipsky implores the Chinese to reconsider: “If this phrase is not included, it will represent a serious disappointment…”

Dear Madame Hu,

I am writing to thank you and your colleagues for the revised version of China’s policy statement (“box”) that we received from Mr. He.

The new version is impressive in its detail and scope. In fact, it is just a bit longer than the submissions of the other participants, and would run a bit more than a single page. As a result, we would like to propose some small drafting changes that you and your colleagues may find helpful, and that we will provide to Mr. He for your consideration. However, please view them only as suggestions. We will be happy to accommodate whatever version you wish us to include.

There is an additional and important matter regarding the draft that we received from Mr. He that I would like to bring to your attention. The final paragraph (“Further improving the exchange regime”) states, “Exchange rate flexibility will gradually increase.” In comparison, the earlier version presented in Paris stated “The trend toward greater exchange rate flexibility will continue, with greater attention paid to nominal and real effective exchange rates.”

My colleagues and I would respectfully suggest that you and your colleagues consider editing the latest draft to add back the phrase “with greater attention paid to nominal and real exchange rates” to the sentence cited above. I am sure that its presence would be very well received by the other participants. In fact, I worry that if this phrase is not included, it will represent a serious disappointment to the other participants, as all those attending the March 13 meeting were left with the very clear impression that it would appear in China’s policy “box”.

…but the Chinese refuse to change their position.
Despite the secret “serious disappointment,” the Fund publicly declares victory

Lipsky’s comments at press conference, April 18, 2007: “This outcome represents something that is novel and innovative…You can’t call this trivial or insubstantial….”

This much can be said for the Multilateral Consultations: The outcome may have been a flop, but compared with the IMF’s other initiative on global imbalances, it was not nearly so dismal.
The 2007 Decision on Exchange Rate Surveillance

- Key phrase is "fundamental misalignment"
- First used in draft of bill by Sens. Baucus and Grassley, aimed at China
- Idea is to avoid "manipulation," a word deemed too "stigmatizing"
The IMF is divided, but its powerful PDR Dept. pushes for a rule based on FM, on theory that it can be applied “symmetrically”

MEMO from MARK ALLEN, DIRECTOR, POLICY DEVELOPMENT & REVIEW DEPT., JUNE 19, 2006

“It may be seen by many as a concession to the U.S. because this focus is also shared by the Grassley-Baucus bill…”

“...The principle applies to all countries [including] the United States…”
The U.S. Treasury applies pressure on the IMF to approve the proposed decision, but developing countries push back.

"WE CANNOT READ THE PROPOSAL WITHOUT KEEPING IN MIND THE DEMOCRATIC DEFICIT THAT THE GOVERNANCE OF THIS INSTITUTION HAS." --ARGENTINA

The Treasury “made it clear that they considered [the decision] critical… and that it would be difficult to ask Congress to support [legislation the Fund needed] if a new decision were not approved.” --IMF memo
The decision is approved by the board (June 15, 2007)—a rare, hard-fought cliff-hanger

- Preliminary vote count circulated on the morning of the meeting shows enormous uncertainty about the result.
- Top IMF officials hope to win approval but not without overwhelming support.
- An email sent that morning warns, “As many of the supporters are unhappy to go forward without broader consensus, we may not even have 50%.”

The decision is approved (over Chinese objections) after much haggling over words during a prolonged lunch break. Following the meeting, a jubilant Rato invites staff for a Champagne toast.
The cliché about “prematurely-uncorked Champagne” applies literally, and with force, in this case.

Having approved the decision, the IMF had no guts to implement it.
Possible targets for the “Fundamental Misalignment” label: the CNY, the JPY, and…the USD!

- After board approval, PDR proposes 3 major currencies for possible labeling—China’s, Japan’s, and the U.S.’s.
- De Rato agrees, but soon thereafter announces resignation.
- Lipsky rules against labeling the USD as fundamentally misaligned.
Following the decision against labeling the world’s most important currency, an even bigger setback comes involving one of the world’s least important currencies.

The Maldives Rufiyaa was fundamentally misaligned, by any sensible definition of the 2007 decision—on that much, IMF management and staff agree…

…but the Executive Board refuses to go along. As the Egyptian director puts it at the meeting (July 30, 2007): “Surely we do not wish our first assessment of fundamental misalignment to be attached to this small island economy…”
The most consequential case of all: China


--CHINA CONTINUES TO DELAY A BOARD MEETING ON ITS ECONOMY, INSISTING ON FURTHER DISCUSSIONS

The U.S. Treasury conveys its displeasure on April 25, 2008 “with great conviction,” according to an IMF staff memo. The Treasury staffer, Mark Sobel, “was very clearly aware that his boss (Hank Paulson) was simultaneously giving a take-no-prisoners message to DSK.”
IMF Management and staff pursue efforts to label the renminbi, despite Chinese warnings that this would be "totally unacceptable."

Finally, in summer 2008, the board is scheduled to meet on China. The meeting date is Sept. 22…

The authorities have agreed to a September 22 date for the Executive Board meeting. We will update the recent economic developments section of the paper at end-August to reflect new data available at that time. The paper needs to be issued to the Board on September 2.

…and the IMF staff drafts a report labeling the renminbi as fundamentally misaligned, recommending ad hoc consultations
“The last thing we wanted in the middle of a crisis was a public row with China over its exchange rate policy.”  — Senior U.S. official
So in the end...

- All countries escape labeling—no currency is deemed “fundamentally misaligned”
- Symmetry and even-handedness thus prevail—in a perverse sort of way

...and the IMF beats a humiliating retreat

--In June 2009, the Fund essentially renounces use of the term “fundamental misalignment” in Art. IV reports
Small wonder, therefore…

…that the Framework and the MAP are making limited progress. They are running up against similar “cold, hard facts” to the ones that stymied the MC and 2007 Decision…

…and they are based on questionable conclusions about what went wrong.
The G-20’s big take-aways

• Adopt a collaborative approach, but give countries “ownership” by subjecting each other’s policies to a system of peer review

• Downgrade the IMF to a technical, advisory role

But are those the right lessons?
My take-aways

(1) Accountability is essential—preferably delivered by an “umpire”

• This is a clear lesson of the Multilateral Consultations
• Failure of the talks is often attributed to the IMF’s role, which allegedly deprived countries of “ownership”
• But the problem was not an over-assertive IMF; the facts show the Fund was relatively passive
• Much bigger weakness was lack of any arbiter to publicly assess participants’ contributions
• Good news is, G-20 is moving toward incorporating more accountability in the MAP

Odds are slim, however, that this will impel major countries to change policies in meaningful ways.
(2) The umpire had better be neutral—and seen to be so—as well as unrestrained in expressing opinions

- The IMF fell appallingly short of that standard during the battles over the 2007 Decision
- That episode exposed the degree to which the IMF is captive to the whims of its most powerful members
- Problem is, the G-20 is if anything more ill-suited to such a task
- The G-20 is the very epitome of a political body, with many pressures (diplomatic, etc.) affecting judgments
- It strains credulity to believe that G-20 will render verdicts so stern, so credible and so concerted as to alter the policy-making calculus in a major country
What would it take?
An immodest (radical) proposal

- Start with list of “thou shalt nots,” akin to the Ten Commandments
- The IMF has produced a list, in its new (2012) surveillance decision
- Thou shalt not: manipulate exchange rates, run large and prolonged surpluses or deficits, adopt domestic policies that give rise to instability
- One major virtue of this list: it’s symmetrical…

…But when it comes to preventing countries from doing these things, the Fund is as feeble as ever
How to overcome the IMF’s potency deficiency:
Give it two things it currently lacks
(Don’t downgrade—upgrade!)

• Enforcement power

• Sufficient credibility and neutrality to umpire effectively
One solution: A radical change in IMF governance

- Adoption of WTO-style dispute settlement
  - Tribunals would render judgments on matters of contention, i.e. whether countries are violating “thou shalt nots”

- Rules would be symmetrical
  - “Judge and jury” would be independent experts, not IMF board or management
The adoption of such an approach may be no likelier than this:

But that is roughly similar to the odds that the Framework and MAP, as currently formulated, will induce meaningful policy change in major capitals
I am confident of the historical facts I’ve presented.

But there is plenty of room for disagreement about my take-aways and/or policy implications.

I welcome your thoughts. Thank you!
Reforming the International Financial Architecture

Masahiro Kawai
Dean and CEO
Asian Development Bank Institute

“The G20 Leaders’ Process Five Years on: An Assessment from an Asian Perspective”
Organized by Lowy Institute, ADBI and KDI

Sydney, 23 May 2013
Issues

• Is the international financial architecture adequate for Asia?
• What lessons can be learned from the global financial crisis (2007-09)?
• Is the IMF performing its expected role, in the area of surveillance, crisis lending and conditionality, and policy advice?
• How should Asia respond?
Outline

1. Introduction: Why Reforms?
2. Surveillance
3. Managing Capital Inflows
4. International Financial Safety Nets
5. Reform of the US Dollar-based Reserve System
6. Other reforms
7. Conclusion
1. Introduction: Why Reform?

A well-functioning international financial architecture should:

• avoid exchange rate instability,
• facilitate current account adjustment,
• provide sufficient international liquidity for the world economy,
• support confidence in the system, and
• promote international trade and investment

In sum, it should create a stable international financial environment for sound national economic policymaking
The GFC could not be prevented

- Global surveillance mechanism (IMF, BIS, OECD, G-8) did not work
- Pre-GFC attempts to strengthen standards & codes and data transparency—outcomes of the Asian financial crisis—did not work
- The IMF/WB supported FSAP had a limitation

Development of the EZFC could not be predicted/prevented either

- Excessive emphasis on “global” imbalances and underestimation of the importance of intra-EZ imbalances
- Inadequate institutional mechanisms in the EZ—no fiscal union, no banking union, no financial safety nets (before the crisis)
But the international financial system worked relatively well during the GFC

- Exchange rates among major economy currencies, except for the RMB, were flexible, with the US dollar’s appreciation
- Pre-war type competitive devaluations or systemic trade protectionism were avoided
- Internationally concerted fiscal stimulus measures were implemented
- Aggressive monetary policy responses (de facto zero interest rate and QE) were adopted
- International support for the IMF and MDBs was reaffirmed

Essentially the G20 mechanism worked well
Reform is still needed

- Problems of the international financial system:
  - Exchange rate volatility
  - Capital flow volatility and recurrence of currency & financial crises
  - Global imbalances (though declining)
  - Need for financial regulatory reform to prevent the recurrence of GFC and to support growth
  - Rise of sovereign debt globally
  - EZFC needs fundamental resolution
  - Ultra-easy monetary policy in developed economies, affecting emerging economies

- The use of the US dollar as the most dominant international currency creates tension between national interests and global monetary stability

- IMF governance reform yet to take place
2. Surveillance

(1) Failures to identify vulnerabilities before the financial crisis

- IMF, other surveillance bodies (BIS, OECD, EU), or the private sector could not identify the underlying vulnerabilities behind the GFC (subprime loan risk, credit boom) and the EZFC, and did not issue much warning
- Multilateral surveillance before 2008 could not be effective in addressing the global imbalance (which dissipated following the GFC)
- Need for greater focus on systemically important economies (US, EZ, Japan, China, UK) and spillovers among sectors (real, finance & fiscal) and between economies
- IMF needs to work with regional surveillance and monitoring bodies (like EU in Europe, AMRO in Asia)
(2) Review of IMF surveillance

Triennial Surveillance Review (October 2011)

• IMF surveillance seen as too fragmented, with risk assessments lacking depth and insufficient focus on interconnections and transmission of shocks
• Surveillance found to have less impact for larger member countries

Improvements in six key areas recommended:

• Interconnectedness: WEO, GFSR, REO
• Risk assessments: Vulnerability exercises
• Financial stability: Financial Surveillance Strategy, FSAP, work with FSB to improve macro-financial surveillance
• External stability: A pilot External Sector Report
• Traction: Strong analysis, candid & evenhanded advice
• Legal framework: Integrated Surveillance Decision
(3) Regional surveillance in Asia

• ASEAN+3 finance ministers have:
  - Launched the Economic Review and Policy Dialogue (ERPD) process to conduct regional economic and financial surveillance
  - Created the ASEAN+3 Macroeconomic Research Office (AMRO) in Singapore as a secretariat for ERPD

• Next steps for AMRO
  - Provide sufficient resources for AMRO
  - Support ERPD processes among the finance ministers and central bank governors
  - Develop a “peer review” process
  - Facilitate concerted action & informal coordination

• Asia also needs to set up an Asian financial stability dialogue (AFSD) among the region’s financial authorities to promote regional financial sector stability
3. Managing Capital Inflows

(1) Risks of capital inflows

- Benefits of capital inflows
  - Greater economic opportunities and cushion against shocks: to expand investment, smooth consumption, and diversify risks

- Risks of excessive & volatile capital inflows
  - Loss of macroeconomic stability
  - Damage to financial stability
  - Risk of sudden capital flow reversals

*Ultra-easy monetary policy in developed economies can aggravate these risks*
(2) Role of IMF in capital flow management

• IMF’s position on capital controls has evolved since the Asian Financial Crisis of 1997-98
  — Has recognized risks associated with capital flow volatility
  — Earlier already accepted some less distortionary prudential measures, such as URR on capital inflows
  — Has introduced the concept of capital flow management, including capital controls in policy toolkit

• There is no silver bullet solution
  — The best policy combination depends on specific country conditions
  — IMF needs to make country-specific policy advice on capital flow management, including capital controls and their eventual unwinding
(3) Emerging economies’ policy responses to inflow surges

- **Structural measures**
  - Develop and deepen financial markets
  - Liberalize imports and capital outflows

- **Macroeconomic measures**
  - Sterilize FX market intervention
  - Ease monetary policy
  - Tighten fiscal policy
  - Allow exchange rate appreciation

- **Macroprudential measures**
  - Tighten macroprudential supervision and regulation over domestic markets
  - Control short-term capital inflows
4. International Financial Safety Nets

(1) Modalities

- IMF lending facilities to promote automaticity and precaution in the event of externally driven financial turmoil (FCL, PLL)
- Central bank bilateral currency swap arrangements (US Fed, ECB, BOJ, PBoC)
- MDBs’ contingency support
- Regional financing arrangements (EFSF and ESM in Europe, CMIM in Asia, FLAR in Latin America, AMF in GCC, etc)
A rapid (temporary) loss of reserves and won & rupiah depreciation in 2008-2009

Source: IMF, International Financial Statistics, online
(2) IMF lending and conditionality

- IMF seems to be working well with the European institutions, but IMF stigma persists in Asia
- IMF stigma may be lessened by new lending programs aimed at flexibility and timeliness
  - RFI (Rapid Financing Instrument) a good direction for balance of payments emergency, without the requirement for a full-fledged programs or reviews
- IMF conditionality and program reviews
  - Have become more tailored to country-specific pre-conditions and different policy constraints
  - New facilities (FCL, PLL) rely more heavily on ex-ante conditionality

* FCL: Colombia, Mexico, Poland
**PLL: Morocco
(3) Strengthening the CMIM

- Next steps for CMIM
  - Create a more solid funding structure
  - Increase the size of the facility available for each member
  - Make flexible use of the new precautionary instrument, without ex-post conditionality, like IMF’s FCL & PLL
  - Reduce its link with IMF over time, ultimately to zero, by strengthening AMRO & ERPD
  - Expand membership to include Australia, India & NZ

- With these reforms of CMIM and a strong AMRO, a *de facto* AMF will have emerged

** Japan and China cooperation essential:
  - CMIM: Japan 32% and China 32% (Hong Kong 3.5%, mainland China 28.5%)
  - AMRO: A Chinese as the first head for 1 year, followed by a Japanese for the remaining 2 years
  - Reference: CGIF contributions: Japan 28.6%, China 28.6%, Korea 14.3%, ASEAN 10%, ADB 18.6%
(4) IMF and regional approach

- IMF may take an integrated view over various types of financial safety nets (bilateral, MDBs, regional, and others)
- IMF needs to work with regional arrangements
  - Troika with the EU and EFSF in the Eurozone
  - Possible troika with AMRO and ADB in Asia
- IMF and regional surveillance bodies (EU and ECB in Europe and AMRO and ADB in Asia) can create synergy
- CMIM must work with IMF for large-scale crises, though it can take care of small-scale crises
5. Reform of the US Dollar-based Reserve Currency System

(1) Options

• A new US dollar standard
  - More responsible policymaking by the US
  - US Fed as the global lender of last resort

• A genuinely global reserve currency system
  - SDR as major alternative reserve assets

• A multi-polar reserve currency system
  - Recovery of the Eurozone essential
  - Asia needs to find its own currency (yen?, yuan?, or a currency basket?)
Assessments

None of these is likely to emerge in the short run

- The US has no incentive to adopt a new dollar standard as it would constrain policy freedom
- The US (and many other major advanced economies) would have no incentive, either, to make the SDR a global reserve currency
- For the SDR as a viable reserve currency, private markets must develop for its instruments
- Nonetheless, it would be useful to broaden the SDR composition by including major emerging economy currencies that are fully convertible
- It will take time for a multi-polar reserve currency system to develop
(2) Use of Asian currencies

- Bilateral currency swap arrangements
- Further progress on Asian bond market development
- Use of local currencies for bilateral trade invoicing between Asian countries
- Mutual holdings of sovereign debt as official foreign exchange reserves
- Development of direct currency markets for the Asian currencies

For these purposes, Asian policymakers must:
- Pursue capital account opening prudently
- Develop deep, liquid & open financial markets
- Avoid excessive volatility of intraregional exchange rates
(3) Develop and open financial markets

- Asia needs to develop and open financial markets in a prudent way
  - Liberalize cross-border capital flows
  - Harmonize capital market regulations
  - Introduce mutual recognition to capital markets
- This would encourage international use of Asian currencies for trade, investment and other purposes
- Existing initiatives of local-currency bond market development need to be further strengthened:
  - Asian Bond Funds, Asian Bond Markets Initiative, Credit Guarantee and Investment Facility
6. Other Reform Agendas

(1) IMF governance reform

Shares and chairs reforms

• IMF Quota
  - Reform of 2010 will increase its equity capital to $720
  - 6 percentage points towards developing countries

• 2 of 24 IMF directorships from European countries to developing countries

• But the US has yet to ratify the 2010 reform

• Next round of IMF quota reforms is due to complete in January 2014

Restoring credibility and trust of IMF

• Quota formula and the review of Board composition must be made more transparent
(2) Global regulatory reform

• G20 agreements reached so far:
  – Requirements for greater quantity and quality of capital
  – Liquidity requirements
  – Leverage ratio
  – Standards for OTC derivatives markets (by 2012)
  – Identification, surveillance, regulation and resolution of systemically important financial institutions, especially global ones (G-SIFIs)

• G20 issues expected to be finalized soon
  – Strengthened oversight of shadow banking
  – Compensation and credit rating agencies
  – Development of macroprudential frameworks and tools
  – Convergence to strengthened international accounting standards
  – Strengthened adherence to international supervisory and regulatory standards

• A need to balance financial development/inclusion and financial stability for emerging economies
(3) Mobilization of savings for long-term investment

Need for long-term funding for infrastructure and SME investment

- Need for financial markets to support growth through long-term investment, while ensuring financial stability
- Development of local-currency funding market
- Asset management industry for post-retirement income schemes (pension funds, etc)
- Financial inclusion
- Stronger supervisory/regulatory framework and capacity
- Prudent processes for financial market opening and capital account liberalization
7. Conclusion

• Urgent need for reform of IMF surveillance, lending, and governance
  – To help reduce IMF stigma, flexible and timely advice and programs focusing on country-specific conditions, i.e. RFI and fine-tuning capital flow management
  – Quota increase and more director chairs toward developing countries
  – Transparent quota formula and review of the Board composition

• Volatile capital flows remain a major risk for emerging economies, and capital flow management measures must be part of policy to secure financial stability
  – A country-specific set of policy measures (structural, macroeconomic, and macro-prudential) useful

• Tighter financial regulation and supervision must balance the need for financial stability and the need for financial development & inclusion and sustainable growth
Conclusion (cont’d)

• Although the US dollar does not play an adequate role as a truly international currency, the US dollar will likely remain dominant for some time to come.

• Asian countries should make efforts to develop and deepen their financial markets so that their currencies can be used more frequently for international trade, investment and finance.

• A regional approach can be an important solution for international financial stability, contributing to IFA reform:
  – Regional financial stability: CMIM, AMRO, and an Asian financial stability dialogue (AFSD), in cooperation with the IMF and FSB
  – Local-currency bond market development: ABMI, ABF, CGIF
Thank you
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Introduction

Discussions about the problems and reform of the international monetary system (IMS) have been intensified since the 2008 global financial crisis (IMF 2011). However, there has been little consensus among academics and policy makers on desirable path for reform, or even whether the reform is necessary or not. As a consequence, there has not been much concrete accomplishment so far.

The current IMS has survived for over forty years, underpinning strong growth in GDP, international trade and capital flows. But the system also revealed many symptoms of instability—frequent crisis, persistent current account imbalances and exchange rate misalignments, volatile capital flows and currencies, and unprecedentedly large reserve accumulation centered in the US dollar (IMF 2011). In fact, the current IMS is something of a “non-system”. After the collapse of the Bretton Woods system in 1971, the world has divided into two camps – one with major currencies that float freely and permit free flows of capital, and one with varying degrees of control over exchange rates and cross-border flows (Mateos y Lago et al. 2010). The current IMS does not have any established mechanism to facilitate the adjustment of global imbalances, and so they persist, becoming a source of increased uncertainty and instability.

Given these problems, there have been various proposals to reform the current IMS. These include proposals to build stronger global financial safety net, to
diversify the supply of global reserve currency and so son (Cho 2010, IMF 2010, 2011, Subacchi and Driffil 2010). However, there also have been arguments that although the current system is not an ideal one, it is hard to find a better alternative given the political and economic reality in the current world (Truman 2010). Some other arguments have been that flaws in the IMS had little to do with the global financial crisis directly.

**Discussions and Progress through the G20 Process**

The discussion and the reform efforts through the G20 process has been concentrated on strengthening policy collaboration; global financial safety net; monitoring and management of capital flows; surveillance of global economy and financial system; and reserve assets and reserve currencies.

*Regarding policy collaboration*, the establishment of MAP is a progress. But the G20 so far has failed to establish the specifics of the modality of the MAP. The G20 has not delivered, as part of its Framework for Strong, Sustainable, and Balanced Growth, and the associated MAP, a set of specific, quantified, and verifiable policy commitments through transparent process yet. No clear obligations and responsibilities have been agreed, except leaving them to peer pressure of member countries.

*Regarding global financial safety net*, some progress has been made by establishing new lending facilities of the IMF (FCL, PCL, PLL) and increasing the IMF resources. However, little progress has been made in linking the IMF and regional financial arrangements such as CMIA, EFSF and ESM. Institutionalization of swap arrangements among central banks, which would possibly be the most effective global financial safety net, has been failed. This is an area which deserves further G20 efforts.

*On capital flows*, renewed attention has been made on inflows as well as outflows and on the policies of source countries as well as destination countries. While these efforts have not produced full agreement, they have contributed to greater consensus that has emerged over the last four years and produced a set of
"coherent conclusions for management of capital flows drawing on country experiences." (Truman 2011) The conclusions are not binding on countries and do not limit national policy choices. But it became clear that EMEs can now adopt temporary measures more freely to control capital flows than before, of course, in the relevant broad policy context when they are deemed to be necessary.

On reserve asset and reserve currencies, the discussions have not produced any tangible outcome, except the allocation of greater amount of SDR. This is not surprising because the dollar's role as an international currency is dominated by decisions private sector actors and institutions rather than public decision. And also because, there would be a limit in the effort to promote SDR as a replacement for the dollar as reserve assets and as an international currency (Park and Wyplosz 2011, Truman 2011)

Historical Experiences

Throughout the history, the evolution of the IMS has been shaped not only by the experiences of the previous systems but also by the dominant economic thoughts, balance of economic weights, and political economy of the time. The dominant reserve currency changed with the shift of economic power, but only after a substantial time lag. In the initial stage of these changes, the dominant country was always reluctant to accept changes and push reforms, while the emerging power was hesitant to accept greater responsibility as a reserve issuer. As a result, there was no drastic change, but only gradual and incremental change.

The shift from pound to the dollar and the elimination of pound as a major international currency resulted in periodic crises, international tensions, and conflict over the United Kingdom's domestic economic policy. In short, although it was not a painless transformation, it was still tempered by the international commitment to avoid a damaging tipping point for pound that would have undermined confidence in the IMS as a whole (Schenk 2010).

The transition this century would likewise require close collaboration among the
major players – incumbent and emerging powers – to avoid turbulence and severe instability in the international financial system. The shape of the IMS in the 21st century will be significantly influenced by the views, interests, and requirements of the emerging powers.

**Current Option**

But given the current international political and economic reality, it is hard to expect a major progress in IMS reform would be made in the near future. The best alternative would be strengthening the role of the IMF in its systemic liquidity provision and surveillance; and strengthening policy collaboration through the G20 process. For this, the effectiveness of the G20 as a global governance forum should be enhanced, and greater involvement of the IMF in the G20’s MAP would be needed.

The role of the IMF has been changing in responding to the crisis, pushing early on for economic stimulus, helping coordinate policies, providing financial resources, supporting the G-20 with analysis, and in IMS reform. Now, the challenge is to go further, including a greater focus on financial sector issues and more generally enhancing the effectiveness of its bilateral and multilateral surveillance. It should earn more trust among EMEs by showing its political independence from the US and major European countries. In order to become more effective in surveillance, not only the greater involvement in the G20 process but also more credible and independent analysis of its reports would be essential.

Enhanced surveillance by the IMF would mean increased IMF interventions in member countries’ economic policies. However, unless changed from previous practice – one dominated by the traditional powers – it would be regarded by most EMEs as a worse outcome. Hence the most important element of IMF reform is change to its governance structure.

There has been widely shared criticism that in the past the IMF has been used as an instrument for industrial nations to achieve their policy objectives. It bailed out
creditors of industrial countries and imposed very costly adjustment programs on debtor countries. Mistrust in the IMF is in part due to the perception that its surveillance has been asymmetric, with greatest attention paid to the weaker developing states or those in deficit, while the major deficit and surplus countries, including the US and China, are given too much leeway. Further efforts are needed in order to establish trust among all its member countries, and this can be done most effectively through rebalancing of the governance/management structure of the institution.

There are two major problems with present governance arrangements: the composition and voting structure of the board, and the appointment of management and those at senior positions. The board is too heavily weighted toward industrial countries, especially in Europe, and it fails to give sufficient weight to EMEs and developing countries, which are of course seriously affected by its decisions. Currently, the quota share of advanced economies is more than 60% (US 17.7%, Europe 31%). EMEs and developing countries’ share is 39.5%. Europe’s voice can be potentially much bigger than this figure suggests, due to the current composition of the executive board.

At the G20 Seoul Summit it was agreed that 6% of the quota share would be transferred from European to emerging market economies, though the formula to achieve this has not been fully sorted out. It was also agreed that two seats of the executive board currently occupied by Europe would be transferred to EMEs. However, these two measures would not change the governance structure significantly – the US and Western Europe would still dominate decision making through various rules (including the “85% rule” and the veto power of the US) and through the composition of the executive board. Although the quota of EMEs would be increased, the Board and decision making of the IMF still would be dominated by advanced economies, i.e., the US and Europe.

The governance structure should be more radically changed, for without it, the IMF risks becoming marginalized as an agent solely for a group of industrial countries. There is a large asymmetry between the governance structures of G20
and the IMF. Ideally, the formula for IMF quota reallocation should give emerging economic powers more representation than their current economic weight (which is based on nominal GDP) justifies. However, as this would be difficult to implement in reality, other measures would have to be sought. One way would be a reconfiguration of the composition of the board of directors, cutting the number of European seats – a single Eurozone seat could be an option.

Another way would be to have the G20 finance ministers meeting as a steering committee for IMF governance, determining the direction of major policy issues. If the G20 became a decision-making ministerial body within the IMF itself, it would reduce the asymmetry both between global economic governance forums and the governance structure of the IMF. This would also help reassert the centrality of the IMF’s role as a key institution in IMS. This proposal has been featured in a recent advisory report to the IMF Managing Director (the “Fourth Pillar” report) and has been put forward by a number people, including Mervyn King, governor of the Bank of England (Lombardi 2010).1 The progress of reform of the IMS, including increased allocation and wider use of SDR as international reserve assets, could be facilitated when this kind of significant change in the IMF governance structure occurs.

On the second problem, that of appointments, the selection process for managing director should become more transparent and be open to qualified non-Europeans, including those from EMEs. Appointments to senior positions should be more merit-based, and better balanced between staff from advanced economies and EMEs.

**Concluding Remarks**

The “institutional mismatch” – the mismatch between the institutions and the market has been one of the fundamental causes for the instability of the global financial system. The development of institutions fell far behind that of financial markets over the last two or three decades. Integrated and tightly interconnected

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1 Mervyn King, Speech at the University of Exeter, 19 January 2010.
financial markets and global economy now require new institutions including the IMS. However, the prospect on this goal is very dim. We can expect only an evolitional process toward this goal. It is also true that there is little that collective public policy decisions can do to promote that evolution.

History shows us that the world has suffered when incumbent powers fail to give rising powers their proper place. Inclusion of major EMEs, including China, Brazil, India, and others in the G20, has been the right move. Not only in the G20 but in the IMF, there has been a steady effort to shift voting power and representation (and therefore influence) away from the developed countries to the emerging and developing countries, thereby engendering a broader sense of ownership and trust in the IMF. The challenge now is how to make the G20 and the IMF more effective. Without institutional innovations within the G20, there is a high risk that its summits will follow the path of previous summit meetings, such as G7. Without substantial changes in governance structure and surveillance practices, there is risk that the IMF would continue to be marginalized in addressing global economic and financial issues.

The shape of the IMS in the 21st century will be significantly influenced by the views, interests, and requirements of the emerging powers. Asian countries so far have been passive followers of the international economic order, which was shaped by the West after World War II. They have grown fast in this global environment. Most Asian countries, so far, have been preoccupied with domestic growth and political stability issues, and lack the vision of how to shape the future global economic system.

Asia’s rising powers have now been given seats in the G20, a global economic governance forum since 2008. Yet they do not seem to be well prepared to provide new visions and leadership required to shape the future global economic system. Increased status and representation of Asian countries in the G20 give both privileges and responsibilities to Asians. To meet these responsibilities, Asians should put forth greater efforts to develop their intellectual leadership in global economic issues, including creating regional forums and upgrading the
role of think tanks.
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International Monetary System Reform and the G20

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Regional ‘Think 20’ Seminar
Lowy Institute
Sydney, Australia
May 23, 2013
Extensive debates about the Reform of International Monetary System (IMS) since the 2008 global financial crisis.

- The current IMS has survived for over forty years, underpinning strong growth in GDP, international trade and capital flows.
- But the system also revealed many symptoms of instability—frequent crisis, persistent current account imbalances and exchange rate misalignments, volatile capital flows and currencies, and unprecedentedly large reserve accumulation (IMF 2011).
Current International Monetary System (IMS): Problems

**Most commonly pointed problems of the current IMS:**

(i) Unprecedented large reserve accumulation (self-insurance)

(ii) Concentrated demand for US dollar assets

(iii) Exorbitant privilege of the center country

(iv) Higher uncertainty of global economy caused by too much dependence on the ability of the US in maintaining prudent macro-financial policies

(v) Distorted international capital flows
International Monetary System Reform: Proposals

*Proposals so far:*

- **Demand side reform**
  - global financial safety net, regional financial arrangements, etc.

- **Supply side reform**
  - multicurrency system, SDR, global reserve currency
However, there has been little consensus in the academic literature, or among policy makers on how and whether to reform the current IMS.

Few proposals have been appealing and agreeable to both advanced and emerging economies.

In the meantime, IMS reform agenda has been pushed aside by the European crisis in the G20 summit meetings over the last two years.
IMS Reform: Prospect

➢ Any radical or significant reform in the near future unlikely.

◆ Reluctance of the US
◆ China and EMEs are not willing to take greater responsibility in the international financial system
◆ Market inertia: the ‘network externality effect’ of the dollar (like ‘English’)
◆ Lack of strong, uncontroversial alternatives
◆ Recent problems of the Eurozone

➢ At most, we could expect a gradual transition.
The evolution of the IMS has been shaped not only by the experiences of the previous systems but also by the dominant economic thoughts, balance of economic weights, and political economy of the time.

The dominant reserve currency changed with the shift of economic power, but only after a substantial time lag.
In the initial stage, the dominant country was always reluctant to accept changes and push reforms, while the emerging power was hesitant to accept greater responsibility as a reserve issuer. As a result, there was no drastic change, but only gradual and incremental change.

The shape of the IMS in the 21st century will be significantly influenced by the views, interests, and requirements of the emerging powers.
Current option?

➢ *In order for the current non-system to operate properly*

◆ The role of IMF should be strengthened (as the lender of the last resort, and credible surveillance).

◆ International policy coordination to adjust global imbalance should be strengthened. ➔ Role of the G20
Discussion and Progress through the G20 Process So Far

- The discussion and the reform efforts through the G20 process has been concentrated on strengthening policy collaboration; global financial safety net; monitoring and management of capital flows; surveillance of global economy and financial system; and reserve assets and reserve currencies.
Regarding policy collaboration, the establishment of MAP is a progress. But the G20 so far has failed to establish the specifics of the modality of the MAP. No clear obligations and responsibilities have been agreed, except leaving them to peer pressure of member countries.
Regarding global financial safety net, some progress has been made by establishing new lending facilities of the IMF and increasing the IMF resources. However, the progress in linking the IMF and regional financial arrangements such as CMIA, ESM is limited. Institutionalization and multilateralization of swap arrangements among central banks, which would possibly be the most effective global financial safety net, has been failed.
On capital flows, renewed attention has been made on inflows as well as outflows and on the policies of source countries as well as destination countries. While these efforts have not produced full agreement, they have contributed to greater consensus that has emerged over the last four years. The conclusions are not binding on countries and do not limit national policy choices. But it became clear that EMEs can now adopt temporary measures more freely to control capital flows than before, of course, in the relevant broad policy context when they are deemed to be necessary.
On reserve asset and reserve currencies, the discussions have not produced any tangible outcome, except the allocation of greater amount of SDR. This is not surprising because the dollar’s role as an international currency is dominated by decisions of private sector actors and institutions rather than public decision.
Strengthening the Role of the IMF

- **IMF could not play the role of ‘lender of last resort’ in IMS due to:**
  
  A. Shortage of resources
  B. Lack of trust (‘stigma effect’) on its lending programs and policy conditionality

- **Low credibility due to the perception that the IMF has been used as an agent of advanced economies (US and Western Europe) policy goal**

- **Ineffective and asymmetric surveillance.**
How to Strengthen the Role of the IMF?
The G20 Summit Meetings in London endorsed the increase of Fund’s resources by tripling it to $750 billion through expanding NAB.

In the G20 Financial Minister meeting in April 2012, “firm commitments to increase IMF resources by over $430 billion, in addition to the quota increase under the 2010 Quota and Governance Reform. (Specifics are yet to be agreed)
(ii) Lending facilities

- Restructuring of the lending facilities to strengthen ‘Global Financial Safety Net’

Modification of the lending programs
- Improve the FCL, create PCL in Seoul Meeting
- Create PLL which replaces PCL in Cannes Meeting

- Multilateralization and institutionalization of the swap arrangements through the IMF (encouraged in Seoul Meeting, but not materialized)
(iii) Surveillance

- *Global economic surveillance should be the G20’s important role:*
  
  G20 should strengthen its function of mutual assessment of macroeconomic policies (MAP), and this should be supported by the IMF.

- *Success of mutual assessment or peer-review surveillance depends critically on:*
  
  (a) competent analysis of the IMF staff to support the process
  (b) the strong analytical foundation for studying macroeconomic interactions
(iv) Governance/Management

➢ The most important element of the IMF reform: ‘change to its governance structure’

➢ The IMF has become more flexible in its approach to the individual country situations but further efforts are needed.

   -> To establish trust among all its member countries, especially EMEs.
   -> Through rebalancing of the governance/management structure of the IMF.
(iv) Governance/Management

- **Reallocation of quota share (Agreed in Seoul):**
  Transfer of 6% quota share from AE to EMEs
- **Restructuring of Executive Board (Agreed in Seoul):**
  Transfer of 2 European Seats to EMES

*Not enough, Other measures?*
1. Reconfiguration of the composition of the board of directors:
   Cutting the number of European seats – a single Eurozone seat could be an option.
2. The G20 finance ministers meeting as a steering committee (?) for IMF governance.
Global Economic Governance and the Role of Asia

- Increased representation at the G20 by Asian nations not only gives a greater privilege, but also presents a great challenge.

- How should Asia respond?

1. Take Greater Responsibility in Global Economic Issues.

2. Increase Voice in International Financial Institutions.

Thank you
Reforming the international financial architecture

James Roaf, Assistant Director, Strategy Policy and Review Department, IMF
Regional “Think 20” Seminar, Lowy Institute, May 2013
Overview

1- IMF crisis response
   - Increased resources and lending toolkit reform
   - Policy development (capital flows, reserves, debt restructuring, macro-pru, spillovers, risk/vulnerability, rethinking macro etc)

2- Recent program experience
   - Precautionary programs boosted confidence
   - “Wave 1” (liquidity) programs broadly appropriate
   - “Wave 2” (solvency) programs faced greater challenges, adjustment underway

3- Challenges ahead
Few crisis episodes during 2000s

- Debt crisis
- Nikkei crash, ERM Crisis
- Asian crisis
- Global Financial crisis

Systemic Crisis Indicator

Number of countries affected
IMF crisis response

EMBI Spreads

Fed Swap lines

Lehman Collapse
Central bank swap lines to the rescue
IMF lending toolkit: revamped

Weaker policies  
Ex-post conditionality

Stronger policies  
Ex-ante conditionality

SBA/EFF  PLL  FCL
IMF crisis response

- Lehman Collapse
- Fed Swap lines
- G-20 IMF resource tripled
- Greece Program
- Spain Monitoring Agreed
- Cyprus Program
- Portugal Program
- Ireland Program
- Greece Program
- PLL
- RFI
- GIP CDS Spreads
- EMBI Spreads

Timeline:
- 2008
- 2009
- 2010
- 2011
- 2012
- 2013
Regional firewall architecture evolving

- **EU**: $1.1T
- **AMF**: $2.7B
- **FLAR**: $2.3B
- **CMIM**: $240B
Managing capital flow volatility

Gradual Buildups

Synchronized Stops

Capital inflow episodes (one per line)

Emerging
Advanced

ongoing
Key aspects of the paper

- Comprehensive, flexible, and balanced approach
  - Advice for both recipient and source countries
- How to safely reap benefits of capital flows while managing risks
  - Proposes a cautious and gradual approach to liberalization
- Defines CFMs and indicates circumstances where they could be useful
  - But not as a substitute for macro adjustment
2- Recent program experience
Fund programs during the crisis

Cumulative output drop

Size of IMF financing =100% quota

Wave 1 Programs
FCL/PLL Programs

Wave 2 Programs
Wave 1: progress in overall adjustment
(percent of potential GDP)
EA programs: growing imbalances under the euro

(percent of potential GDP)
EA programs: initial imbalances receding?
(percent of potential GDP)

Structural current account balance

Structural fiscal balance

EA programs: initial imbalances receding?
(percent of potential GDP)
EA programs: initial imbalances receding?
(percent of potential GDP)

Structural current account balance


Structural fiscal balance
3 - Challenges ahead

Global financial safety net
- Further reform to IMF lending toolkit? - or finetuning
- Are crisis prevention instruments working?
- Do we have the instruments/mandate for long term debt/competitiveness problems, or for currency unions?

Development of RFAs and relations with the IMF
- Unfinished agenda in Europe: banking union/fiscal union
- Elsewhere, growth of RFAs and operationalization
- More structured coordination with IMF, or current flexible approach?

Navigating the growth agenda
(programs in euro area, Caribbean, MENA; but also other AMs/EMs/LICs)
- Private sector debt overhang
- Fiscal adjustment
- Real exchange rate overvaluation
- Structural measures on the supply side
- Social/political support for reform
- EM growth drivers/decoupling
Urgent need for governance reform

Impact of recent reforms

Pre 2006 reform

Post 14th review

BRICs

Other EMDCs

Advanced Countries

0%
25%
50%
75%
100%
Thank you
3- Lessons learned and the way forward
Further reforms to the toolkit?

- Improve existing tools:
  - Adopt pre-qualification to improve FCL/PLL predictability
  - Eliminate access cap on PLL to reduce contagion risks
  - Link FCL/PLL to CB/RFA swap/credit lines to min stigma

- Introduce new tools:
  - No-money signaling programs to facilitate market access or link to RFA lending
  - Secondary market bond purchases (via dedicated SPV)
  - Target SDR allocations to boost reserves (via AA change)

- Develop relationship with RFAs, tailored to differing circumstances & needs
Challenges in Euro Area

1- Navigating the growth agenda
   - Private sector debt overhang
   - Fiscal adjustment
   - Real exchange rate overvaluation
   - Structural measures on the supply side

2- Reform of EMU architecture
   - Faster moves towards banking union
   - Use of ESM for direct bank recapitalization
   - Fiscal union

3- RFA-IMF co-ordination
   - Fine-tuning the current approach?
   - Or more structured co-ordination?
Growing trade linkages
Growing trade linkages

Countries resized by exports + imports
Growing financial linkages

Countries resized by external assets + liabilities
Improving contingent credit lines

- What’s right?
  - Low cost, long maturities, flexible use, tailored conditionality

- What’s wrong?
  - Residual stigma, limited automaticity/predictability
IMF’s Role in a Regionalizing World: A “Knowledge Fund”

Ye Yu, Shanghai Institutes for International Studies (SIIS)
Sydney, May 23, 2013
Main observations

- With the proliferation of regional financing arrangements (RFAs), IMF’s role in providing contingent financing is being dwarfed despite the recent capitalization by the G20.

- IMF is expected to follow the journey of the World Bank and evolve to be a global “knowledge fund”, which should be strengthened instead of weakened.

- Due to the criticism about IMF, informal rather than formal IMF-RFAs linkages could be better accepted so as to nurture a coherent global financial safety net.
Outline

- Regionalization at a different pace: trade, investment, development and finance
- IMF revived by crisis, but more proliferation of RFAs
- IMF is still indispensable: increasingly a “knowledge fund”
- Advantages and problems
Regionalizing at different paces

- **Trade and development: deepening regionalization**
  - Globalization (GATT) - regionalization (EU/NAFTA) - globalization (WTO) - re-regionalization (TTIP/TPP/RCEP)
  - World Bank - Regional MDBs - South-South MDBs (BRICS/SCO)

- **Investment: regionalizing too, but a different story**
  - Never globalized comprehensively
  - Bilateralism prevailed but losing momentum (3,164 IIAs by 2011)
  - Regionalization gets up (TTIP/TPP/RCEP/China-Japan-Korea Trilateral Investment Treaty)

- **Finance and monetary: regionalizing only recently**
  - Globalization (IMF) - regionalization (FLAR/CMIM/BRICS-CRA)
Reasons behind

1. Power diffusion at different paces: Trade is more decentralized and diversified, while monetary world is more monopolized.

2. Demand for regional monetary cooperation only arose after the collapse of the Bretton woods system in early 1970s.
IMF revived by crisis...(after 2010 reform)

- Quota-based:
  - doubled to SDR 476.8 billion ($772.9) (agreed Dec 2010, not effective as scheduled)

- Borrowing expanded
  - New Arrangements to Borrow (NAB) from members increased over tenfold to SDR 367.5 billion (about $560)(SDR 370.0, $554) (scaled back once the new quota resources available)

- 10 largest shareholders (after 2010 reform)
  - US 17.407%
  - Japan 6.464%
  - China 6.394%
  - Germany 5.586%
  - France 4.227%
  - GB 4.227%
  - Italy 3.161%
  - India 2.751%
  - Russia 2.706%
  - Brazil 2.316%
...but more proliferation of regional financing arrangements (RFAs)

- The Latin American Reserve Fund (FLAR) (1978)
- AMRO-CMIM (originated 2000, multilateralized Mar 2010, institutionalized Apr 2011)
- ESM (inaugurated Oct 2012)
- BRICS-CRA (launched 2013)
- US Exchange Stabilization Fund and other bilateral swaps in local currencies
- As the World Bank, IMF will probably be most relevant in Africa financially
Classic issues about IMF and RFAs relations

- CMI: formal linkage with IMF, but increasingly de-linked: 10% to 20% (2005), to 30% (2012), possibly to 40% (2014)
- ESM/FLAR: no formal linkage of IMF, but informal role important
  - ESM: “wherever appropriate and possible”
- BRICS-CRA: no formal linkage expected
Classic issues about IMF and RFAs relations

- IMF’s bad reputation in policy prescription
- Cohesion of different policy conditions between IMF-RFAs and loopholes of “global financial safety net”
From competition to cooperation, from distrust to mutual benefit

- Interplay relationship between WB and regional MDBs could be the model for IMF and RFAs (Ocampo, 2011)
  - Especially WB-AsDB relations is the example (Mason and Asher, 1973)
  - Personnel training and exchanges
  - Co-financing with generally coherent policy conditions
IMF is still indispensible...

- IMF’s advantages:
  - global presence and global knowledge
  - top expertise and experiences, including mistakes and lessons
  - neutral decision-making (Volz, 2011)

- RFAs’ advantages:
  - ownership and willingness
  - local knowledge (but staff very limited)
    - ESM-80 staffs
    - AMRO-11 staffs
    - FLAR-52 people
    - IMF-thousands
  - fast and flexible
Increasingly a “knowledge fund”

- IMF’s role at three levels:
  1. Monitoring and surveillance (knowledge and expert): need strengthening
  2. Providing emergency rescue (resources): declining
  3. Exchange rate coordination (politics): questionable

- IMF increasingly as a “knowledge fund”
to transform IMF-RFAs linkage: From formal to informal
  - “less is more”
  - Gradually evolving from competition to coherence
THANKS FOR YOUR ATTENTION AND ANY COMMENTS ARE WELCOME
Financial Regulatory Reforms After GFC: Analysis from Asian Perspectives

Jae Ha Park
Deputy Dean
Asian Development Bank Institute

Regional ‘Think 20’ Seminar
The G20 Leaders Process Five Years On: An Assessment From an Asian Perspectives

Lowy Institute for International Policy, Sydney
22-24 May 2013
Contents

• Causes and Lessons of Global Financial Crisis
• Financial Reform Process after GFC
  – G20 Regulatory Framework
  – Recent Progress and Emerging and Developing Economies (EMDEs) Perspectives
• Debate Over Financial Regulatory Reforms
• Asian Perspectives
  – Strength and Weakness of Asian Financial Systems
  – Challenge to Balance Financial Regulation with Development
  – Implications for Emerging Asian Economies
Causes of Global Financial Crisis

• Pre-crisis views: self-regulation, market discipline, and financial innovation

• Global financial crisis revealed flaws in financial regulation and supervision:
  – Inadequacy of macroprudential approach
  – Shadow banking, outside of regulatory perimeter
  – “Too-big-to-fail” problems
  – Insufficient capital adequacy and liquidity standards
  – Inadequate transparency on derivative products
  – Procyclicality
Lessons of Global Financial Crisis

- Market discipline failed to constrain excessive risk-taking behavior of financial institutions.
- Regulatory policies, including capital, liquidity, and disclosure requirements, failed to mitigate risk management weaknesses.
- Systemic importance of non-banks was recognized.
- Importance of relationships between banks and non-banks was underappreciated.
- Potential cost of innovation is high.
- Too much reliance on credit rating agencies.
- Compensation structures / asymmetric incentives.
- Corporate governance failure – ignorant and negligent boards.
Diverse Financial Reform Process after GFC

• FSB: Basel III compliance; raising capital requirement; getting more OTC derivatives centrally cleared on platforms; and improving the resolvability of SIFI’s, etc.

• The US, the EU and Japan: Work together on clearing platforms for OTC derivatives

• Switzerland: Focus on holding more capital than required and is dealing with resolvability in a unique way—a capital rebate if its banks can demonstrate resolvability.

• Canada, the U.S. and Switzerland (to be implemented next year): Leverage ratio, not based on risk weighted assets that runs alongside the Basel risk-weighted approach.

• The US Dodd-Frank bill: To ban proprietary trading and certain swap transactions must be separated and (by law) will not be bailed out in the event of a problem.
**G20 Regulatory Reform Framework**

**FSB, BIS & SSBs**
- Develop, coordinates, and monitors implementation of global financial regulations
  - SSBs: BCBS, IOSCO, IASB...

**IMF, WB, MDBs**
- Expand mandates & resources
- Analyze economic situation
- Support low capacity countries

**Global Forum, FATF, FSB**
- Develop peer review process & countermeasures for NCJs
- Develop capacity building program
Spectrum of the Reform Agenda

- Prudential Regulation:
  - Strengthen capital (minimum capital, quality and consistency), leverage and liquidity requirements
  - Counter-cyclicality: capital buffer & expected loss model for provisioning

- Systemic Risk:
  - Identify systemically important financial institutions (SIFIs) and reduce moral hazard posed by SIFIs

- Regulatory Scope:
  - Hedge fund registration
  - CCP clearing of OTC derivatives; CRA regulation/supervision

- Risk Mgmt & Compensation:
  - Improved internal risk management system
  - Risk-based compensation system, stronger disclosure & monitoring

- Accounting:
  - Single set of high quality global accounting standards

- Non-Cooperative Jurisdictions:
  - Measures to deal with tax havens, money laundering & terrorist financing
  - Peer review for non-cooperative jurisdictions (NCJs)
Financial Regulatory Reforms under G20

- G20 agreements reached so far:
  - Requirements for greater quantity and quality of capital
  - Liquidity requirements
  - Leverage ratio
  - Standards for OTC derivatives markets (by 2012)
  - Identification, surveillance, regulation and resolution of systemically important financial institutions (SIFIs), especially global ones (G-SIFIs)

- G20 issues expected to be finalized soon
  - Strengthened oversight of shadow banking
  - Compensation and credit rating agencies
  - Development of macroprudential frameworks and tools
  - Convergence to strengthened international accounting standards
  - Strengthened adherence to international supervisory and regulatory standards
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(I) BASEL III Implementation

Progress in Liquidity Regulation

- Short-term: Liquidity Coverage Ratio (LCR)
  
  \[
  \text{Stock of high quality liquid assets / total net cash outflows} > 100\%
  \]
  
  * Ratio to indicate whether a financial institution can stand first 30 calendar days of a crisis for the management or supervisors to take actions.

- Long-term: Net Stable Funding Ratio (NSFR)
  
  \[
  \text{Available Stable Funding / Stable funding required by supervisors} > 100\%
  \]
  
  * Fixed, long-term (1yr<) loans and investments must be backed up by long-term liabilities (1yr<)

EMDE Perspectives

- Expansion of the scope of high quality liquid assets, revised calculation for total net cash outflows, alternative to high quality liquid assets
  
  - EMDEs seem to focus on decreasing the burden of introducing the BASEL III regulation by expanding the scope of HQLAs and decreasing the III requirement. Korea already accumulated sufficient liquidity that satisfies the BASEL

- Meanwhile, as the introduction of BASEL III has been delayed in the US and EU (including UK), skepticism towards timely introduction of BASEL III is likely to spread in EMDEs as well.
  
  - Korea is well prepared to introduce the BASEL III from 2013 and the postponement will have minimal practical benefits.
(II) D-SIBs

Progress in D-SIBs

- The BCBS finalized a framework for dealing with domestic systemically important banks which was approved at the G20 Finance Ministers Meeting in November 2012.
  - Supervisory authorities of each nation assess the systemic importance of banks by considering their: 
    ① size 
    ② interconnectedness 
    ③ substitutability/financial institution infrastructure 
    ④ complexity
  - The D-SIB surcharge should be fully covered by Common Equity Tier 1 and the level of surcharge will be decided by national supervisory authorities according to the review of systemic importance.

EMDE Perspectives

- Prior to full introduction of D-SIB regulations by 2016, financial authorities of each nation need to conduct thorough case studies of other nations and analysis on the possible ramifications of the regulation to the domestic market.
  - Various opinions on the selection criteria and surcharge level should be considered by conducting pilot testing of selection and surcharges during 2013-2015.

- Introduction of D-SIB regulation can increase the internal reserves as banks will be required to have more capital due to the BASEL III minimum capital requirement (which will be introduced from 2013; Revision of the regulation on banking business supervision is now in progress).
  - The size of surcharge on banks subject to regulation can be predicted more accurately; This will also help banks to methodically respond to regulation in advance.
(III) Resolution Regime

Progress in SIFI Resolution

- ReSG and CBCM of FSB has been preparing guidance for implementation of Key Attributes that should be included in resolution plans.
  - The guidance includes ① nature of the stress scenarios and triggers for recovery actions,
    ② Development of resolution strategy and operational resolution plan, and ③ the identification of the critical functions that would need to be maintained.
- In Tokyo Plenary, FSB members discussed about the thematic peer review (now in process, will end by early 2013) that evaluates implementation of Key Attributes to monitor resolution regime of each jurisdiction and to upgrade the resolution regime to be more effective.

EMDE Perspectives

- In Korea, resolution authorities (FSC, FSS, KDIC) exercise most of the powers listed in the Key Attributes.
  - However, there is no legal ground yet for items such as Statutory Bail-in, Temporary Stay on Early Termination Rights and Acceleration Rights, so Korea will discuss whether to introduce such items with interested parties and legal experts.

- Most EMDEs do not own G-SIFIs, so they will have to co-operate as host states.
  - Co-operating with home authorities and financial institutions, EMDEs will participate as members of Crisis Management Group, sign Institution-specific Cross-border Cooperation Agreement, conduct Resolvability Assessment, come up with Recovery and Resolution Planning, and enable wider Access to Information and Information Sharing.
**Progress in Shadow Banking**

- FSB conducted Monitoring Exercise on Shadow Banking in 2011 and based on the findings, 5 Work Streams were formed to give recommendations for the areas that can bring about systemic risks.
  - (i) Banks’ interactions with shadow banking entities (indirect regulation) : BCBS / (ii) MMF : IOSCO /
    (iii) Other shadow banking entities : Separate WS / (iv) Securitisation: IOSCO / (v) Securities lending and repos: Separate WS

- Initial recommendations on supervision of shadow banking were announced at the G20 Finance Ministers Meeting in November 2011 and at Los Cabos Summit in June 2012, the G20 leaders reiterated their support to make the final policy measures by the next summit (Sep 2013)

**EMDE Perspectives**

- Generally speaking, countries agree on the need of regulation but will come up with specific regulatory measures that are suitable for their financial system and market by closely monitoring the progress of each Work Stream.

- In case of EMDEs, since their Shadow Banking markets (E.g: MMF, Securities lending & Repo) are not really active and mature compared to advanced countries, they have to consider the growth potential and virtuous functions such as provision of capital and transfer of credit risks.
  - EMDEs need to consider that imposing regulations such as Variable/Floating NAV and recourse to insurance can undermine the high liquidity and profitability of MMF
  - EMDEs should undergo thorough review before introducing relevant regulation for the Securities lending & Repo market since the RP market can complement the call market while the Securities lending market should be developed to foster Global IBs.
Progress in OTC derivatives

- In Cannes Summit, leaders agreed to implement recommendations for OTC Derivatives Market Reforms by the end of 2012 and this was reiterated in the Los Cabos Summit.
  - Encouraged the implementation of recommendations such as standardization of OTC derivatives, central clearing, reporting to the Trade Repository, trade via the Exchange or electronic trading platform etc. (Cannes); Urged to create standard for higher capital requirement imposed on non-centrally cleared OTC derivatives (Los Cabos)
- At 2012 G20 Finance Ministers Meeting in November, FSB ODWG (OTC Derivatives Working Group)’s fourth progress report on implementation was presented.
  - Countries were asked to make changes in their legal and regulatory framework and to address cross-border issues, regulatory mismatch and conflict by the end of 2012.
- In February 2013 G20 Finance Ministers and Central Bank Governors meeting, the G20 has reaffirmed its commitment to achieve OTC derivatives implementation goals and in April 2013 FSB published fifth progress report on implementation.

EMDE Perspectives

- EMDEs should continue to reform and find balance between the G20 mandate and practical difficulties in establishing infrastructures for OTC Derivatives such as CCP.
  - In Korea, TR function is already carried out by BOK’s FX network, FSC&FSS’s comprehensive information system for OTC derivatives; CCP is technically ready for use.
- In addition, there can be regulatory arbitrage if countries do not all complete the OTC Derivatives Market Reforms by the set due date (end of 2012).
  - Hence, countries must be committed to comply with the due date but at the same time closely monitor the implementation date of other countries and when necessary, consider the change of the date by coordinating with other countries.
(VI) Reducing Reliance on CRA Ratings

Progress in Reducing Reliance on CRA Ratings

- In 2011 G20 Seoul Summit, countries agreed on major principles to reduce mechanistic reliance on CRA ratings.
- In 2012 G20 Los Cabos Summit, countries agreed on additional reform measures to enhance transparency of and competition among credit rating agencies.
- In November 2012 G20 Finance Ministers Meeting, the roadmap for taking forward work to accelerate implementation of the FSB Principles was announced.

EMDE Perspectives

- Still at an initial stage in discussing about alternative approaches to reliance on CRA ratings; it is difficult to prevent the market from using the existing market infrastructure.
- Therefore, basic principle of reducing reliance on CRA Ratings must be kept but the specific dates and measures will have to be decided after considering the regulatory framework and market practice.
  - Considering the costs and human resources, establishment of internal credit rating infrastructure is rather difficult for small and medium sized financial institutions; Practical alternative approaches are necessary.
  - Needs to reflect unique characteristics (bank exposure, securitization exposure, special finance exposure etc.) of different investment assets.
(VII) FSB Governance Issues

Progress in Improving the FSB Governance Structure

- As different number of seats are given at the FSB depending on member countries, Korea felt that it may be difficult to reflect the views of countries in the fair manner, so Korea submitted recommendations to improve the FSB governance structure in early June and circulate these to the G20.

  - In case of the FSB Plenary, 3 seats are given to the G7 and BRICs, 2 seats for Korea, Australia, Mexico etc., and one seat each for Argentina, Indonesia, Turkey etc.
  - At Los Cabos Summit in June, G20 leaders agreed to continue to review the representation of the FSB governance.

- At 2012 G20 Finance Ministers Meeting in November, Korea called for the FSB to review and report about its representation that differentiate the seats according to member countries.

EMDE Perspectives

- FSB seats are allocated according to the size of the economy and financial market activities, but there is no specific guideline with legitimate ground, so the credibility and transparency of the representation of the FSB can be undermined.

  - EMDEs should come together to urge the FSB to improve its representation so that EMDEs can have stronger voices in discussions of global financial regulations.
Overall Progress and Issues

• Although many reform measures are proposed and discussed, they are not fully implemented yet almost 4 years after the global financial crisis.
• Among those proposed regulations, international consistency is critical factor for efficient implementation.
  – Without international consistency, issues will continue to arise about regulatory arbitrage and business migration from more to less controlled jurisdictions.
• Argument on the adequacy and appropriateness of the micro-prudential and macro-prudential regulations for ensuring systemic stability
  – Sufficient for ensuring systemic stability?
  – Too tight and overburdening for development of financial industry?
Debate over Financial Regulatory Reforms

• Conflicting views over reforming financial regulation
  – Need to further strengthen financial regulation to prevent financial crisis
  – Too tight and strong regulation would strangle financial industries and weak economic growth

• Should remember lessons of the GFC
  – Loose and soft-touch regulation has already failed, incurring huge cost to the global economy.
  – Financial regulation should be tight and strong enough to maintain financial stability

• In addition, repeated occurrence of scandals related to financial transactions in the recent years
  – (e.g.) Barclays’ attempt to manipulate LIBOR, J.P. Morgan’s huge loss from derivatives, HSBC’s money laundering, Standard Chartered’s breaching US rules
Debate over Financial Regulatory Reforms

• Should not believe pre-crisis views of self-regulation, market discipline, financial innovation, etc.

• Need to continue efforts to strengthen adequate financial regulation to limit malpractices and misbehavior in the financial industries
  – Should establish mechanism for limiting reckless behavior in the financial industries, ensuring a stable and growth-supporting financial system
  – Stable financial system and industry is critical for long-term, sustainable economic growth

• Are the current proposals for financial regulatory reforms too stringent to overkill the financial sector?
  ⇒ I don’t think so.
Asian Perspectives

Strength of Asian Financial Systems

- Asian financial systems were relatively unscathed from the GFC and the ongoing Eurozone crisis, reflecting sound balance sheets, prudent risk management, and modest exposure to toxic assets
- Asia already has sizable non-banking financial firms
- Large foreign exchange reserves provided a cushion against volatile capital flows in most cases
- Asian regulatory frameworks were more “conservative,” with less regulatory capture and less ideology about virtues of free financial markets
- Asian regulators already had some macroprudential policies (administrative guidance to limit bank-credit growth, real estate loan caps, etc)
Asian Perspectives

Weakness of Asian Financial Systems

• Asian financial systems still relatively bank-dominant, with smaller bond markets and modest role for securitization, derivative products, etc.
• Low degrees of regional financial integration in portfolio investment, still depends on London/NY
• Limited regulatory capacity to address procyclicality, exposure to activities of large global financial firms, growing non-bank financial activities, and rising financial complexity over time
• Vulnerable to volatile capital flows and “double mismatches”
Challenge to balance financial regulation with development

• Asian financial systems were resilient to the GFC and EZC, but this partly reflected immature financial systems that need to develop further to accommodate sustainable economic growth, while promoting financial stability
• Much of the G20 debate on financial regulation mainly reflects the viewpoints and problems of the US and Europe, not necessarily so relevant for emerging economies
• Developing Asian economies are promoting financial inclusion to support farmers, SMEs, etc.
• Asia's regulatory capacity can improve.
Implications for emerging Asian economies

• Need to avoid the “one size fits all” approach
  – Most Asian banks can meet more stringent capital, liquidity, and leverage requirements under Basel III
  – But regulations to address weaknesses in Western banks should not be applied to Asia, as complex derivatives products are less developed in the region and many Asian banks have large retail funding bases
  – Asian regulators need to review macro-prudential policy best practices

• Need to strengthen regulatory capacity
  – Data requirements for Basel III implementation may impose considerable burden on some economies

• Need for global and regional cooperation on global and regional SIFIs
Thank you
THE G20’S PERFORMANCE IN GLOBAL FINANCIAL REGULATION

Ross P Buckley
CIFR King & Wood Mallesons Professor of International Finance and Regulation,
University of New South Wales
Stiglitz’s “Principles for a New Financial Architecture”: Financial markets are not an end in themselves, but a means: they are supposed to perform certain vital functions which enable the real economy to be more productive:

(a) mobilizing savings,
(b) allocating capital, and
(c) managing risk, transferring it from those less able to bear it to those more able.

• It is hard to have a well-performing modern economy without a good financial system
A Paper in Three Parts

1. The G20 Response as a Conventional Response to a Conventional Crisis

2. The Profound Changes in Global Finance since 1970

3. The G20 Response as a Response to the Profound Changes in the Global Financial System
The G20 Conventional Response

- Revised Capital Adequacy Rules: Basle III
- Ending “Too-Big-To-Fail”
- Regulating the shadow banking system
- Reforming over-the-counter (OTC) derivatives
- Strengthening and converging accounting standards
- Building a common legal entity identifier (LEI)
- Reforming credit ratings (reliance & oversight)
- Enhancing compensation practices
The G20s Response – it is necessary and useful, controversial and insufficient
The 4 Big Changes in Past 40 Years

1. The Legalisation of Financial Gambling
2. The Globalization of the International Financial System
3. The Rise in Algorithmic and High Frequency Trading
4. The Change in Banks and Bankers
What the G20 Could Have Done To Address the Fundamental Changes

– Better reforms of Credit Ratings Agencies to Remove the Conflict of Interest
– Better Reforms of Banker Compensation as the EU is Doing
– Bank Levies
– Financial Transactions Tax
Credit Rating Agency Reforms

• End the conflict – adopt Senator Al Franken’s idea of having an independent tribunal allocate CRAs to ratings.

• Sometimes it does take a comic – remember in the courts of old, only the Fool could speak truth to the King
Better Reform of Banker Remuneration

• The G20 set the stage, at the urging of the Europeans
• In 2010 the EU required at least half of bonuses to be deferred and subject to claw-back
• Now the EU has limited bankers’ bonuses to a year’s salary, or two years salary if approved at least 66% of shareholders holding at least 50% of shares
Bank Levies

- France, Germany and the UK imposed levies on bank balance sheets in 2011
- Main justification for levies is the reduction in funding costs banks enjoy due to the implicit sovereign guarantee they now have post-Lehman Bros.
- Levies seen to make banking less profitable, shrink size of sector, make banks more risk-averse
Financial Transactions Tax

• Upon what do Warren Buffet, Bill Gates, Paul Krugman, Jeffrey Sachs, Joe Stiglitz, Adair Turner, and Barack Obama (before he became President) agree with Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain?

• The EU has voted for a FTT in 2018. Those 11 countries will implement a FTT much sooner, possibly in early 2014.

• The tax in Europe will apply to shares and bonds, and derivatives on shares and bonds. The proposed tax rates are 0.1 percent on shares and bonds, and 0.01 percent on the derivatives of shares and bonds.
Conclusion

• The G20 has done well. It could have done much better – although to expect a group of political leaders to think outside the square is a big ask indeed.
• What it has done and the much it is still to do, is useful and necessary.
• I doubt it will be sufficient to head off another crisis.
• I hope I am wrong.
REGIONAL THINK SEMINAR

SESSION 4: FINANCIAL REGULATION

FINANCIAL REGULATION AND THE G20: IS THERE A GAP IN THE GOVERNANCE STRUCTURE?

Mike Callaghan

Executive Summary

Strengthening financial regulation has been a major focus of the G20 since the crisis. There has been considerable progress, although it has not been smooth sailing. It is a highly complex industry and a great deal is being done very quickly. The focus is turning to implementation of the new standards. But the process needs to be re-energised.

To date, the G20 has largely endorsed the decisions coming from the FSB. What has been missing has been consideration of ‘higher-order’ issues, such as: whether the prioritisation of the standards has been appropriate; the type of changes in financial structures that are being sought; progress in meeting objectives, in particular the balance between achieving financial stability and facilitating economic growth; and whether there are unintended consequences. These are issues that justify significant consideration, however the agenda for G20 finance ministers and central bank governors meetings is already crowded.

The extension of financial standards to non-G20 members has also brought into question the legitimacy of the G20 and whether it is sufficiently representative.

To broaden, intensify and re-energise political involvement in international financial regulation, it is proposed that a Finance Ministers and Central Bank Governors Committee on Financial Regulation be established. Specific financial regulatory issues would be considered by this committee rather than the G20. The committee would consist of G20 ministers, central bank governors and heads of regulatory agencies along with the non-G20 members of the IMFC as well as Hong Kong. The committee would have a specific charter that would cover not only oversight of the development and implementation of standards but also their overall impact on financial stability and economic growth. It would receive reports from the FSB, IMF and other international organisations. This new committee would meet during the course of the spring and annual meetings of the IMF and replace the G20 finance ministers’ meeting that is usually held at that time. In addition to helping to clarify the relationship between the IMFC and G20, the establishment of the committee would free up time on the G20 finance ministers agenda.

The chairs of the new committee would regularly provide reports to G20 leaders.

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Introduction

Strengthening financial sector regulatory arrangements has been a major focus of the G20 since the crisis in 2008. It was at the core of the first leaders meeting in Washington DC in November 2008, and has retained a very prominent place in the communiques of leaders, finance ministers, and central bank governors at all their subsequent meetings. Progress in strengthening financial regulations is often cited as a success of the G20.

The G20 transformed the Financial Stability Forum (FSF) into the Financial Stability Board (FSB) at the London Summit in 2009, expanded its membership to cover all G20 members and has subsequently endorsed an expansion in the size of its secretariat. Since 2008 the FSB has launched a host of wide ranging regulatory reforms aimed at creating ‘a more disciplined and less pro-cyclical financial system that better supports balanced sustainable economic growth’.2

A striking aspect of this effort has been the close involvement of G20 leaders and ministers. Prior to the crisis, the details of financial regulatory standards were primarily left to ‘networks of independent regulators and private industry associations’.3

The Governor of the Reserve Bank of Australia, Glenn Stevens, has suggested that ‘absent some major new developments, which brings to light some major reform need not hitherto visible , to task the regulatory community and the financial industry with further whole-sale changes from here would risk over-load’4. Stevens view is that by 2014, the year that Australia takes the chair of the G20, the focus should squarely be on ‘careful and sustained efforts at implementation of the regulatory reforms’. Although he also noted that ‘there was always a pretty good chance that the compounding effects of multiple reforms would contain some unexpected and unintended consequences’.

While the focus should appropriately move to implementation, it is also an opportune time, some five years since the crisis, to reflect on what are the lessons from the intense effort to improve financial regulatory standards. There have inevitably been unintended consequences and questions raised as to whether the approach taken was the right one. Without questioning the overall thrust of the efforts to strengthen financial regulation, an issue that should be considered is whether the approaches that have been taken, particularly in regard to accountability, are ensuring optimum outcomes. A specific issue that needs to be considered is the relationship between the FSB and the G20.

The G20’s focus on financial regulation

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2 FSB. Report of the Financial Stability Board to G20 Leaders. 29 September 2009
3 Starvros Gadinis. The financial stability board; the new politics of international financial regulation. FSB New Politics. 10 February 2013.
Why did the G20 zero in with great detail on the issue of financial regulation? Prior to the crisis in 2008, financial regulation was an unlikely topic for a leaders’ summit, let alone be a prominent part of a leaders’ declaration with many pages devoted to such technical aspects as capital and liquidity requirements of banks, the clearing of OTC derivatives or the operations of shadow banks. This was traditionally the realm of financial regulators. As Stavros Gadinis noted, the financial system was thought to be best served by highly sophisticated technocrats protected from the distorting influence of politics.5

It is not surprising that the political response to a devastating financial crisis, which in part was the result of poor regulatory supervision, was a strong push to tighten regulatory standards.

While the G20 focused on strengthening international financial standards, the process began before the November 2008 G20 leaders meeting in Washington DC. At their meeting in October 2007, G7 finance ministers requested the FSF to prepare a road map for international regulatory reform. The FSF released a detailed set of recommendations in April 2008. These recommendations were the basis of the G20 push to strengthen financial regulations.

There were only three weeks between the announcement by President Bush in late October 2008 that he had invited G20 leaders to a meeting in Washington DC and the inaugural G20 Leaders Summit in November 2008. The expectations for the Washington G20 Summit were high and the US recognised that more needed to come from summit than good intentions. This was largely achieved. The communique from the Washington Summit conveyed a sense of urgency, with a focused action plan and precise language. This sense of action and precision was achieved by the G20 communique picking-up the detailed recommendations that were in the FSF report to G7 finance ministers.

Hence it served the G20 well to ‘adopt’ the FSF report at its inaugural summit and make it the feature of its communique. This meant, however, that G20 leaders were associated with the minutiae of financial regulation. But in the long-term, was this approach in the best interests of the G20?

Where are we up to in strengthening international financial standards?

The vast range of work on strengthening the financial regulatory standards is well documented by the FSB. It is, as David Wright from IOSCO commented, very process and timetable driven.6 The intensity of the work underway is summed up by a comment by Wright that one leading US agency claims there are 182 working groups of various types that they have to attend.

5 Stavros Gadinis. The financial stability board: the new politics of international financial regulation. FSB New politics February 2013
6 David Wright, Secretary General of IOSCO. Remarks to the Atlantic Council, Washington DC, 10 December 2012
As Glenn Stevens has pointed out, the emphasis should now be on ‘careful and sustained implementation’. David Lipton, First Managing Director at the IMF, has observed that there has been progress, with most G20 countries starting to implement the Basel 3 capital rules, but there is a long way to go. A particular worry is the delay in the implementation of Basel 3 in the EU and the US. There are also significant differences in banks’ calculations of the Basel 3 metrics. Less progress has been made on reforming the derivatives market, where national authorities have not met the deadlines to implement the reforms because of the many complexities involved. Some banks remain ‘too-big-to-fail’ and while work continues with respect to shadow banking, there remains little consensus on implementation. Lipton notes that ‘one area particularly troubling to many global stakeholders is the lack of movement towards a single set of global, high quality, principles-based financial reporting standards, which were formally called for by the G20’. Much still needs to be done in the area of financial and regulatory reform.

David Wright has acknowledged the progress that has been made by the FSB, but has identified a number of ‘problems’, including:

- Insufficient prioritization of the many subjects on the agenda;
- Few bodies representing the global community of regulators, with emerging countries under-represented in the global reform process;
- Too many global bodies scrapping for competence or competing in “beauty contests” for new regulatory subjects; 
- A domination of central banks and bank regulators in the key global policy committees (including the FSB) leading to the predominance of a policy culture of risk minimization, rather than risk optimization;
- Impact analysis of policies being carried out ex-post, with insufficient consideration of complexities; and
- Insufficient attention on the need to change behaviour, ethics and incentives in firms.

Wright refers to one expert’s assessment of the global reform process as a situation where ‘...enthusiasm is waning; cohesion weakening; political focus drifting; there is a need for re-energization...’

There will inevitably be tension between financial institutions and the regulators when it comes to efforts to strengthen regulatory standards. While generally recognising the need to improve standards, concern has been expressed by financial institutions over the extent of the new regulations, uncertainty over their detail and scope, along with concerns

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8 Ibid
whether implementation in the jurisdictions they operate in may be harsher than in other jurisdictions.

**How should we assess progress on financial regulation?**

As noted previously, a range of concerns have been raised regarding the effort to strengthen the regulation of the financial system following the crisis. It is not surprising that it has not been smooth sailing, because it is a highly complex industry. As Stevens notes, the reforms that seemed so’ simple and obvious, so bold and so sweeping in the immediate aftermath of the crisis in 2008’, have turned into be harder to implement than first expected. And furthermore, so much is being progressed at the same time.

Andrew Haldane from the Bank of England caused considerable controversy among the banking regulators, although support from many in the industry, with his claim that the regulatory response, particularly the Basel framework of model-based risk-weighting, is just too complex. Haldane argues that just because modern finance is complex, you do not have to have complex regulation. You do not fight complexity with complexity, because that generates uncertainty. According to Haldane, what is required is a regulatory response grounded in simplicity, not complexity. The Basel Committee of Banking Supervision has established a task force to examine possible simplifications to the regulatory standards.

It is to be expected that assessments on the progress of financial regulatory reform have focussed on whether countries are implementing the new standards and meeting the timetable that has been set. However, these are only a means to an end. The ultimate objective is to achieve a safe and stable financial system that intermediates funds between savers and investors and supports investment, trade, employment and overall economic growth. The quest is not only for a stable financial system, but also one that manages risk and supports innovation and generates growth.

It is perhaps not surprising that in the immediate aftermath of a major financial crisis, and an international effort to avoid future crises, there was not an articulated vision of the type of future financial system that was being envisaged. The objective for financial sector reform outlined in the various G20 leaders’ communiques has been at a very high level.

In order to assess progress towards establishing a safe and efficient financial system, some guidelines as to type or structure of the system being sought is required in order to serve as a bench mark. The focus should not solely be on whether the new regulatory standards are being implemented. There has to be some basis to determine whether the standards are having their desired effect in restructuring the financial system.

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9 Ibid
In the October 2012 Global Financial Stability Report (GFSR), the IMF provided an interim report on progress toward a safer financial system. In doing so, they first outlined what such a system should look like. Some of the desirable features of such a system include one where:

- there less complexity and more transparency, where regulatory authorities and investors understood the location of risks and the way institutions were interconnected;
- institutions were less dependent on leverage and thus less prone to boom and bust cycles;
- institutions had higher and better-quality capital and liquidity buffers to absorb shocks and losses;
- institutions were discouraged from taking advantage of an implicit government guarantee and encouraged properly price all risks;
- similar prudential standards were applied to similar risks to avoid regulatory arbitrage; and,
- systemically important financial institutions could be resolved in an effective and timely way.

The overall assessment by the IMF was that despite improvements along some dimensions in some countries, the structure of intermediation remains largely unchanged. Financial systems are still overly complex, banking assets are concentrated with strong domestic inter-bank linkages, and the too-important-to-fail issues remain unresolved. Moreover innovative producers were already being developed to circumvent some new regulation. This assessment has to be qualified with the fact that many of the new standards have still not been implemented.

The GFSR also noted that the positive aspects of recent financial developments should not be lost. For example, while efforts are underway to bring shadow banking into the regulatory net, it needed to be recognised that non-traditional banking and intermediation can benefit market depth and broaden access to finance. In addition, diversifying financial intermediation beyond the traditional form of deposit taking and lending can expand credit and diversify risks. However the risks still needed to be understood, transparent and appropriately priced.

The IMF also pointed out that while some financial structures may be associated with both safety and efficiency, policymakers may also face a trade-off between the safety of financial systems and economic growth. The GFSR posed a fundamental question that has not received much attention in the effort to strengthen financial regulation since the crisis, and that is whether the structural changes occurring in the financial system are not only making it safer but are doing so in a way that is promoting better economic outcomes.
Conclusions about the relationships between differing financial structures and economic outcomes are to date tentative and generally inconclusive. But this is an important area that must be explored, since the structure of financial intermediation is changing and it is important to assess how these changes are impacting economic outcomes. As the IMF notes, if these changes in financial structures are associated with lower growth or increases in economic volatility, there may be a role for government policies to ‘tweak’ the changes in structures to promote better outcomes.

While no financial system can ensure the best outcomes in all circumstances, the IMF’s work has focused on important issues that need to be assessed in considering the overall objectives of the efforts to strengthen financial regulation, and issues that have perhaps not received sufficient attention.

Another important ‘structural’ issue is whether countries should be concerned about the overall size of the financial sector and how this fit within the efforts to strengthen financial regulation. The experience of Ireland, Iceland and Cyprus clearly demonstrate the problems that can occur when a financial sector which is many multiples the size of the economy gets into trouble. However Stephen Cecchetti from the BIS points out that the evidence suggests that a growing share of financial system in the economy actually slows overall economic growth. In a similar vein, Cecchetti notes that financial globalisation might also only be beneficial up to a point, and the world may have passed that point.

So in addition to focusing on the timelines for the implementation of the new regulatory standards, there are a range of much wider issues regarding the structure of the financial sector and its impact on both stability and economic growth that need to be assessed.

In terms of assessing the impact of financial regulation, as opposed to its implementation, the November 2012 meeting of G 20 finance ministers and central bank governors requested international organisations to provide a report on the factors affecting long-term investment finance, including its availability. The reports were submitted to the February 2013 Meeting of G20 finance ministers and central bank governors, and included input from the FSB on the impact of financial regulatory reforms. The overall conclusion from the FSB was that there was little tangible evidence to suggest that global financial regulatory reforms have significantly contributed to current long-term financing concerns. However implementation was at an early stage and the impact of the reforms needed to be monitored on an ongoing basis. The report did state that ‘the regulatory community is vigilant to avoid material unintended consequences and to analyse potential impacts prior to finalisation of the reforms’.

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12 FSB, *financial regulatory factors affecting the availability of long-term investment finance.* Report to G20 finance ministers and central bank governors. 8 February 2013
While it is important that the regulators undertake such assessments, there is the question whether they are best placed to consider the overall impact of the reforms, and in particular the trade-off, as described in the GFSR, between the safety of financial systems and economic growth. In particular, some specific questions include:

- Are the regulators too focused on achieving financial stability at ‘any cost’?
- Have the regulators become too process and timetable driven, will they give appropriate attention to assessing whether there are unintended consequences with the reforms?
- To whom is the FSB accountable in terms of ensuring that it is appropriately prioritising its activities and assessing the overall impact of the new standards, both in achieving the desired outcomes and avoiding unintended consequences?

**Has the G20 got the right relationship with the FSB?**

In terms of questions regarding the accountability of the FSB, the obvious answer may be that the FSB is accountable to the G20. The FSB is a creation of the G20 and the FSB provides a progress report before every G20 finance ministers or leaders meeting.\(^{13}\) And as noted previously, the communiqué from the meetings of leaders and finance ministers and central bank governors cover in significant degree detail the FSB’s work program. Moreover the new financial reforms are often attributed as originating from the G20.

One positive from the close association between the G20 leaders meetings and the FSB’s activities is that it has given high level political momentum to the task of agreeing on new financial standards.

The membership of the FSB is slightly broader than the G20, in that it includes the non-G20 economies of Switzerland, Hong Kong and Singapore. The concern has been expressed from countries that are non-members of the FSB that they are expected to apply financial standards when they are not a member of the body setting them. The FSB’s response has been to establish six regional consultative groups.\(^{14}\) Nevertheless, concerns over the legitimacy of the FSB in attempting to set standards for non-members have impacted on the standing of the G20.

The membership structure of the FSB raises questions whether the G20 is the appropriate political forum for overseeing international efforts at strengthening financial regulation, but there is also the question whether the G20 has in fact been providing the necessary oversight of the FSB’s activities. Accountability is a two way process. The FSB provides

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\(^{13}\) The FSB charter says that ‘the FSB will discharge its accountability, beyond its members, through publication of reports and, in particular, through periodical reporting of progress in its work to the Finance ministers and Central Bank Governors of the Group of twenty, and to Heads of State and Governments of the Group of Twenty’.

\(^{14}\) FSB regional consultative groups cover; Americas, Asia, Commonwealth of Independent States, Europe, Middle east and North Africa, Sub –Saharan Africa
reports to the G20, but has the G20 been appropriately responding to those reports? As noted previously, there are many issues that need to be considered beyond the detail of the new regulatory standards and the timetable for their implementation. Rather than just repeating the detail of the FSB and the Standard Setting Bodies (SSBs) activities in the G20 communiques, G20 Ministers and Governors should have been focusing on the ‘higher order’ questions such as: the appropriate prioritisation of the new standards; the changes in financial regulatory structures that are being sought by the reforms; progress in meeting the objectives, in particular the balance between financial stability and promoting economic growth; and whether there are unintended consequences. While these are issues that should be considered by the FSB and the SSBs, other players have a very important contribution to make, particularly the IMF.

There is also the question of time. The agenda for G20 finance ministers and central bank governors has been crowded. There is very limited time at G20 meetings for ministers and governors to focus on the issue of financial regulation. It is also not an issue that will attract the attention of leaders.

Proposal: a new ministerial body overseeing international financial regulation.

One option to improve the involvement of ministers and central bank governors in international financial regulation would be to establish a dedicated ministerial committee – the Finance Ministers and Central Bank Governors Committee on Financial Regulation. This committee would have a charter outlining its responsibilities, which would examine not only progress by the FSB and the SSBs in the development and implementation of financial standards and regulation of financial systems, but also the progress in achieving the objectives of achieving stable and efficient financial systems that promote economic growth. The charter of the FSB would be amended to allow the FSB to provide progress reports to this new ministerial committee. In addition, the committee would request regular assessments from the IMF, and possibly other international organisations such as the OECD and the World Bank, on the economic implications of the changes to financial regulation.

The membership of this committee would consist of G20 finance ministers, central bank governors, and/or head of regulatory authorities. To enhance the legitimacy of the FSB’s activities, this committee could include not only G20 finance ministers and governors, but also those from non-G20 members of the IMF’s International Monetary and Financial Committee (IMFC). In essence, it would be a combined G20 and IMFC meeting but specifically focused on the issue of financial regulation. The committee could be jointly chaired by the chairs of the FSB and IMFC. The secretariat to the committee would be the FSB secretariat and the IMF staff. Under such an arrangement, Hong Kong would be the only FSB member not represented and could be invited to participate.

15 The members on the IMFC change depending on constituency arrangements. Currently the non-g20 members on the IMFC are Singapore, UAE, Sweden, Netherlands, Algeria, Gabon and Switzerland.
To avoid adding to the meeting burden of ministers and governors, this new committee could meet at the time of the spring and annual meetings of the IMF. The meeting could replace the FSB finance and ministerial meeting that is usually held before the IMFC meetings. There is currently a significant element of duplication in having a G20 finance ministers meeting immediately before an IMFC meeting. All the members of this new committee should attend the IMF/FSB ‘early warning’ presentations that are part of the IMFC meetings. This approach would help clarify the relationship between the G20 finance ministers’ process and the IMFC. In addition, with this committee focusing on financial regulatory issues, it would free up time at the G20 meetings to focus more on broader economic policy issues.

The joint chairs of the Finance Ministers and Central Bank Governors Committee on Financial Regulation would provide progress reports to G20 leaders.

**Conclusion**

There is a governance gap in the current structure of international efforts to strengthen financial regulation. Specifically, the accountability arrangements for the FSB. The membership structure of the FSB raises questions whether the G20 is the appropriate political forum for overseeing international financial regulation, but there is also a question whether the G20 has in fact been providing the necessary oversight. There are many issues that need to be considered beyond the detail of the new regulatory standards and the timetable for their implementation. Ministers and governors should be asking ‘higher order’ questions, including whether the new standards are achieving the right balance between financial stability and promoting growth.

A new *Finance Ministers and Central Bank Governors Committee on Financial Regulation*, which combined members of the G20 and the IMFC, and was serviced by the FSB secretariat and the IMF, would broaden, intensify and re-energise the political involvement in international financial regulation. This would be the main ministerial level committee dealing with international financial regulation. Such a committee would help clarify the relationship between the FSB and the IMFC. And if the committee met at the time of IMFC meetings and replaced the G20 finance ministers meeting that normally takes place at that time, it would reduce duplication between the G20 and IMFC and free-up the agenda of the G20 finance ministers’ process to consider other matters.
FINANCIAL REGULATION AND THE G20
IS THERE A GAP IN THE GOVERNANCE STRUCTURE?

MIKE CALLAGHAN
LOWY INSTITUTE
QUESTIONS

• How do we assess progress?

• Is the FSB-G20 relationship right?

• Is there a gap in governance/accountability structure?
G20 FOCUS ON FINANCIAL REGULATION

• Prior to crisis, unlikely topic for Leaders summit
• Was a political response to a financial crisis

• Washington G20 summit adopted FSF report.

• G20 leaders now associated with detail of FSB
WHERE ARE WE UP TO?

- Process and timetable driven
- Basel 3 – long-way to go
- Less progress on reforming derivative markets
- Some banks remain ‘too-big-to fail’
- Insufficient prioritization
- Impact analysis carried out ex-post
- Insufficient prioritization of agenda
- Insufficient attention on need to change behaviour.
How should we assess progress?

• Objective-stable and efficient financial system
• But how will it look?
  - Less complex
  - More transparent
  - Higher and better quality capital
  - Risk properly priced
  - Similar prudential standards for similar risks
  - Efficient, deep, broad access to finance
NAVIGATING BY SIGHT
- Blanchard

• No agreed vision what future financial system should look like.

• Unsure about right role of securitization, right scope for derivatives, role of market versus banks, role of shadow banking.

• Uncertainty and disagreement about effects of capital ratios on funding costs.
PREVENTING NEXT CRISIS: GONE FAR ENOUGH?

• Response to date micro-regulation.
• Deeper solutions?
  - Very large capital requirements
  - Reduce instability of debt markets
  - Move to a much simpler, smaller financial system
  - Substantial taxes on parts of system
IMPACT ON GROWTH?

• Are the structural changes resulting in not only a safer system but also one that promotes better economic outcomes?
• How to assess the trade-off between safety of the financial system and economic growth.
• Need to avoid ‘material unintended consequences’
QUESTIONS

• Is the focus on achieving financial stability at ‘any cost’?
• Has the process been too process and timetable driven?
• Is the prioritization of the reforms appropriate?
• Who assesses unintended consequences?
• Is there a gap in the governance structure?
NEW MINISTERIAL BODY

- G20 FM/ Governors/ regulatory heads PLUS non-G20 members of IMFC (and HK).
- Jointly chaired by chairs FSB and IMFC.
- Examine progress in development and implementation of standards and promoting growth
- Secretariat- FSB and IMF staff
- Meet at IMF Spring and Annual meetings and replace G20 FM meeting.
- Joint chairs send report to G20 leaders.
ADVANTAGES

• Financial system is important, deserves more dedicated ministerial oversight.
• Ministers and Governors can assess ‘higher order’ issues, such as getting the balance right.
• Involvement of IMFC addresses legitimacy concerns over FSB.
• More effective use of G20 FM time.
Trade Liberalization for Global Growth: Agenda for WTO and G20

Yong WANG
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a presentation for Regional ‘Think 20’ Seminar ‘The G20 Leaders’ Process Five Years On: An Assessment From an Asian Perspective’

22-24 May 2013 Lowy Institute for International Policy
31 Bligh Street, Sydney
The role of WTO in fighting protectionism: Does WTO still matter?

- The answer is Yes. WTO rules and agreements cap the extent and amount of possible protection measures:
  - Still yardstick to judge trade measures on one’s own or other members
  - “Teeth” of Dispute Settlement Mechanism with authority of granting retaliation
  - Trade policy review process
Challenges to WTO: declining political will of major trading powers

- WTO’s nature characterized by:
  - member-driving
  - reciprocity of negotiation, give and take
  - Involvement of much more members with more diversified economy and development stage
  - more complicated bargaining process
The biggest challenge to WTO lies in the declining political will of major trading powers, to compare Doha Round with Uruguay Round, the US in particular:

- The impact of the global financial crisis, and rising protectionism
- Weak coordination among the advanced economy members (US-EU-Japan)
- Low expectation of business community about Doha Round deal and reduced lobbying pressure on governments, to compare with the Uraquay Round (chambers of commerce)
- Developed members increasingly skeptical about the benefits of existing WTO rules
Developing countries as a whole came to the Doha Round with increasing skepticism of the benefits of trade liberalization, driven by:

- the slow pace of implementing phase-out liberalization of textile agreement by developed countries
- Concerns about TRIPS tightened protection of IPR and its impact on public health and the cost of IPRs
- Concerns about the weak will of developed countries to reduce the level of subsity to agriculture
As a result, while the Doha Round is stalemated, major economies pursue PTAs (bilateral and regional FTAs or EPAs), to name some of them:

- Bilateral FTAs: Korea-US, Korea-EU, Korea-India and currently China-Korea FTA, China-Japan FTA(?)
Regional FTAs: Trans-Pacific Partnership (TPP), Regional Comprehensive Economic Partnership (RCEP, 10+6), China-Japan-Korea FTA and TTIP (EU-US FTA) and more...
Driving forces behind PTAs:

- Global value chain, and economic integration
- Competitive liberalization, pressure from trade liberalization of other economies
- Competition over the 21st century trading rules: TPP+TTIP will probably usher a new set of rules
Political and security considerations, to serve grand strategy (TPP as part of US Pivot to Asia or rebalancing strategy), help solve the issue of “security dilemma”, partly caused by the rise of China.
Trade Agenda for G20 in Next Five Years: How to revitalize WTO and multilateralism?

- Considering the value of WTO and the nature of its working mechanism, it is important to move forward creatively, mainly:
  - Build a consensus on saving the reputation of WTO as platform of multilateralism
  - Strike a Doha Round deal based on the agreements most countries agree to
In the same time, open doors to negotiation for possible Plurilateral Agreements within the WTO, for example, Information Technology Agreement (ITA), International Services Agreement (ISA), Government Procurement Agreement (GPA) and others, based on higher standard and greater demand by trading nations.
Regulate PTAs, to ensure its discriminatory effects on non-members minimized.
Study the globalized economy and its influence on trade patterns, and carry forward Public Education to disseminate the objective and accurate information on trade:

- **Global value chain-based trade statistics**
- **Depoliticization of trade issues in national politics, based on outdated trade data**
Strengthen the WTO rules-based peer review process on trade measures, with further assistance of WTO and other international economic institutions
Thank you
International trade: What can the G20 do?

Conference version

Mark Thirlwell

Trade and the G20

As the world’s premier international economic forum, the G20 should have a keen interested in the maintenance of a robust multilateral trading system. Yet while the initial leaders’ summits did make strong and clear references to the importance of open markets, and of completing the long-running Doha Round of multilateral trade negotiations, subsequent meetings have seen trade slide down the agenda as well as a decline in the intensity of the G20’s pledge to refrain from protectionism. Even more worryingly, the multilateral trading system itself appears to be losing relevance in the current economic environment.

Both trends are problematic since international trade, with its critical contributions to supporting global growth and employment, has an important role to play in assuring the health of the global economy. Just as the Framework for Strong, Sustainable and Balanced Growth (the ‘Framework’) and its commitment to delivering growth and jobs for the global economy should be at the core of the G20, so should international trade be at the core of the Framework. G20 leaders need to re-emphasise this central role of global trade and use their political influence to help restore the health of the multilateral trading system.

The G20’s two key trade commitments

The onset of the global financial crisis (GFC) also represented a major shock to global trade. Between the start of the crisis in 2008 and stabilization towards the end of 2009, the world economy experienced the steepest decline in international trade on record, with a pace of contraction that even exceeded that experienced during a comparable period of the Great Depression in the 1930s.

Given the scale of this shock, it was natural to fear that policymakers might be tempted to succumb to protectionism, and hence repeat some of the mistakes of the 1930s.

Mindful of these risks, when G20 leaders had their first summit in Washington in November 2008, as well as listing the reforms they wanted to see applied to the global financial system and to international economic governance, those leaders also went on to state (clause 12):

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1 On the importance of the Framework, see Mike Callaghan, Strengthening the core of the G20: Clearer objectives, better communication, greater transparency and accountability. Analysis. Sydney, Lowy Institute for International Policy, 10 April 2013.

We recognize that these reforms will only be successful if grounded in a commitment to free market principles, including the rule of law, respect for private property, open trade and investment, competitive markets, and efficient, effectively regulated financial systems. [Emphasis added] \(^3\)

They then made two specific commitments designed to back up their general recognition of the importance of open markets.

First, they pledged to refrain from protectionism:

'We underscore the critical importance of rejecting protectionism and not turning inward in times of financial uncertainty. In this regard, within the next 12 months, we will refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing World Trade Organization (WTO) inconsistent measures to stimulate exports.' \(^4\)

Note, however, that their initial pledge came with no monitoring mechanism, and with no sanctioning mechanism in case of its violation. \(^5\)

Second, leaders also promised to strive to complete the Doha Round:

'. . . we shall strive to reach agreement this year on modalities that leads to a successful conclusion to the WTO’s Doha Development Agenda with an ambitious and balanced outcome. We instruct our Trade Ministers to achieve this objective and stand ready to assist directly, as necessary. We also agree that our countries have the largest stake in the global trading system and therefore each must make the positive contributions necessary to achieve such an outcome.' \(^6\)

While leaders have subsequently discussed other trade-related topics including the availability of trade finance, food security, and fossil fuel subsidies, it is these two key commitments on rejecting protectionism and on completing Doha that have been at the core of the G20’s approach to trade to date.

The standstill on protectionism

Since that first announcement in Washington, the G20 has continued to renew its pledge to refrain from protectionism. Thus at the April 2009 London Summit, leaders extended the standstill until the end of the following year:

'. . . we reaffirm the commitment made in Washington: to refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing World Trade Organisation (WTO) inconsistent measures to stimulate exports. In addition we will rectify promptly any such measures. We extend this pledge to the end of 2010;\(^7\)

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\(^3\) G20, Declaration of the summit on financial markets and the world economy. Washington DC 15 November 2008.

\(^4\) Ibid.


\(^6\) G20, Declaration of the summit on financial markets and the world economy.

Importantly, in addition to re-affirming the standstill, this time around leaders also asked the WTO, along with other relevant international bodies, to monitor and report on G20 countries’ adherence to their promises (although they still chose to refrain from suggesting any sanctions should the pledge be violated – in other words, the commitment made was left as a non-binding promise):

‘. . . we call on the WTO, together with other international bodies, within their respective mandates, to monitor and report publicly on our adherence to these undertakings on a quarterly basis.’  

The first of these reports on G20 trade and investment measures was produced jointly by the OECD, WTO and UNCTAD and published on 14 September 2009 in the run up to the Pittsburgh Summit held later that month. To date, there have been eight of these reports, with the most recent published in October 2012.9

At the Toronto Summit in June 2010, leaders congratulated themselves:

‘We have successfully maintained our strong commitment to resist protectionism.’ 10

And went on to extend the standstill for a further three years:

‘. . . we renew for a further three years, until the end of 2013, our commitment to refrain from raising barriers or imposing new barriers to investment or trade in goods and services, imposing new export restrictions or implementing World Trade Organization (WTO)-inconsistent measures to stimulate exports, and commit to rectify such measures as they arise. We will minimize any negative impact on trade and investment of our domestic policy actions, including fiscal policy and action to support the financial sector.’ 11

The 2013 deadline was confirmed again at the Seoul and Cannes summits, along with the mandate for continued reporting on G20 countries’ compliance with these promises:

‘We therefore reaffirm the extension of our standstill commitments until the end of 2013 as agreed in Toronto, commit to rollback any new protectionist measures that may have risen, including export restrictions and WTO-inconsistent measures to stimulate exports, and ask the WTO, OECD, and UNCTAD to continue monitoring the situation and to report publicly on a semi-annual basis.’ 12

And similarly at Cannes:

‘We reaffirm our standstill commitments until the end of 2013, as agreed in Toronto, commit to roll back any new protectionist measure that may have risen, including new export restrictions and WTO-

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8 Ibid.
11 Ibid.
inconsistent measures to stimulate exports and ask the WTO, OECD and UNCTAD to continue monitoring the situation and to report publicly on a semi-annual basis.\textsuperscript{13}

At the June 2012 Los Cabos Summit in Mexico, leaders agreed to extend by a further year their pledge to refrain from putting up new trade barriers:

‘We are deeply concerned about rising instances of protectionism around the world. Following up our commitment made in Cannes, we reaffirm our standstill commitment until the end of 2014 with regard to measures affecting trade and investment, and our pledge to roll back any new protectionist measure that may have arisen, including new export restrictions and WTO inconsistent measures to stimulate exports. We also undertake to notify in a timely manner trade and investment restrictive measures.'\textsuperscript{14}

Reaching this agreement was not without controversy, however. Reportedly Argentina, Brazil and South Africa all resisted extending the standstill beyond its scheduled expiry at end 2013, even as other countries had sought to push the expiration date out to 2015.\textsuperscript{15}

**Assessing the G20’s standstill on protectionism**

Despite these repeated G20 pledges to refrain from protectionism, a comment common to many of the monitoring reports commissioned by leaders to assess their promises is that most G20 governments have in fact put in place measures which have either restricted trade or which have the potential to do so (Table 1).

<table>
<thead>
<tr>
<th>Table 1: Trade restrictive measures imposed by G20 economies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total number of measures</strong></td>
</tr>
<tr>
<td>First Report (Apr’09-Aug ‘09)</td>
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<tr>
<td>Second Report (Sep’09-Feb’10)</td>
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<tr>
<td>Third Report (Mar’10-May’10)</td>
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<tr>
<td>Fourth Report (May’10-Oct’10)</td>
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<tr>
<td>Fifth Report (Oct’10-Apr’11)</td>
</tr>
<tr>
<td>Sixth Report (May’11-Oct’11)</td>
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<tr>
<td>Seventh Report (Oct’11-May’12)</td>
</tr>
<tr>
<td>Eighth Report (May’12-Oct’12)</td>
</tr>
</tbody>
</table>

Source: Table 1 in OECD, WTO and UNCTAD, *Reports on G20 trade and investment measures (Mid-May to Mid-October 2012).* (2012).

That said, the first joint report, covering the period from the conclusion of the London Summit April 2009 through to August 2009, did provide a generally positive assessment of G20 countries’ adherence to their pledges. It judged that, despite some evidence of ‘policy slippage’ and ‘sand in the gears of international trade’:

‘During the period under review, we have not observed widespread resort to trade or investment restrictions as a reaction to the global financial and economic crisis. We welcome the G20

\textsuperscript{13} G20, *Cannes Summit Final Declaration: Building our common future: Renewed collective action for the benefit of all.* Cannes 4 November 2011.

\textsuperscript{14} G20, *G20 Leaders Declaration Los Cabos.* Los Cabos 19 June 2012.

\textsuperscript{15} Krista Hughes, G20 extends free trade vow despite split. *Reuters*, 20 June 2012.
governments’ commitment to maintaining open trade and investment regimes and their ability to withstand domestic protectionist pressures.’

The second and subsequent report confirmed this restraint, noting that:

‘Although some G20 members continued to implement new trade restrictive policies, in apparent contradiction to their pledges at London and Pittsburgh, the overall extent of these restrictions has been limited and an escalation of protectionism has continued to be avoided. There have been fewer instances than in earlier periods of G20 members taking potentially trade restrictive measures, and more cases of trade opening measures and of the termination of investigations into “unfair” trade practices without the imposition of new trade remedy measures.’

In the period following Pittsburgh, the global recovery was showing greater signs of recovery, and the third joint report was again able to note that ‘G20 governments have largely resisted pressures to erect trade and investment restrictions.’ Once again, the report noted a decline in the number of new measures and in their coverage of trade relative to previous reports. However, in a new and important theme, it also emphasized ‘a growing risk of an accumulation of trade restricting measures implemented since the outbreak of the crisis. This risk is compounded by a relatively slow pace of removal of previously adopted measures.’

According to the fourth joint report from the WTO, OECD and UNCTAD, ‘[b]y and large, since the Toronto Summit, G20 governments have continued to resist protectionist pressures.’ However, the report also warned of ‘signs of intensifying protectionist pressures . . . driven by persistent high levels of unemployment in many G20 countries, macroeconomic imbalances between them, and tensions over foreign exchange rates.’ It also echoed the warnings of the previous report, citing ‘the danger of the steady accumulation over time of measures that restrict or distort trade and investment.’ The fifth reporting exercise suggested that these warnings had been prescient.

‘Over the past six months most G20 governments have put in place more new trade restrictive measures than in previous periods since the crisis. Their restraint to resist protectionism appears to be under increasing pressure. The commitment to roll back export restrictions has not been followed; in fact, new export restrictions are on an increasing trend.’

19 Ibid.
The report worried that these trends were ‘feeding fears that post-crisis protectionism may be gaining momentum.’ A notable trend highlighted by the report was export restrictions imposed mainly on food products and some minerals.

Late in 2011, the sixth monitoring report retailed a similar message, noting that ‘weak growth in some G20 members and continuing macroeconomic imbalances globally are testing the political resolve of many governments to resist trade protectionism.’ In particular, the trend towards the imposition of export restrictions on some food products and minerals, highlighted by the previous report, had continued, despite being inconsistent with the G20 standstill pledge. The removal of past restrictions also remained relatively slow. As a result, the cumulative share of world trade affected by the new restrictions since the GFC had risen to more than two per cent.

By the time of the seventh joint report, published before the Los Cabos meetings, the message was little changed. According to the report:

‘Weak recovery of the global economy and persistent high levels of unemployment are continuing to test the political resolve of G-20 governments to resist trade protectionism. The past seven months have not witnessed any slowdown in the imposition of new trade restrictions. And there is no indication that efforts have been stepped up to remove existing restrictions, particularly those introduced since the start of the global crisis . . . The accumulation of trade restrictions is a matter of concern, which is aggravated by the relatively slow pace of rollback of existing measures. This situation is clearly adding to the downside risks to the global economy.’

This seventh report also noted a change in the nature of the trade restrictions now being imposed:

‘The more recent wave of trade restrictions seems no longer to be aimed at combatting the temporary effects of the global crisis, but rather at trying to stimulate recovery through national industrial planning, which is an altogether longer-term affair. In addition to trade restrictions, many of these plans envisage the granting of tax concessions and the use of government subsidies, as well as domestic preferences in government procurement and local content requirements.’

Once again, the steady accumulation of trade restrictions was cited as a concern.

The eighth (and to date latest) report on trade restrictions covered the period between Mid-May and Mid-October 2012. It contained both good and bad news:

‘There has been a slowdown in the imposition of new trade restrictive measures by G-20 economies over the past five months. Nevertheless, the new measures are adding to the stock of restrictions put in place since the outbreak of the global crisis, most of which remain in effect.’

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23 Ibid.


25 Ibid.

26 Ibid.
It also noted a reversal of the past trend of increases in export restrictions, but overall went on to conclude:

‘Many of the trade restrictions introduced since the start of the global crisis are still in place. According to information provided to the WTO Secretariat by G-20 delegations, only 21% of the recorded measures (put in place since October 2008) were removed by mid-October 2012 . . . Import restrictive measures implemented by G-20 economies over the past four years (since October 2008), excluding those that were reported as removed, account for around 3.5% of total world merchandise imports or the equivalent of 4.4% of G-20 imports.’

An assessment of the standstill based solely on the G20’s own commissioned assessment of its protectionism standstill would therefore be a mixed one.

On the one hand, it is quite clear that G20 members did not fully honour their commitments. Indeed, the initial pledge had been broken within about thirty-six hours, after which Russia announced that it would hike tariffs on car imports. Moscow’s actions were quickly followed by an increase in Indian steel tariffs and later by the EU reintroducing export subsidies—moves which seemed to leave the pledge ‘in tatters’. Indeed, on one count, in the years following the declaration of the standstill, on average a G20 member broke the pledge every four days, a factoid which did little for G20 credibility. At the same time, there has been a steady increase in the cumulative share of world trade covered by import restrictive measures imposed by G20 economies, to cover more than three per cent of world imports and more than four per cent of G20 imports (Table 2):

<table>
<thead>
<tr>
<th>Report date</th>
<th>Share in G20 imports</th>
<th>Share in world imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct’08-Oct’09</td>
<td>1.0</td>
<td>0.8</td>
</tr>
<tr>
<td>Nov’09-May’10</td>
<td>0.5</td>
<td>0.4</td>
</tr>
<tr>
<td>May’10-Oct’10</td>
<td>0.3</td>
<td>0.2</td>
</tr>
<tr>
<td>Oct’10-Apr’11</td>
<td>0.6</td>
<td>0.5</td>
</tr>
<tr>
<td>May’11-Oct’11</td>
<td>0.6</td>
<td>0.5</td>
</tr>
<tr>
<td>Oct’11-May’12</td>
<td>1.1</td>
<td>0.9</td>
</tr>
<tr>
<td>May’12-Oct’12</td>
<td>0.4</td>
<td>0.3</td>
</tr>
<tr>
<td>Cumulative total Oct’09-Oct’12</td>
<td>4.4</td>
<td>3.5</td>
</tr>
</tbody>
</table>

Source: Table 2 in OECD, WTO and UNCTAD, Reports on G20 trade and investment measures (Mid-May to Mid-October 2012). (2012).

Yet, on the other hand, it’s certainly not all been bad news. Taken together, the series of joint OECD-WTO-UNCTAD reports suggest no widespread retreat to protectionism but, to the contrary, indicate only a fairly modest shift to restrictions on trade. Given the scale of the collapse in trade,

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28 Ibid.
30 Evenett, The role of the WTO during systemic economic crises.
the lack of recourse to protectionist measures is quite striking.\textsuperscript{31} This finding is supported by empirical work looking at the use of tariffs and trade defence (antidumping) measures taken by about 100 countries over the 2008-2009 period, which finds no evidence of any widespread resort to protectionism, but instead estimates that increases in tariffs and antidumping duties explained less than two per cent of the collapse in world trade during the crisis period.\textsuperscript{32} Indeed, in the second and third years after the onset of the crisis, the pursuit of trade liberalising measures meant that tariffs were more frequently lowered than hiked.\textsuperscript{33}

Unfortunately, however, other trade policy assessments tend to be somewhat less sanguine. As well as the official joint OECD-WTO-UNCTAD reports on protectionism, there have also been a series of independent assessments of trends in trade policy conducted by the Global Trade Alert (GTA), a body coordinated by a UK-based think-tank, the Centre for Economic Policy Research.\textsuperscript{34} At the time of writing, GTA had produced eleven reports on protectionism, with the most recent released in June 2012.\textsuperscript{35} That June 2012 GTA report argued that the statements made around the time of the Los Cabos Summit concerning the risks associated with rising protectionism were merited by the GTA’s data, noting:

‘There has been a steady stream of protectionist measures introduced since the last G20 summit – at least 110 measures have been implemented, 89 of which were imposed by G20 members.’\textsuperscript{36}

Worryingly, it continued:

‘This report demonstrates that the amount of protectionism in 2010 and 2011 was considerably higher than previously thought. An additional 226 protectionist measures were found in those two years, representing a 36% increase on the number of beggar-thy-neighbour policies implemented during 2010 and 2011 . . . What is more, the evidence presented in this report casts doubts on the strength of international restraints on the resort to protectionism by governments, in particular by G20 governments.’\textsuperscript{37}

With regard to that final point, the GTA report emphasized two supporting facts. First, that the share of G20 countries in global protectionist measures had risen from 60 per cent in 2009 to 79 per cent in 2012, a result that it felt ‘cast the repeated G20 commitments to eschew protectionism in a particularly bad light’ and which it reckoned called into question the strength of genuine commitment to an open trading system. Second, the report emphasised that governments had tended to circumvent WTO rules by resorting to policies ‘subject to less demanding or no binding multilateral trade rules’. Since many of these policies were non-transparent, the GTA described this as ‘murky protectionism.’\textsuperscript{38} In other words, the GTA report suggested WTO rules and the G20

\textsuperscript{31} Hoekman, Trade policy: So far, so good?
\textsuperscript{34} Information about GTA as well as copies of their reports and access to the associated data is available from http://www.globaltradealert.org/.
\textsuperscript{36} Ibid.
\textsuperscript{37} Ibid.
\textsuperscript{38} Ibid.
pledge may have worked more to alter the composition rather than the overall quantum of protectionism.

According to the GTA, G20 countries were responsible for roughly two-thirds of all protectionist measures taken since the first G20 summit in November 2008, and 69 per cent of all measures still in force. Indeed, the proportion of worldwide totals of protectionist measures accounted for by G20 governments has risen every year since 2009. Moreover, looking at the GTA’s rankings of the top ten offenders by country on various indicators of protection, ‘it is striking how often G20 members are mentioned.’ (Table 3).

Table 3

<table>
<thead>
<tr>
<th>Rank</th>
<th>Metric, Country in specified rank, Number</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Ranked by number of (almost certainly) discriminatory measures imposed</td>
</tr>
<tr>
<td>1</td>
<td>EU27 (302)</td>
</tr>
<tr>
<td>2</td>
<td>Russian Federation (169)</td>
</tr>
<tr>
<td>3</td>
<td>Argentina (141)</td>
</tr>
<tr>
<td>4</td>
<td>India (74)</td>
</tr>
<tr>
<td>5</td>
<td>UK (67)</td>
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<tr>
<td>6</td>
<td>Germany (64)</td>
</tr>
<tr>
<td>7</td>
<td>France (61)</td>
</tr>
<tr>
<td>8</td>
<td>China (60)</td>
</tr>
<tr>
<td>9</td>
<td>Italy (56)</td>
</tr>
<tr>
<td>10</td>
<td>Brazil (54)</td>
</tr>
</tbody>
</table>

Note: There is no single metric to evaluate harm. Different policy measures affect different numbers of products, economic sectors, and trading partners. GTA reports four measures of harm.

Source: Table 1.1 in Evenett, *Debacle: The 11th GTA report on protectionism*. (2012)

Based on these GTA assessments, the most common forms of discriminatory intervention taken since the onset of the crisis have tended to be either selective subsidies or subsidies with discriminatory strings attached. The relatively non-transparent nature of this policy response has

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40 Evenett, *Debacle: The 11th GTA report on protectionism*.
41 Evenett and Vines, Crisis-era protectionism and the multilateral governance of trade: an assessment.
made it harder to track than tariff changes and anti-dumping actions, and estimates suggest that the more transparent trade policy instruments governed by tougher WTO rules (tariffs, trade defence instruments) have represented less than half of the measures taken in any given calendar year during the crisis. One study based on the trade discriminatory measures from the GTA database found that trade flows affected by such restrictions fell by between five per cent and eight per cent relative to trade flows of the same products among partners not affected by the same restrictive measures. The same study also found that exports of poorer economies tended to suffer the most from these restrictions, although the bailout and stimulus packages put in place by high-income economies probably hurt developing country exports less than the border measures imposed by developing countries themselves.\(^{42}\)

On balance, then, the evidence on the effectiveness of the G20’s repeated commitments to limit protectionism can be described as mixed at best. It still seems likely that there was at least some restraining effect on the use of tariffs and trade defence measures.\(^{43}\) Some supporting evidence for this proposition is provided by the likelihood that if this were not the case then those economies that balked at the renewal of the standstill pledge at Los Cabos would not have felt any need to object. Despite this, however, G20 members have been quite prepared to find alternative, less transparent approaches to protectionism as a way of avoiding their commitments, and at other times have been prepared to simply ignore them.

In addition, there have been other unfortunate trends on display. For example, some observers have noted that the text relating to protectionism in G20 summit communiqués has shown signs both of being weakened over time and of being given less prominence.\(^{44}\) So, by the Pittsburgh Summit, for example, references to trade policy had been demoted to the end of the leader’s declaration, and the previous commitment to eschew protectionism had been replaced with a weaker one to ‘fight’ it. This relative de-emphasis of trade has led one pair of observers to conclude that any ‘strong views of the deterrent value of G20 commitments are hard to square with a body that has given less and less attention to open markets over time.’\(^{45}\)

**The commitment to conclude Doha**

Along with the G20’s pledge to impose a standstill on protectionism, the other big trade commitment made repeatedly at G20 summits was an undertaking to complete the Doha Round of trade negotiations. At the inaugural leaders’ summit in November 2008, leaders promised that:

‘. . . we shall strive to reach agreement this year on modalities that leads to a successful conclusion to the WTO’s Doha Development Agenda with an ambitious and balanced outcome. We instruct our Trade Ministers to achieve this objective and stand ready to assist directly, as necessary. We also


\(^{43}\) Although, as discussed below, much of this restraint may simply have reflected the new political economy of trade protection.

\(^{44}\) Evenett and Vines, *Crisis-era protectionism and the multilateral governance of trade: an assessment.*

agree that our countries have the largest stake in the global trading system and therefore each must make the positive contributions necessary to achieve such an outcome.\textsuperscript{46}

A pledge they repeated at the London summit:

‘We remain committed to reaching an ambitious and balanced conclusion to the Doha Development Round, which is urgently needed. This could boost the global economy by at least $150 billion per annum. To achieve this we are committed to building on the progress already made, including with regard to modalities.’\textsuperscript{47}

By Pittsburgh, however, the target had slipped to a completion date for Doha in 2010:

‘We are committed to bringing the Doha Round to a successful conclusion in 2010.’\textsuperscript{48}

And by Toronto that had shifted in turn to the softer promise of delivering a conclusion ‘as soon as possible’:

‘We therefore reiterate our support for bringing the WTO Doha Development Round to a balanced and ambitious conclusion as soon as possible, consistent with its mandate and based on the progress already made. We direct our representatives, using all negotiating avenues, to pursue this objective, and to report on progress at our next meeting in Seoul, where we will discuss the status of the negotiations and the way forward.’\textsuperscript{49}

By the time of Seoul, the 2010 deadline had well and truly evaporated and been replaced with the much weaker hope that 2011 would offer an important window of opportunity:

‘. . . our strong commitment to direct our negotiators to engage in across-the-board negotiations to promptly bring the Doha Development Round to a successful, ambitious, comprehensive, and balanced conclusion consistent with the mandate of the Doha Development Round and built on the progress already achieved. We recognize that 2011 is a critical window of opportunity, albeit narrow, and that engagement among our representatives must intensify and expand. We now need to complete the end game. Once such an outcome is reached, we commit to seek ratification, where necessary, in our respective systems. We are also committed to resisting all forms of protectionist measures.’\textsuperscript{50}

By this point, external observers had become extremely critical of these repeated – and apparently increasingly empty – calls from the G20 to conclude the Doha Round: the ‘G20 trade charade’ was how one described it.\textsuperscript{51} As a result, by the time of the Cannes summit, a degree of depressing realism had appeared in the communiqué, which eschewed a target date for concluding the round altogether:

‘We stand by the Doha Development Agenda (DDA) mandate. However, it is clear that we will not complete the DDA if we continue to conduct negotiations as we have in the past. We recognize the

\textsuperscript{46} G20, Declaration of the summit on financial markets and the world economy .
\textsuperscript{47} G20, London Summit: Leaders’ Statement .
\textsuperscript{49} G20, The G20 Toronto Summit Declaration .
\textsuperscript{51} Jean-Pierre Lehman, The G20 trade charade: Why business must end it. Lausanne, IMD, November 2010.
progress achieved so far. To contribute to confidence, we need to pursue in 2012 fresh, credible approaches to furthering negotiations, including the issues of concern for Least Developed Countries and, where they can bear fruit, the remaining elements of the DDA mandate. We direct our Ministers to work on such approaches at the upcoming Ministerial meeting in Geneva and also to engage into discussions on challenges and opportunities to the multilateral trading system in a globalised economy and to report back by the Mexico Summit.\textsuperscript{52}

Finally, at the Los Cabos Summit, leaders were effectively contemplating the harvest of what they could salvage from Doha – a sort of mini-Doha – based around those few areas where agreement might be possible, such as trade facilitation and special treatment for the least developed countries (LDCs):

‘In line with the Cannes Communiqué, we stand by the Doha Development Agenda mandate and reaffirm our commitment to pursue fresh, credible approaches to furthering trade negotiations across the board. We will continue to work towards concluding the Doha Round negotiations, including outcomes in specific areas where progress is possible, such as trade facilitation, and other issues of concern for least developed countries.’\textsuperscript{53}

By this stage, then, the urgency expressed for a conclusion of the Doha Round at the Washington and London Summits had long disappeared, along with pretty much any serious external belief that G20 leaders were going to be able to deliver on their, increasingly weak, commitments.

\textbf{Assessing the G20’s commitments on Doha}

So, while there is at least some scope for disagreement over the relative effectiveness of the G20’s efforts on the protectionism standstill, no such comforting ambiguity is available when it comes to an assessment of the group’s attempts to provide leadership with regards to the Doha Round. Leaders have self-evidently failed to move the round to a conclusion, and done so publically and repeatedly in a way that has been damaging for the G20’s overall credibility.\textsuperscript{54} Even the more modest plans to use the eighth WTO Ministerial meeting of December 2011 to ‘harvest’ some limited agreements from the negotiations held up to that point – duty-free, quota-free access for LDCs and trade facilitation – ended in dismal failure.\textsuperscript{55}

Ernesto Zedillo, the former President of Mexico, summarised this sorry state of affairs rather well back in April 2011:

‘Undeniably, the Doha Round has been one of the standard subjects at the G20 gatherings. Leaders have produced grandiloquent statements about the importance of finishing it and have even issued deadlines for such a conclusion, but any serious effort to bridge the gaps that have precluded that outcome has been absent from the summits’ proceedings. The G20’s tone at the top, as far as the

\textsuperscript{52} G20, Cannes Summit Final Declaration: Building our common future: Renewed collective action for the benefit of all .
\textsuperscript{53} G20, G20 Leaders Declaration Los Cabos .
\textsuperscript{54} Mike Callaghan and Mark Thirlwell, Challenges facing the G20 in 2013. G20 Monitor G20 Studies Centre, Lowy Institute for International Policy, December 2012.
Doha Round is concerned, can be characterised as disappointing if not outright deceptive, given leaders’ failure to deliver.⁵⁶

Assessing the health of the multilateral system: four key challenges

The G20’s mixed success with the standstill and the group’s abject failure (at least to date) to offer the leadership required to bring the Doha Round to a conclusion are symptoms of a broader malaise afflicting the multilateral trading system and the WTO. There are at least four widely acknowledged issues:⁵⁷

First, and most obviously, there is the ongoing failure to complete the Doha Round. Doha now spans four failed WTO ministerials (five if the failure to launch a Round in Seattle is included).⁵⁸ Perhaps the last chance of getting anything approaching a ‘complete’ Doha package came and went with the Seoul Summit of G20 leaders in November 2010 and its recognition that 2011 represented a ‘critical window of opportunity.’ That window was allowed to close and since then, subsequent proposals to ‘top up’ the Doha offers in order to achieve a bigger package, or proposals to put together mini-packages based around trade facilitation and special treatment for LDCs have likewise failed to gain traction.⁵⁹ This ongoing failure to complete Doha involves significant costs that go beyond the (realistically quite modest) foregone gains from trade liberalisation that a successful round would have brought to include the damage to the credibility of the WTO and of the G20, and the lost trade security and certainty that would have been offered by locking in tariff rates and other trade disciplines under Doha.⁶⁰

Second, and closely related, is the growing sense that the WTO’s focus on Doha has meant that it has failed to grapple with other, potentially more important issues facing the global trading system. For example, Mattoo and Subramanian have argued that the WTO’s Doha Agenda ‘is an aberration because it does not reflect one of the biggest – indeed tectonic – shifts in the international economic and trading system: the rise of China.’⁶¹ A longer and fairly common list of trade policy issues that the WTO and the multilateral system should currently be dealing with would include: the trade policy implications of national and international efforts to reduce carbon emissions; resource (including food) security, including the role of export restrictions; the role and treatment of State

⁵⁷ See for example the following piece by one of the two shortlisted candidates for the post of Director-General of the WTO: Herminio Blanco, Guest post: the status quo is not an option for the WTO. beyondbrics blog, Financial Times, 3 May 2013.
Owned Enterprises (SOEs); and issues around exchange rate policy including the use of deliberately undervalued exchange rates.62

Third, there is a widely understood need for trade policy to come to grips with the implications of global supply chains (or global value chains) and the so-called ‘Made in the World’ phenomenon. It seems increasingly clear that global supply chains have changed the political economy of protectionism, by making some economies ‘so interconnected and integrated that trade policy is no longer a very useful tool to assist domestic industries, even in the face of a massive external demand shock.’63 In a world where imports involve a large share of inputs that are critical to the competitiveness of a country’s export industries, then ‘[s]utting off imports in this situation was not a way to save jobs; it was a way to destroy jobs.’64 In this environment, an increasing number of observers have argued that traditional understandings of trade policy are now obsolete.65 The same changes also imply the need for an updating of the WTO, which ‘has not kept up with the need for new rules governing the intertwining of trade, investment, intellectual property, and services’, and which therefore requires an upgrade to what has been described as a ‘WTO 2.0’.66

Fourth, the failure to deliver on Doha, combined with the failure to meet the appetite for new and deeper forms of international economic integration, has encouraged member economies to swap the multilateral system for preferential (bilateral, regional and now mega-regional) trade arrangements (PTAs). By 2010, there were almost 300 PTAs in force, with the average WTO member a party to 13 PTAs. Intra-PTA trade had risen to about 35 per cent of world merchandise trade by 2008, up from 18 per cent in 1990.67 While it is true that, despite the marked increase in the number of PTAs in recent years, around 84 per cent of world merchandise trade still takes place on an MFN basis (70 per cent if intra-EU trade is included), it is also the case that PTAs are increasingly becoming the vehicle through which countries pursue the kind of ‘deep integration’ that is relevant for much modern trade. The shift to PTAs risks reducing the relevance of the multilateral system to the governance of global trade and undermining the MFN principle. These risks are likely to become even greater if the mooted mega-regional deals such as the Trans-Pacific Partnership (TPP) in Asia and the EU-United States Transatlantic Trade and Investment Partnership (TTIP) reach successful conclusions.

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63 Hoekman, Trade policy: So far, so good?

64 Baldwin and Evenett, Beggar-thy-neighbour policies during the crisis era: causes, constraints and lessons for maintaining open borders.


66 Richard Baldwin, WTO 2.0: Thinking ahead on global trade governance. VoxEU.org, 22 December 2012. See also Bernard Hoekman and Selina Jackson, Reinvigorating the trade policy agenda: Think supply chain!, VoxEU.org, 23 January 2013.

Five things that the G20 could do

Taking into account both the limitations of the G20’s past engagement with international trade and the nature of the challenges currently facing the multilateral trading system, there are at least five things that G20 leaders could do to bolster the international trading environment.

First, leaders should place international trade where it belongs, at the heart of the Framework and of the G20’s commitment to deliver economic growth and employment. In doing so, they should reverse the demonstrated drift of trade policy issues down the G20’s agenda and send a clear signal about the important contribution trade and the trading system will be expected to make. They should acknowledge forcefully that in the absence of a robust international trading system and the growth in world trade that this supports, it would become that much harder to fulfil the G20’s core mandate of delivering strong, sustainable and balanced growth.

Second, when the current standstill agreement on protectionism expires at the end of 2014, leaders should not only extend the agreement for at least another two years, but they should also seek to upgrade and refine it, in order to take into account both the post-crisis shift to new, WTO-consistent measures of protection and the need to unwind the restrictions on trade imposed since the start of the GFC. In order to support this commitment, leaders should also commit to ensure that the WTO secretariat is supplied with the enhanced resources required to pursue the independent surveillance needed to monitor compliance with this commitment. While it is true that past experience with the standstill agreement has demonstrated the limitations of surveillance in keeping protectionist impulses in check, there are still important benefits from both the transparency and the (limited) accountability that this process delivers. In addition, enhanced WTO surveillance of state measures in this way could also provide helpful support to the WTO’s broader policy agenda.

Third, the time has come for leaders to help save the WTO from the Doha Round. Ideally, that should involve harvesting what can be saved from the negotiations so far. For example, Hufbauer and Schott have identified five parts of the existing Doha Agenda which they argue offer the possibility of delivering significant benefits to WTO members at relatively little cost or pain: trade facilitation; duty-free, quota-free access for LDCs; the phase-out of farm export subsidies; reforms to the WTO’s dispute settlements system; and new disciplines on food export controls. Leaders should use their political weight to push seriously for the conclusion of a mini-Doha agreement along these lines, and then allow the WTO to move on to other matters.

If, however, leaders conclude instead that there is no realistic possibility of reaching even a modest agreement along these lines (and bear in mind that previous attempts to follow this approach already failed in 2011 when the developed economies were unhappy at the lack of reciprocity on offer from the major emerging markets), then they should declare Doha dead and urge the WTO to

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69 Baldwin and Evenett, Beggar-thy-neighbour policies during the crisis era: causes, constraints and lessons for maintaining open borders.


71 Hufbauer and Schott, Will the World Trade Organisation enjoy a bright future?
find a new way forward on trade negotiations. Such a decision would of course be highly controversial, not least since leaders will not want to be seen to have the blood of the Doha Round on their hands. But in the absence of such a resolution, the continued failure to complete Doha will serve only to erode the credibility of both the WTO and of the G20 itself. If leaders conclude that Doha really is beyond saving, they should now put it out of its misery. This approach would also have the benefit of presenting leaders with a clear choice: to help save Doha or to kill it.

Fourth, independently of any progress on Doha, leaders should also use their political weight to encourage the WTO to devote more time to a trade policy agenda fit for the twenty-first century. As discussed above, there are a range of issues that would fall into this category, including food and resources security and the use of export restrictions, the treatment of SOEs, the role of exchange rate policy and the intersection of climate change and trade policies. The importance of services trade, and of global supply chains, should offer particular scope for WTO-led initiatives that go beyond Doha. A ‘whole of the supply chain’ approach that spanned a range of sectors including transport and distribution services, border protection and management, product health and safety, foreign investment and the movement of business people and service providers promising an approach that could simulate trade and growth while also increasing the relevance of the WTO for business.

Two other, connected issues are also deserving of particular attention in this regard. The first of these is the relationship between the multilateral trading system and the proliferation of PTAs, including the looming mega-regionals like the TPP and TTIP. There have been a range of suggestions for further work in this area, ranging from proposals for standstills on new PTAs and action on tightening up and effectively enforcing Article XXIV on regional agreements in the GATT (and the corresponding Article V in the GATS) through to measures aimed at improving the design and transparency of PTAs and on to proposals to multilateralise agreements on investment, e-commerce or transparency from existing PTA agreements on an MFN basis and on providing ‘docking’ mechanisms for PTAs. However, the reason that these policies are necessary is that there is a demand for the kind of ‘deep integration’ offered by these agreements which is currently not being met by the WTO. This brings us to the second point, which is the need to look for ways in which the WTO might offer a compelling alternative. The most likely approach here is to revisit the idea of ‘variable geometry’, based in large part around the opportunities provided by plurilateral agreements. There are a range of issues here that need guidance from the key players in

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73 As proposed by Hoekman and Jackson, Reinvigorating the trade policy agenda: Think supply chain!

74 In fact, the Transparency Mechanism for Regional Trade Agreements – established on a provisional basis in December 2006 – has been the only result of the Doha negotiations that has been allowed to go forward independently of the results of the rest of the Round. World Trade Organization (WTO), World Trade Report 2011. The WTO and preferential trade agreements: From co-existence to coherence.

75 Mattoo and Subramanian, China and the world trading system; Hoekman, The WTO and the Doha Round: Walking on two legs; Susan C Schwab, After Doha: Why the negotiations are doomed and what we should do about it. Foreign Affairs 90 (3) 2011; Weekes, What next for the WTO: Challenges for the WTO’s eighth ministerial conference; World Trade Organization (WTO), World Trade Report 2011. The WTO and preferential trade agreements: From co-existence to coherence.

76 See Annex 1 for background on the terminology.
international trade before they can be ironed out, with one critical one being whether plurilateral agreements of this kind would still be subject to the MFN principle, or whether the agreements would only apply to signatories.\textsuperscript{77}

Fifth, and finally, leaders should build on the recognition they made at Cannes and then again at Los Cabos on the need to strengthen the WTO. At Cannes, they declared:

‘Furthermore, as a contribution to a more effective, rules-based trading system, we support a strengthening of the WTO, which should play a more active role in improving transparency on trade relations and policies and enhancing the functioning of the dispute settlement mechanism.’\textsuperscript{78}

And similarly at Los Cabos they noted:

‘We support strengthening the WTO through improving the way it conducts its regular business, and its dispute settlement system. We also direct our representatives to further discussions on challenges and opportunities for the multilateral trading system in a globalized economy.’\textsuperscript{79}

Much as leaders in the past have used their political capital to urge reform of the IMF and World Bank, they should now do the same for the WTO. While leaders would need to be careful not to be seen as inappropriately usurping a member-controlled organisation, the fact that the G20 includes most of the key players in global trade means that a coordinated G20 opinion on reform would carry significant weight. Areas for potential reform include the WTO’s practice of consensus, the ‘Single Undertaking’ in multilateral negotiations, the role of MFN, the operation of the Disputes Settlement Mechanism, and the conduct and scope of WTO surveillance.\textsuperscript{80} The problems facing WTO reform are not a shortage of ideas – there’s a large body of work already available – but rather an absence of political will to give impetus to reform.\textsuperscript{81} This in particular is where the G20 should have a comparative advantage.

\textsuperscript{77} Hufbauer and Schott argue that while such plurilateral agreements should take place inside the WTO, they should not be subject to unconditional MFN in order to avoid free riders ‘the size of Brazil, India or China’, and instead have conditional MFN ‘to maintain the logic of reciprocity as the price of taking on new obligations.’ Hufbauer and Schott, Will the World Trade Organisation enjoy a bright future? For a view on the costs associated with moving away from MFN in this way, see Philippa Dee, What can the G20 do about the WTO? In East Asia Forum, 24 February 2013: http://www.eastasiaforum.org/2013/02/24/what-can-the-g20-do-about-the-wto/.

\textsuperscript{78} G20, Cannes Summit Final Declaration: Building our common future: Renewed collective action for the benefit of all.

\textsuperscript{79} G20, G20 Leaders Declaration Los Cabos.


Annex 1: The ‘Single Undertaking’ and the case for variable geometry

The Single Undertaking was adopted as part of the Uruguay Round, and means that all WTO members must agree on all of the elements of a trade round in order to conclude negotiations. In other words, ‘nothing is agreed until everything is agreed’. Unfortunately, with the kind of deep disagreements that have marked the Doha Round negotiations, there is a growing view that the Single Undertaking has become a recipe for paralysis at the WTO. It is also frequently cited as one explanation for the surge in PTAs – bilateral, regional and most recently mega-regional agreements: countries that want to pursue the kind of deep economic integration that is not palatable to all of the WTO membership choose to go outside the WTO and the multilateral system. That decision involves a number of costs, including diminishing the relevance of the WTO in terms of setting the rules of the game for global trade.

One alternative to the Single Undertaking approach would be to return something that looks more like the kind of trade agreements that marked the pre-Uruguay Round era, by allowing subsets of countries to construct agreements that would apply only to them. This approach is sometimes known as variable geometry because of the wide range of country groupings that could potentially emerge. The attraction of this approach is that it would allow countries that had more ambitious trade agendas to forge ahead on selected issues while at the same time allowing those with reservations (or a desire to preserve ‘policy space’) to stand aside. And it would keep the process of writing these new rules within the WTO. Australia, through its participation in discussions on the proposed Trade in Services Agreement (TISA) along with 21 other WTO members is already exploring the plurilateral route for services trade reform.

Keeping trade agreements within the WTO in this way would have several benefits. For participants, it would allow them access to the WTO’s Dispute Settlement processes, and to the technical support offered by the WTO Secretariat. For non-participants, the chances of future entry into the agreement are likely to be higher (and more standardised) than in the case of a PTA. And for the system as a whole, it would allow the WTO to remain central to the setting of global rules, rather than being relegated to a back seat as the action takes place inside PTAs.

A shift (back) to variable geometry would require the approval (by consensus) of the WTO membership. Would it be forthcoming? Some members might well be sceptical: after all, one reason that developing countries were willing to accept the Single Undertaking in the first place was because in the previous model, non-participants had no say in shaping the rules that were developed by a subset of the GATT membership, despite the fact that many of these rules subsequently ended up applying to all members. It is this potential constraint that has persuaded

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83 Although it seems quite unlikely that the Single Undertaking is the main reason for the failure of the Doha Round. Certainly, there are plenty of other potential culprits. See for example ibid.
85 Philip Levy, *Alternatives to consenus at the WTO*. VoxEU.org, 19 June 2010
86 Hufbauer and Schott, *Will the World Trade Organisation enjoy a bright future?*
87 Since this will imply a bigger call on WTO resources, it may also require signatories to these agreements to agree to provide additional contributions to the WTO in order to cover the additional costs involved.
some analysts to suggest a grand bargain: link a harvest from the Doha Agenda to the WTO membership giving their approval to the future negotiation of (enumerated) plurilateral agreements.  

A second, important constraint facing variable geometry is the challenge posed by free riders, in the sense of countries that would potentially enjoy the benefits of any future plurilateral agreement under the WTO without having undertaken any of the accompanying obligations. There two possible approaches to this issue: one in which free-riding is accepted, and countries that do not sign the agreement are nevertheless allowed to benefit from it (unconditional MFN) and one where countries who do not sign up are excluded (conditional MFN). An example of an unconditional MFN agreement is the WTO Information Technology Agreement (ITA), while an example of a conditional MFN agreement is the WTO Agreement on Government Procurement (GPA).

Given that a major obstacle to concluding Doha has been the unwillingness of the developed economies to give a ‘pass’ to the big emerging economies like China, India and Brazil (as opposed to special treatment they are prepared to offer to smaller and poorer developing countries), it seems unlikely that an unconditional MFN approach will be attractive to the major advanced economies. However, taking the conditional MFN approach would serve to further undermine the principle of non-discrimination that has been at the heart of the multilateral system and which is already under threat from the global shift to PTAs. Indeed, it could be argued that conditional MFN plurilaterals would risk balkanising the international trading system in a way similar to that threatened by multiple PTAs. As already noted, however, a potentially important difference between the two is that subsequent entry into a conditional MFN agreement at the WTO should have a much greater degree of automaticity than seeking to join a PTA at a future date. Moreover, the most probable alternative to a conditional MFN plurilateral within the WTO is not an unconditional MFN agreement or a standard multilateral agreement, but rather further deal making outside the multilateral system.

One possible solution to these difficult trade-offs would be for the WTO to allow a variety of plurilateral agreements: some could extend full MFN to all members, while others could pursue a conditional MFN approach, and others could become binding on members only when a critical mass sign up.

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90 See for example Dee, What can the G20 do about the WTO?
91 Levy, Do we need an undertaker for the Single Undertaking: Considering the angles of variable geometry, Lawrence, Competing with regionalism by revitalizing the WTO,
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International trade: What can the G20 do?

Mark Thirlwell
Director, International Economy Program
Two key trade commitments

• Standstill on protectionism

• Complete the Doha Round
The standstill

“We underscore the critical importance of rejecting protectionism and not turning inward in times of financial uncertainty. In this regard, within the next 12 months, we will refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing World Trade Organization (WTO) inconsistent measures to simulate exports.”

Washington Summit November 2008
The standstill

- At London Summit (April 2009):
  - Extended until end-2010
  - WTO+ monitoring on quarterly basis
- At Toronto Summit (June 2010):
  - Extended until end-2013
- At Seoul Summit (November 2010):
  - Monitoring moves to semi-annual basis
- At Los Cabos Summit (June 2012):
  - Extended until end-2014
(mostly) Keeping their promises?

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Source: Table 2 in OECD, WTO and UNCTAD, Reports on G20 trade and investment measures (Mid-May to Mid-October 2012). (2012).
Or, do as I say, not as I do?

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Source: Global Trade Alert (GTA): Eleventh Report on Protectionism
Doha

“...we shall strive to reach agreement this year on modalities that leads to a successful conclusion to the WTO’s Doha Development Agenda with an ambitious and balanced outcome. We instruct our Trade Ministers to achieve this objective and stand ready to assist directly, as necessary.”

Washington Summit November 2008
Doha

- At London Summit (April 2009):
  - *Committed to ‘ambitious and balanced conclusion’*
- At Pittsburgh Summit (September 2009):
  - *Committed to ‘successful conclusion in 2010’*
- At Toronto Summit (June 2010):
  - *Deliver conclusion ‘as soon as possible’*
- At Seoul Summit (November 2010)
  - ‘2011 is a critical window of opportunity, albeit narrow’
- At Cannes Summit (November 2011):
  - ‘pursue in 2012 fresh, credible approaches to furthering negotiations’
- At Los Cabos Summit (June 2012):
  - ‘continue to work towards concluding the Doha Round . . .’
The Doha debacle
Five things G20 could do

1. Place international trade at the heart of the Framework, reversing the drift of trade policy issues down the G20’s agenda

2. Extend the standstill for at least another two years plus an upgrade and enhanced WTO surveillance

3. Save the WTO from the Doha Round: set a hard ‘kill or complete’ deadline post-Bali

4. Encourage the WTO to focus on a new 21st Century trade agenda

5. Build on past G20 calls to strengthen the WTO
International trade: What can the G20 do?

Mark Thirlwell
Director, International Economy Program
The G20 and trade liberalisation regional integration

An opportunity to re-focus the G20 trade and investment agenda?

John Ballingall
Regional ‘Think 20’ Seminar: *The G20 Leaders’ Process Five Years On: An assessment from an Asian Perspective*
Sydney, 23 May 2013
A perfect storm?

• Difficult period to be resisting protectionism
  - Weak growth
  - Rising unemployment
  - Austerity measures soaking up political capital
  - Global uncertainty
  - Standstill in Geneva
  - High food/fuel prices

The politicians’ dilemma

Right in front of us

Right for us

Shockingly rare
Counterfactual problem: could have been worse?

- Also a potential attribution problem
- Protectionism also denounced by
  - WTO Ministers
  - OECD Ministers
  - APEC Ministers
  - BRICS Ministers
  - …
- So G20 not alone in its efforts

Perhaps the most we can say is that the G20 pledges helped limit the degree to which protectionism increased following the GFC

Source: Actual data from OECD/WTO/UNCTAD, October 2012
Moving to ‘risk-on’ mode

• If resisting protectionism was hard during GFC, it was even more difficult to be promoting liberalisation
• But many G20 economies (and non-G20) now moving away from inward focus
• Piecemeal WTO forward movements are encouraging; and are about the best we can hope for
  - G20 can promote these advances; encourage ambition
  - And still express support for rules-based system
  - But needs to be realistic about the big picture
  - Genuine G20 leadership will come through conceptualising and legitimising what shape and path the ‘new’ WTO should take
Momentum is in mega-agreements

- Regional trade agreements or ‘partnerships’ are the liberalisation/integration vehicle du jour
  - TPP
  - TTIP
  - RCEP/AEC
  - C/J/K
- The regions are getting bigger and bigger
- And the issues more and more diverse
Two models of Asia-Pacific integration emerging: TPP and RCEP

- Both have similar ambition levels; and could be complementary rather than competitive
- But quite different processes

**TPP**
- Traditional, US-centric
- Tightly negotiated & monitored
- Focus on reducing border & BHB costs

**RCEP**
- ASEAN-centric
- Looser, cooperation-based
- Focus on ‘connectivity’
Need to shift to thinking about regional integration in a transaction costs way

- ASEAN-style integration processes are all about regional (and global) supply chains

The ASEAN Economic Community (AEC) shall be the goal of regional economic integration by 2015. AEC envisages the following key characteristics:

(a) a single market and production base, (b) a highly competitive economic region, (c) a region of equitable economic development, and (d) a region fully integrated into the global economy.

http://www.asean.org/communities/asean-economic-community

- Removing grit from wheels
- Focus on connectivity and infrastructure
Implications

- RTAs are moving ahead of multilateral trading system, which isn’t set up to handle supply chains
- Mercantilism still pervades; until this changes, it will be hard to shift to a value chain way of thinking
  - Initiatives such as Trade in Value Added (TiVA) from OECD/WTO are influential
  - Economic Research Institute for ASEAN and East Asia (ERIA) provides insightful analysis
- Complexities of modern RTAs could make future ‘noodle bowl’ problem more difficult
What does this all mean for the G20?

• Sentiment is shifting away from protectionism and towards integration (rather than just trade liberalisation)
• G20 thinking can move from “what now?” to “what next?”
• Australia as 2014 Chair could play a useful “bridging” role between US/EU and Asia
• There may be lessons to be learned from ASEAN-style regional integration efforts that explicitly promote more efficient supply chains (goods, services, investment, ideas, people…)
• As “the premier forum for international cooperation”, G20 could usefully focus attention on economic developments in Asia that aim to promote cooperation through integration, via connectivity
Regional ‘Think 20’ Seminar

‘The G20 Leaders’ Process Five Years On: An Assessment From an Asian Perspective’
Trade, Investment and the G20

John Ravenhill
Australian National University

Presentation for the Lowy Institute G20 Regional “Think 20” Workshop, Sydney, 23-24 May 2013
ROBUSTNESS OF THE GLOBAL TRADE REGIME
Volume of World Trade vs. World Production 1926-38
Index (1929 = 100)

Chart 1: Growth in volume of world merchandise trade and GDP, 2005-14

Annual % change

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a Figures for 2013 and 2014 are projections.
Source: WTO Secretariat.
Chart 1 - World merchandise trade volume, 2005Q1-2013Q4

Seasonally adjusted index, 2005Q1=100

Source: WTO Secretariat.
## Share of Trade Covered by Import-Restricting Measures 2008-12 (%)

<table>
<thead>
<tr>
<th></th>
<th>Oct 2008 to Oct 2009&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Nov 2009 to May 2010&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Mid-May to mid-Oct 2010&lt;sup&gt;b&lt;/sup&gt;</th>
<th>Mid-Oct 2010 to April 2011&lt;sup&gt;b&lt;/sup&gt;</th>
<th>May to mid-Oct 2011&lt;sup&gt;c&lt;/sup&gt;</th>
<th>Mid-Oct 2011 to mid-May 2012&lt;sup&gt;d&lt;/sup&gt;</th>
<th>Mid-May to mid-Oct 2012&lt;sup&gt;d&lt;/sup&gt;</th>
<th>Cumulative total&lt;sup&gt;d&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share in total world imports</td>
<td>0.8</td>
<td>0.4</td>
<td>0.2</td>
<td>0.5</td>
<td>0.5</td>
<td>0.9</td>
<td>0.3</td>
<td>3.5</td>
</tr>
<tr>
<td>Share in G-20 imports</td>
<td>1.0</td>
<td>0.5</td>
<td>0.3</td>
<td>0.6</td>
<td>0.6</td>
<td>1.1</td>
<td>0.4</td>
<td>4.4</td>
</tr>
</tbody>
</table>
Why Successful?

- G20 Pittsburgh Commitment
- Fear of Sanctions?
- Reputational Concerns?
- Domestic Interests in a World of Global Value Chains
WTO Robustness & Implications

• Bicycle Analogy Incorrect?

but

• Failure of Legislative Function vs Success of Judicial Activism?
TRADE AND INVESTMENT POLICY IMPLICATIONS OF VALUE CHAINS
Value Chains have produced “a new paradigm where products are nowadays ‘Made in the World’”

Pascal Lamy 2012
Emergence of Value Chains

• Transport Revolution: Containerization, Air Freight
• Increasing Liberalization of Trade and Investment Regimes
• New Business Model where companies concentrated activities at most profitable points: R&D, design, control of brand name, distribution (manufacturing outsourced)
Market-Driven Regionalization?

• Government Facilitation:
  – Unilateral Liberalization
  – Export-Processing Zones and Duty-Drawback Arrangements
  – Sectoral Liberalization: ITA
  – Infrastructure
  – Competitive Exchange Rates
  – Regional Cooperation
Figure One: Geographical Sources of Value Added for an iPhone4 (in $US)

Final good: 194.04 (factory gate price)

Inputs: 24.63

VA: 6.54

Inputs: 80.05

Inputs: 16.08

Inputs: 3.25

Inputs: 0.7

Inputs: 62.79

Korea

Germany

France

Japan

ROW
Mutual Adjustment Process

One of agreed indicators: external imbalances ‘composed of the trade balance and net investment income flows and transfers’
Policy Consequences: (1) How we calculate global imbalances

<table>
<thead>
<tr>
<th>US trade balance with</th>
<th>CHINA</th>
<th>KOREA</th>
<th>GERMANY</th>
<th>FRANCE</th>
<th>JAPAN</th>
<th>ROW</th>
<th>WORLD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross</td>
<td>-169.41</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>-169.41</td>
</tr>
<tr>
<td>Value added</td>
<td>-6.54</td>
<td>-80.05</td>
<td>-16.08</td>
<td>-3.25</td>
<td>-0.7</td>
<td>-62.79</td>
<td>-169.41</td>
</tr>
</tbody>
</table>

Overall US trade deficit with China would be 40% less if measured in VA terms
Policy Consequences (2) Relevant Trade Policies

1. If it ain’t broke, don’t fix it

2. Washington Consensus Redux
(1) Room for Improvement

- Need to update, revitalize ITA

- Limits to Export-Processing Zones & Need to Universalize/Bind Tariff Reductions

- Behind-the Border Agenda
  - Product standards, etc. [But not the US WTO Plus Template?]

- Services
Liberalize to Gain Entry to Value Chains

• Necessary? Certainly not Sufficient to gain major share of benefits
  – Apple profit on iPhone c. 60 percent of retail price. China value added < 1 percent.
  – To capture larger share of value added, avoid middle income trap, need domestic upgrading
Value Chains and Investment

- No simple correlation:
  - Buyer driven chains
  - Investment may be from Third Parties
A Case for a WTO-based Investment Treaty?

- Long history of failure in investment negotiations (from ITO to MAI)
- Bilateral Investment Treaties (& Their Multilateralization)
### Table 1: Bilateral Investment Treaties Concluded by East Asian States, May 2011

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of Treaties</th>
<th>Disputes submitted to ICSID</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brunei Darussalam</td>
<td>8</td>
<td>0</td>
</tr>
<tr>
<td>Cambodia</td>
<td>21</td>
<td>1</td>
</tr>
<tr>
<td>China</td>
<td>127</td>
<td>1</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>15</td>
<td>n.m.*</td>
</tr>
<tr>
<td>Indonesia</td>
<td>62</td>
<td>2</td>
</tr>
<tr>
<td>Japan</td>
<td>16</td>
<td>0</td>
</tr>
<tr>
<td>Korea</td>
<td>90</td>
<td>1</td>
</tr>
<tr>
<td>Laos</td>
<td>23</td>
<td>n.m.*</td>
</tr>
<tr>
<td>Malaysia</td>
<td>67</td>
<td>3</td>
</tr>
<tr>
<td>Myanmar</td>
<td>6</td>
<td>n.m.*</td>
</tr>
<tr>
<td>Philippines</td>
<td>35</td>
<td>2</td>
</tr>
<tr>
<td>Singapore</td>
<td>41</td>
<td>0</td>
</tr>
<tr>
<td>Taiwan</td>
<td>23</td>
<td>n.m.*</td>
</tr>
<tr>
<td>Thailand</td>
<td>39</td>
<td>0#</td>
</tr>
</tbody>
</table>

*Non-Member
Multilateralization of Investment Treaties?

• Equivalent Content?

• Move to plurilateral agreements: ASEAN Comprehensive Investment Agreement; China, Japan, Korea agreement

• Inclusion of investment chapters in PTAs
In Conclusion:

• Need new measure of trade
• Revitalized ITA, Behind the Border Issues, Services
• Need to link trade to agenda that addresses interests of developing economies in upgrading (also includes facilitation of structural adjustment in industrialized world)
• Need to find out from business community exactly what impedes their management of supply chains
Regional ‘Think 20’ Seminar

‘The G20 Leaders’ Process Five Years On: An Assessment From an Asian Perspective’
Global Value Chains: Implications for Trade, Investment and Development Policies

John Ravenhill

Value chains have been the principal engines driving globalization. Starting in the 1960s, companies increasingly began to move some of their operations offshore, seeking to reduce costs by sourcing components or conducting labour-intensive operations in countries with lower wage rates. This ‘fragmentation’ of the production process was facilitated by three developments: increasing liberalization of trade and investment regimes; changes in technology that substantially reduced the costs of transporting goods; and the emergence of new business models.

Companies that controlled the various stages of production—from research and development to manufacture to marketing and distribution—were able to concentrate on those stages that were most profitable. Beginning with the athletic footwear industry—the ‘Nike model’—companies increasingly opted out of the manufacturing process rather than themselves establishing subsidiaries offshore, generating their profits from their control over design, brand name, and distribution. Although they often did not have any equity stake in their suppliers, they provided critical inputs such as the blueprints for products. The electronics industry quickly followed this model with many of the big name companies in computing and mobile phones outsourcing their manufacturing. The logic of the business model has been carried furthest in recent years by Apple, which derives its profits from its control over research and development, proprietary technology, brand name, and distribution channels, but contracts other companies to make its products.

The fragmentation of production has dramatically transformed the structure of international trade, integrating developing economies into manufacturing networks. By the middle of the first decade of this century, for instance, manufactures accounted for 85 percent of the total merchandise exports of developing East Asia and they constituted nearly three-quarters of ASEAN’s exports. International merchandise trade is now increasingly based on vertical specialization, that is, trade in components that are part of the same product. World trade in components increased substantially in the first decade of the 21st Century, up from 24 percent of global manufacturing exports in 1992–3 to 54 percent of the total in 2003 (OECD 2007: 2). In the same period, the share of developing economies in exports produced within value chains doubled, primarily because of growth that occurred in East Asia. In 2007–8, exports within value chains accounted for fully 60 percent of East Asia’s manufacturing trade, in comparison with a world average of 51 percent (Athukorala forthcoming: Table 4). The incorporation of China into global value chains has been a major factor in the transformation of international trade: in 2000-2008, China accounted for two-thirds of the world’s processing exports (followed by Mexico with slightly under one-fifth) (WTO and IDE-JETRO 2011, p. 21). Although typically more difficult to measure, trade in services has become an increasingly significant dimension in the development of value chains.

The significance of value chains had long been recognized by economic geographers and theorists of international business. Increasingly, the economics profession has acknowledged that the contemporary structure of international production and trade bears little resemblance to traditional theories of international trade. In turn, the major multilateral economic institutions have become interested in value chains and their implications for policies on trade and development. Global value
chains have, in the words of the WTO’s Director-General Pascal Lamy, produced “a new paradigm where products are nowadays ‘Made in the World’” (World Trade Organization 2012b: 4). If, indeed, there is a new paradigm, what are the implications for how we conceive of international trade—and what policy implications for the G20 flow from this reconceptualization?

“Made in the World”: Implications for Global Imbalances

At the Pittsburgh summit, leaders of the G20 agreed to work together to ensure a lasting recovery from the global financial crisis and to establish the foundations for strong and sustainable growth in the medium term. The Framework for Strong, Sustained and Balanced Growth launched at Pittsburgh is the centrepiece of the Group’s approach. Through the Mutual Assessment Process, the G20 aims to establish growth objectives for the global economy, the policies needed to reach them and (with support from the IMF) mechanisms for assessing progress towards the agreed goals. At the Paris meeting of G20 finance ministers in February 2011, agreement was reached on the indicators that would be monitored as part of the Mutual Assessment Process. One of the indicators that figured prominently was external imbalances ‘composed of the trade balance and net investment income flows and transfers’ (in addition to various indicators of domestic balances such as public debt and fiscal deficits, and private savings and debt).

Trade imbalances have been the indicator that since the demise of the gold standard in the 1920s has attracted the most attention from politicians and the media, even though a focus on trade balances, particularly those between pairs of countries, makes little sense from the perspective of economics. Data on the balance of trade are convenient, however, in that they are relatively easily calculated and are seemingly intuitively plausible gauges of whether or not countries are behaving responsibly in their international economic relations. The advent of global value chains, though, has significantly complicated the calculations of trade imbalances.

The most vivid demonstration of the new complexities of international trade balances has come through work that has focused on the geographical distribution of value added in several of Apple’s flagship products. Although these are ostensibly ‘Made in China’—and for balance of trade purposes, their full value is classed as a ‘Chinese’ export—only a very small portion of the total value of the product is actually added within China. For one iPhone4 assembled in China (by the Taiwanese company Foxconn) and sold in the US, trade data would indicate a Chinese export valued at $194.04. Slightly over $24 of this figure consists of components sourced from the US: one iPhone4 consequently would contribute $169.41 to the bilateral US trade deficit with China. However, all of the components for the phone are actually sourced from elsewhere: China’s value added consists only of the labour used in the assembly, a total of only $6.54. When measured on a value-added basis, most of the cost of the iPhone4 import is attributed to other countries, notably Korea (Samsung supplies the display and memory chips for the phone).
Xing and Detert (2011: Table Two) estimate that imports of iPhones alone contributed to close to $2 billion to the recorded US trade deficit with China. If these imports had been measured in value added terms, however, the figure would be less than $75 million. The iPhone example is but one dimension of the complications that the spread of global value chains have caused for measuring trade imbalances: again focusing on what is currently the most politically sensitive imbalance, that between China and the United States, the WTO estimated that the overall US trade deficit in China would have been cut by more than 40 percent in 2008 if it had been measured in value-added terms rather than by conventional national trade statistics (World Trade Organization/IDE-JETRO 2012: Figure 9 p. 104). But it is not just the US-China trade balance that looks remarkably different when measured in value-added terms: the substantial trade deficit that Korea runs with Japan largely disappears when trade is measured in value-added.

One important implication of the growth of value chains therefore is that new measures of international trade are required if sound policies are to be adopted both to identify and to rectify global imbalances—a need recognized by the WTO and OECD in their joint project to produce a database on Trade in Value Added (www.oecd.org/trade/valueadded). Value chains also constrain the effectiveness of policy instruments traditionally used to address trade imbalances: with final products being assembled from components sourced from many countries, a change in a bilateral exchange rate, for instance, may have unpredictable effects because it will only weigh on the domestic content of a country’s exports but will also affect the cost of imported components. Data on value-added also have the advantage of avoiding the current problem of double-counting that...
occurs when components cross borders before assembly into a final product (which leads, for instance, to a substantial over-statement of the overall significance of intra-regional trade in East Asia). Furthermore, measuring trade in value-added provides a far more accurate indication of the contribution that services make to international trade.

**Trade Policy Implications of the Growing Importance of Global Value Chains**

Value chains have been at the heart of the conventional wisdom that economic integration in the Asia-Pacific has been ‘market-driven’. At one level, such arguments are correct—the Asia-Pacific, of course, lacks the supranational regional institutions of Europe. On the other hand, the role of governments in facilitating the growth of value chains should not be overlooked. Their contribution over the last three decades has taken many forms: the establishment of export-processing zones that permitted duty-free import of components for assembly into products that were subsequently exported, zones that were the basis for the early footholds that many countries in the region including China gained in these networks; similar but non-geographically specific provisions through duty-drawback arrangements; the unilateral lowering of tariffs (important throughout the region from the mid-1980s onwards); and government commitments in regional and global trading agreements, not least the 1996 Information Technology Agreement (ITA) that freed up a substantial part of trade in the region’s single most important export sector. Specific tariff provisions on the part of countries importing assembled products in some instances have encouraged outsourcing of a number of processes and the import of specific inputs, e.g., the US ‘yarn forward’ rule, which requires the use of US materials if the product is to benefit from US tariff concessions.

Two extremes on the spectrum of policies are evident in responses to the rapid growth in the role of value chains. One is to suggest that the success of value chains is testimony to the effectiveness of current policies—whether unilateral measures by governments or global treaties such as the ITA: nothing more needs to be done. The other extreme is a stark reiteration of the ‘Washington Consensus’ agenda of the 1980s: if countries want to gain the full benefits of participation in global value chains then they should simply liberalize their trade and investment policies and take the state out of the economy as far as possible. Neither of these extremes is particularly helpful.

While it is the case that export-processing zones and similar arrangements have facilitated the participation of developing economies in value chains, the potential gains to the local economy are constrained when participation in networks is confined to geographical enclaves. Better to make the duty-free import of components consistent across the whole economy. And while it is the case that nominal tariffs have fallen dramatically in many developing countries, tariffs can still be significant impediments. The effect of residual tariffs is magnified in a world in which components cross borders, sometimes on multiple occasions (final assemblers, for instance, may pay tariffs on their imported inputs and then face tariffs on the full value of their exports including these inputs). And while the Information Technology Agreement has frequently been hailed as the single most significant trade liberalization measure since the WTO came into existence, the sector has developed substantially in the fifteen years since the ITA was signed so that the agreement’s coverage of products in this sector is increasingly incomplete. A strong case can be made for a substantially revised ITA (Lee-Makiyama 2011).

In other words, much can still be done through traditional trade policy agendas to facilitate the operations of global value chains. But efficiency within global value chains also depends heavily on
non-tariff barriers that impede the movement of components and goods across borders. Among the most important of these are efficient customs procedures and processing; and standards setting and certification procedures. Here substantial potential exists for mutual recognition or harmonization of product standards. These are the so-called ‘21st Century’ trade issues that are figuring prominently in current negotiations such as those for the Trans-Pacific Partnership.

Global Value Chains and Investment

The proliferation of global value chains has come at a time of unprecedented levels of foreign direct investment. The relationship between the two is not as straightforward as might appear from a superficial reading, however. Significant numbers of global value chains are associated with little or no foreign direct investment. This characteristic is particularly evident in what are often referred to as ‘buyer-driven’ chains that dominate the textile and apparel industry, for instance. Here the principal contribution of the lead firms to their suppliers is to provide the specifications to which goods are produced (and of course the marketing channels through which the final products are sold). Even in more technologically-intensive sectors such as automobiles, the principal contribution of the lead firms in a value chain may be to provide blueprints and often technical assistance to their suppliers, sometimes seconding their engineers to work at their suppliers’ manufacturing plants. No equity relationship is involved.

Other value chains may include foreign direct investment relationships but not those linking the home country of the lead firm and the countries doing the assembly. In the athletic footwear industry, for instance, the investment in Southeast Asia where plants manufacture for leading international brands such as Nike came not from the US company but from Korean and Taiwanese manufacturers. In electronics, much of the foreign direct investment—whether for Apple or for other mobile phone brands such as Nokia—again comes not from the lead firm but from electronic contract manufacturers based outside of Europe and North America. Outside of the industry relatively few people are aware of the scale of these companies: HonHai, whose Foxconn subsidiary assembles most of Apple’s products in China, has grown into the world’s 60th largest company (by revenue), with total sales in 2011 of over US$90 billion, more than 50 percent above those of Apple, its principal customer. Although HonHai alone accounts for almost half of the total revenue of contract manufacturers, the industry features other large players including the Singapore-based Flextronics, ranked 334 on the Fortune Global 500, with 2011 sales of US$29 billion.

There is little to suggest that global value chains are currently inhibited by the lack of a global treaty on foreign direct investment. Countries in East Asia have signed on to multiple bilateral investment treaties (BITs) (many more the preferential trade agreements they have joined, agreements that have attracted far more attention). In 2011, East Asian countries were parties to 577 BITs: China alone was a signatory to 128 (Ravenhill 2013). And many of the recent bilateral trade agreements also contain chapters on investment. While the effectiveness of some of these instruments is indeed debatable, the wisdom of attempting to negotiate a global treaty on foreign direct investment is also questionable. Each of the attempts to negotiate a global investment treaty—beginning with the International Trade Organization in the immediate post-war period through the OECD’s Multilateral Agreement on Investment in the second half of the 1990s—foundered on conflicts over the balance between the rights and responsibilities of foreign investors. In the current era where developing countries are more effective actors in global negotiations than ever before, agreement seems
unlikely. And a global agreement is likely to face concerted opposition from civil society groups—the days have long since passed when Nike could claim that it had no responsibility for the labour conditions under which its shoes were produced because these were controlled by independent subcontractors.

**Value Chains and the Development Agenda**

A country’s effective participation in value chains requires more than a simple liberalization of its trade and investment regimes. Two issues are particularly noteworthy here. The first is that the countries that have been the focal point for value chains are ones that have good infrastructure that permits the easy movement of components and final goods within countries and across national boundaries. The answer to the question of why iPhones are manufactured in China rather than Indonesia lies in part in the latter’s poor quality infrastructure, reflected in the time to ship a container from the local port to the US West Coast being nearly double for Indonesia. The second issue is that the gains to local economies will be limited unless they are able to move up the value chain.

In this context, it is important to remember that the origins of the ‘fragmentation’ of production into value chains lay in the capacity of lead companies to choose to focus on those areas of activity where they could derive the most profits. Consider again the iPhone example. Apple’s profit on the iPhone is variously estimated to be between 58 and 64 percent of the retail price. Roughly ten percent of the profits go to components suppliers in Japan, Korea and Taiwan. The value added in China is less than one percent of the product’s retail price. And, while this lack of local contribution to the overall value of China’s exports is extreme, it is symptomatic of a broader problem: less than one-fifth of the value of China’s ‘processing exports’ is estimated to originate domestically, and less than one half of the value of total exports (Koopman et al. 2010). Not surprisingly, China’s leaders have expressed their determination to move from ‘assembled’ in China to ‘designed and manufactured’ in China. Frustrations with being stuck in the low-value-added activities in value chains have the potential to cause a trade policy backlash in developing economies.

The World Bank has increasingly warned countries in the region—including China—that they risk becoming stuck in a ‘middle income trap’ where they are unable to compete with more technologically advanced countries and simultaneously are under pressure from lower labour cost economies. To escape this trap, countries need to move up the value chain, which *inter alia*, will require effective policies to strengthen innovation, enhance skills, and upgrade the capabilities of domestic suppliers. If the G20’s approach to value chains is to retain the support of developing economy members then an agenda on trade facilitation will need to be accompanied by one that assists economies in upgrading their local capabilities.

**Conclusion**

Global value chains have dramatically transformed international trade. For the G20, a number of implications follow. The first is that in addressing global imbalances through the Mutual Assessment Process, the G20 needs to eschew conventional measures of trade imbalances and focus on data that accurately reflect where the value of final products is actually created. Second, even though the various measures that governments have put into effect to facilitate the free movement of components have substantially reduced the significance of tariffs as impediments to the operation of
value chains, the exceptions are still of sufficient significance that the traditional trade policy agenda of liberalizing border barriers is still relevant. Third, behind the border barriers take on increasing importance both because of the fall in tariffs and because the need to produce regionally or globally will be facilitated by mutual recognition or harmonization of standards. Fourth, the relationship between value chains and foreign direct investment is substantially more complex than is sometimes presented: little evidence exists that the absence of a global treaty on foreign investment is a significant impediment to the operation of value chains. Finally, while many developing economies are benefiting from participating in value chains through increases in employment and exports (and sometimes through inward foreign direct investment), the profits generated within value chains are distributed in a markedly uneven manner. Such disparities fuel nationalist sentiments in developing economies. Efforts by industrialized economies to promote trade liberalization and facilitation within the G20 will need to be linked to an agenda that contributes towards the improvement of infrastructure and towards the upgrading of the capabilities of local firms if they are to gain sustained support from the G20’s lower income economies.

REFERENCES


Looking at the G20 Initiatives on Infrastructure Investment
from a Developing Country's Perspectives: Indonesia

By Maria Monica Wihardja

Indonesia has pioneered initiatives on infrastructure investment at regional and global fora...

At the G20....

- At the G20 Summit in 2012, Indonesia proposed infrastructure investment through the financial and Sherpa channel, in the context of Framework of Strong, Sustainable, and Balanced Growth (FSSBG), instead of development. The proposal focuses on the role of infrastructure in reducing global imbalances and lifting growth. This can be achieved by recycling excess savings in some emerging countries to finance infrastructure instead of financing debts in advanced economies.
- These initiatives are reflected in the G20 outcomes:
  1. The Los Cabos G20 Leaders Declaration 2012, Article 9 stated: "We ask Finance Ministers and Central Bank Governors to consider ways in which the G20 can foster investment in infrastructure and ensure the availability of sufficient funding for infrastructure projects, including Multilateral Development Banks' (MDBs) financing and technical support."
  2. The Washington G20 Communiqué Meeting of Finance Ministers and Central Bank Governors (April 2013), Article 11, stated: "We underscore the importance of long-term financing for investment, including in infrastructure, in enhancing economic growth and job creation. We are taking forward work on this issue, including through the adoption of the Terms of Reference of the new G20 Study Group, with inputs envisaged from the World Bank Group, OECD, FSB, IMF, UN, UNCTAD, and from participating countries."
  3. In February 2012, the G20 Ministers of Finance set up a new "Study Group on financing for investment" to "determine a work plan for the G20, considering the role of private sector and official sources of long-term financing."
- As part of the G20 Mutual Assessment Process, Indonesia identified the issuance of Presidential Regulation No. 13, 2010 to strengthen government guarantees/government finances for infrastructure as one of its structural reform priorities.
- In conclusion, Indonesia has played a big role in mainstreaming infrastructure investment into the G20 financial agenda and Framework for Sustainable, Strong and Balanced Growth.
• Australia, the next G20 host, has also shown commitments to bring infrastructure investment priority agenda into next year's G20 Presidency. Hence, the initiative has a multi-year support, carried from the Mexico to Russia to Australia Summits.

At APEC...

• During Indonesia's APEC chairmanship this year, APEC Leaders are set to endorse:
  1. APEC Framework on Connectivity
  2. APEC Multi Year Action Plan on Infrastructure Investment and Development.
• During Indonesia's APEC chairmanship, infrastructure is under the connectivity agenda.
• APEC cooperation on infrastructure development and investment will take advantages of regional expertise, experience and funding sources, including from multilateral and regional development banks, and the private sector. Some of the public-private joint initiatives include:
  1. Asia-Pacific Infrastructure Partnership (APIP), where private sector has worked with governments to boost capacity for the design, finance and implementation of economic infrastructure.
  2. Asia Pacific Financial Forum, which will work to enhance the region's financial systems so that the private sector can help deliver new infrastructure and other regional investments, including social safety nets, health and other services. The forum will also work on a convergent approach so that financial sectors can facilitate regional economic integration. The forum’s first meeting was held in April 2013.

At ASEAN...

• As part of ASEAN, Indonesia is also part of:
  1. ASEAN Master Plan on Connectivity (AMPC)
  2. ASEAN Infrastructure Funds
  3. Asian Bond Initiatives as part of long-term financing for infrastructure

Domestically, Indonesia has...

• Master Plan on the Acceleration and Expansion of Indonesia's Economic Development (MP3EI): A visionary project on infrastructure and connectivity valued at around US$468 billion between 2011 and 2025.
• However, Indonesia's MP3EI relies too much on private sector financing. Private sector is expected to contribute about 51 per cent of the whole projects. This is very high in comparison to other regional countries. This is in addition to the heavy reliance on private sector investment for its current medium term development plan (RPJMN), in which the private sector was targeted to contribute more than 70 percent of USD 150 billion investment needs identified in the RPJMN.
Some observers think that MP3EI is politically driven, opening corridors in all major islands in order to win the heart of people (or votes) all around Indonesia.

The Master Plan was built based on the concept of comparative advantages, which are not always constant over time. For example, it was identified that the comparative advantage of Sulawesi was in the agriculture sector, however, Sulawesi’s relatively rapid development has not been based on development in its agriculture sector.

One other issue is the lack of involvement of local governments in creating the Master Plan while the role of local governments in building infrastructure is becoming more important in Indonesia after decentralization.

**However, what can Indonesia benefit from these regional and global initiatives on infrastructure investment?**

- Indonesia will benefit from these regional and global initiatives if it puts its own house in order. It does not have to be in sequence but initiating regional and global initiatives on infrastructure investment must be supported by domestic reform agenda and mainstreaming them as national priorities.
- For example, AMPC's railway project connects Kunming and Singapore, but does not extend to the Indonesian archipelago. What could Indonesia do to connect domestically in order to connect regionally and globally?

**Indonesia is in a dire need of infrastructure development...**

- "Indonesia's poor connectivity is hampering its international competitiveness. One of the reasons is low quality of infrastructure, particularly visible in ports and roads." (Source: WB, Connecting Indonesia. A Framework for Action. June 2010)
  - According to the Global Competitiveness Index 2009-2010, Indonesia’s infrastructure ranks very low, particularly its ports and roads. The index places Indonesia in 94th place out of 133 countries in these terms (Figures 6-9 below). The Global Enabling Trade Report (2009) also ranks Indonesia in the low range, in 79th place out of 121 countries for infrastructure networks, far below Malaysia and Thailand, which occupied the 29th and 40th position respectively."
  - "The Logistics Performance Indicator report (2009) ranks Indonesia lower than most other nations in Southeast Asia in terms of the quality of service providers (see Figures 10-12 below). Indicators determining this include the ease of arranging shipments; the competence of private service providers such as freight forwarders, warehousing, maritime, air, rail and road transport; and the ability to track and trace a container to its final destination. Disturbingly, Indonesia’s performance in terms of these indicators has worsened since the previous report in 2007. It now ranks 36 places lower in terms of the ease of arranging shipments, 42 positions lower in terms of logistics competence and 47 places lower in terms of tracking and tracing availability. Although the decline in Indonesia's position is partly due to the relative improvements achieved by countries, most of the reduction is due to lower scores given by the respondents of the survey, who are logistics professionals worldwide."
Box 1: Examples of the implications of Indonesia’s poor connectivity

- The price of a bag of cement in certain parts of Papua is 20 times that in Java. The price of a gallon of water in Medan is double that in Jakarta. Oranges from China are cheaper than oranges from Pontianak (Kalimatan). High domestic transport costs are the main reason.

- 70% of differences in rice prices across provinces can be explained by the degree of remoteness, which in turn is a reflection of poor logistics and inadequate transport infrastructure (World Bank 2010).

- Availability and prices of basic commodities fluctuate widely in remote areas. For instance, gasoline prices in Di Kisar island are three times higher in rainy season than in dry season.

- High quality products with great potential, such as shrimps from eastern Indonesia, cannot be commercially processed in Java, and commodities, like pineapples, are canned abroad because it is cheaper to transport them to Malaysia than to ship them to Java.

- Indonesia’s manufacturing sector is poorly integrated into international production networks because of unreliable transport and high logistics costs.

- The costs of bringing a container from Jakarta’s main industrial sites are double that in Malaysia and Thailand.

- Some ten percent of Indonesian exports leave ports too late and consequently do not reach the regional transshipment ports on time. Ships destined for local destinations are frequently delayed.

- In some export sectors, such as cocoa, rubber and coffee, more than 40% of total logistics and transport costs come from pre-shipment and inland transportation expenses in Indonesia before international shipment.

- Approximately 70% of freight in Indonesia is transported by trucks. The majority of the trucks on the road in Indonesia are old and poorly maintained.

- A truck making a round-trip from Bandung to Jakarta may spend up to 75% of its time parked due to customs processes, warehouse delays, and lift-on and lift-off queues.

- Trade and transport logistics are still mainly ‘paper-based systems’, which increases logistics costs in addition to illegal fees.

- Different national and regional authorities continue to issue laws and regulations without clear assessment of their impact on trade flows and logistics costs.

Sources: World Bank Trade Logistics Roundtables 2009-2010

- "Private sector investment in infrastructure in Indonesia is still limited and has not recovered to pre-1997 crisis and remains relatively low compared with other emerging economies, particularly Brazil and India." (WB, Indonesia Economic Quarterly, October 2011).
**But, structural issues impede the progress....**

- Vertical and horizontal fragmentations in the government.

- Regulatory barriers: land acquisition bill, protected services sectors, unequal treatment of private sectors against state-owned enterprises (SOEs looking for profitable projects), those that are related to PPP including guarantee fund, viability financing gap (not yet fully operational).

- Infrastructure projects becoming political commodities. For example, at the local level, there are some evidence that after local leaders are directly elected by constituents, the number of paved roads increased but the number of passable roads decreased, indicating that quantity of roads come at the cost of quality of roads. Moreover, it was shown that building better roads increased electability of local leaders.

- Regulators are also operators of infrastructure projects. For example, Pelindo III is the operator of Indonesia’s main port but it is also the port authority.

- Inefficient fossil fuel subsidies has left little space in the government budget. Despite Indonesia's dilapidated physical infrastructure, almost 30 per cent of the 2013 national budget is spent on poorly targeted energy subsidies, but only about 12 per cent is spent on infrastructure and 5 per cent on social expenditure. Subsidizing fossil fuel also degrades the environment and discourages innovations of renewable energy, and is a drain to Indonesia’s Balance of Payment.

- Despite heavy reliance on private investments to finance its infrastructure projects, "in the past few years, the Government of Indonesia has made progress in legislative developments supporting the PPP framework which establish the foundation for PPP implementation and has set up various institutions and financing facilities to support PPP transactions. However, little has been achieved on actual project transactions, reflecting ongoing institutional and coordination challenges." (WB, Indonesia Economic Quarterly, October 2011).

*Although financing is an issue, heavy dependence on private investment and not having enough viable projects is a bigger issue...*

- Indonesia currently does not have any viable project that is ready to be offered to private sector.

  - Even the guarantee units could not find any project from the national pipeline that is ready to be guaranteed. No private sector want to be involved until the problems of (1) setting up an income model that factors in rate of return on investment (ROI), (2) establishing long-term policy consistency plus contingency for any force majeure, and (3) finding funds to finance big upfront costs (that in some cases need government funding) that will impact the investors' risk perception, are solved.
There are a few factors causing this:

1. The government lacks the capacity to develop projects with acceptable ROI.
2. MP3EI lacks the understanding of the nature of PPP projects.
3. Regulation on PPP stipulates that projects under US$500 million should be under the PPP schemes. Many projects in outer islands that have value less than that number, i.e. small electricity, irrigation, etc., may be stalled because of this.

Currently, the Ministry of Finance (MOF) is designing a new PPP unit responsible for the preparation of projects to support existing units under MOF that support the government guarantee, funding the viability gap, support equity, etc.

What must the G20 focus on in regards to infrastructure investment initiatives, reflecting from Indonesia's experiences?

- G20 can encourage higher level of coordination between different governmental agencies and ministries. Monitoring scheme and reform-minded champions are key to achieve milestones. Stronger coordination among central and local governments is also key for implementation and social services.

- G20 should recognize that services are inputs to productivity. Regulatory reforms related to services sectors, including in air, land, maritime transportation, railways, toll road, telecommunication, financial, logistics, power, oil and gas, water resources, water supply, etc., are often needed to successfully implement infrastructure projects. Key regulatory uncertainties such as land, investment and trade restrictions also need to be resolved.

- G20 should encourage an integrated approach to infrastructure development - a multimodal blueprint should be encouraged instead of a one-dimensional blueprint. For example, expressway need a multi-modal connections to other road, rail and sea transportation system.

- G20 should encourage equal treatments of private sectors and state-owned enterprises, and development on institutions to support infrastructure investment should move towards independent regulators. Competition should also be encouraged.

- G20 should support the establishment of institutions that would support the implementation of PPP, especially for countries that rely heavily on private sectors in financing infrastructure development, including guarantee funds, viability financing gap, etc.

- G20 should encourage sub-national bonds that could be an additional source of funding for infrastructure projects in some countries.
- G20 should support regional and local bonds to help finance infrastructure development, especially in the Asian region with excess savings.

- G20 could draw lessons from the ASEAN Infrastructure Fund, which was co-financed by ASEAN countries and the ADB to finance ADB projects in ASEAN countries.

- G20 should encourage fiscal reforms in countries whose infrastructure expenditures have been crowded out by other unproductive or consumptive expenditures such as inefficient fuel subsidies. It is to be reminded that some infrastructure projects cannot be financed through PPP schemes nor private sector investment.

- G20 should recognize the importance of having viable projects and not only the importance of financing infrastructure investment.
LOOKING AT THE G20 INITIATIVES ON INFRASTRUCTURE INVESTMENT FROM A DEVELOPING COUNTRY'S PERSPECTIVES: INDONESIA

Maria Monica Wihardja
Regional Think20 Meeting
Lowy Institute
May 23, 2013
Indonesia is in a dire need of infrastructure development...

- "Indonesia's poor connectivity is hampering its international competitiveness. One of the reasons is low quality of infrastructure, particularly visible in ports and roads." (Source: WB, Connecting Indonesia. A Framework for Action. June 2010)
  - "According to the Global Competitiveness Index 2009-2010, Indonesia's infrastructure ranks very low, particularly its ports and roads. The index places Indonesia in 94th place out of 133 countries in these terms. The Global Enabling Trade Report (2009) also ranks Indonesia in the low range, in 79th place out of 121 countries for infrastructure networks, far below Malaysia and Thailand, which occupied the 29th and 40th position respectively."

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- Trade and transport logistics are still mainly ‘paper-based systems’, which increases logistics costs in addition to illegal fees.

- Different national and regional authorities continue to issue laws and regulations without clear assessment of their impact on trade flows and logistics costs.

PROMOSI

APEL FUJI

RRC

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APEL MALANG(B)

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Indonesia’s Heavy Reliance on Private Sector to Finance Infrastructure

- Master Plan on the Acceleration and Expansion of Indonesia's Economic Development (MP3EI):
  - A visionary project on infrastructure and connectivity valued at around US$468 billion between 2011 and 2025.
  - Private sector is expected to contribute about 51 per cent of the whole projects.

- Medium Term Development Plan (RPJMN), 2010-2014:
  - The private sector was targeted to contribute more than 70 percent of US$ 150 billion investment needs.

- Despite heavy reliance on private sector financing, private sector has participated very little in financing infrastructure.
Indonesia’s Infrastructure Financing

- Indonesia Infrastructure investments (4% of GDP) has slightly increased but lower than the pre 1997 level, and remains relatively low compared with other emerging economies, particularly Brazil and India: (WB Report, 2012)

**Total investment in infrastructure by source (% of GDP)**

Sources: Indonesian Government for national and sub-national governments; Annual reports for state-owned enterprises; World Bank PPI database for private investment. Note: 2009 Energy investment data (blue area in left chart) are estimated
Public and private sector participation in infrastructure....

Investment in infrastructure (% of GDP)

The share of public sector funding of infrastructure is predominant

Source: Philippine's Transport for Growth, 2009 (World Bank), various years
Private sector participation is low relative to its peers

Total share of private sector participation in infrastructure in developing countries was 20% in 2009

Private sector participation in infrastructure Total USD 170 Billion (2010)

- India: 42%
- Russia: 9%
- Brazil: 10%
- Rest: 32%
- Mexico: 4%
- Indonesia: 2%

Private sector participation in infrastructure (% of GDP, 2010)

- India: Approximately 4.5% of GDP
- Thailand: Approximately 1.75% of GDP
- Philippines: Approximately 1.5% of GDP
- Russia: Approximately 1.25% of GDP
- Brazil: Approximately 1% of GDP
- Malaysia: Approximately 0.625% of GDP
- Indonesia: Approximately 0.5% of GDP
- Vietnam: Approximately 0.125% of GDP

Sources: World Bank and Public-Private Infrastructure Advisory Facility (PPIAF), Private Participation in Infrastructure (PPI) Project database

Source: World Bank’s PPI Database
Despite some progress in legislative developments supporting the PPP framework which establish the foundation for PPP implementation and setting up various institutions and financing facilities to support PPP transactions:

- little has been achieved on actual project transactions, reflecting ongoing institutional and coordination challenges.

(WB, Indonesia Economic Quarterly, October 2011).
At the G20:

- At the G20 Summit in 2012, Indonesia proposed infrastructure investment through the financial and Sherpa channel, in the context of Framework of Strong, Sustainable, and Balanced Growth (FSSBG).

- The proposal focuses on the role of infrastructure in the context of crisis, i.e. reducing global imbalances and lifting growth, rather than development.

- This can be achieved by recycling excess savings in some emerging countries to finance infrastructure instead of financing debts in advanced economies.
These initiatives are reflected in the G20 outcomes:

- The Los Cabos G20 Leaders Declaration 2012, Article 9 stated:
  - "We ask Finance Ministers and Central Bank Governors to consider ways in which the G20 can foster investment in infrastructure and ensure the availability of sufficient funding for infrastructure projects, including Multilateral Development Banks' (MDBs) financing and technical support."

- The Washington G20 Communiqué Meeting of Finance Ministers and Central Bank Governors (April 2013), Article 11, stated:
  - "We underscore the importance of long-term financing for investment, including in infrastructure, in enhancing economic growth and job creation. We are taking forward work on this issue, including through the adoption of the Terms of Reference of the new G20 Study Group, with inputs envisaged from the World Bank Group, OECD, FSB, IMF, UN, UNCTAD, and from participating countries."

- In February 2013, the G20 Ministers of Finance endorsed the establishment of a new "Study Group on financing for investment" to "determine a work plan for the G20, considering the role of private sector and official sources of long-term financing."
  - Set up in March 2013
  - Indonesia and Germany to co-chair the SG
  - Work Program: country-specific factors, capital markets, private sources of financing, official sources of financing, global financial regulatory reforms
Domestically, Indonesia has implemented some of its G20 commitments on infrastructure:

- As part of the G20 Mutual Assessment Process, Indonesia identified the issuance of Presidential Regulation No. 13, 2010, to strengthen government guarantees and finances for infrastructure as one of its structural reform priorities.

- Creation of PT Indonesia Infrastructure Finance:
  - A private non-bank financial institutions under MoF with a focus on investing in commercially feasible infrastructure projects.
  - The objective is to address a key gap in the institutional landscape for infrastructure development and finance in Indonesia.
  - In the medium term, to issue Rupiah denominated infrastructure project bonds.
  - It is expected as a national repository of experience and skills related to development and financing of commercially viable projects in infrastructure, including through PPP.

- Indonesia has also set up Indonesia Infrastructure Guarantee Fund and Viability Financing Gap.
At APEC:

- During Indonesia's APEC chairmanship this year, APEC Leaders are set to endorse:
  1. APEC Framework on Connectivity
  2. APEC Multi Year Action Plan on Infrastructure Investment and Development.

- During Indonesia's APEC chairmanship, infrastructure is under the connectivity agenda.
- APEC cooperation on infrastructure development and investment will take advantages of regional expertise, experience and funding sources, including from multilateral and regional development banks, and the private sector.
- Some of the public-private joint initiatives include:
  1. Asia-Pacific Infrastructure Partnership (APIP), where private sector has worked with governments to boost capacity for the design, finance and implementation of economic infrastructure.
  2. Asia Pacific Financial Forum, which will work to enhance the region's financial systems so that the private sector can help deliver new infrastructure and other regional investments. The forum's first meeting was held in April 2013.
At ASEAN...

As part of ASEAN, Indonesia is also part of:

- ASEAN Master Plan on Connectivity (AMPC)
- ASEAN Infrastructure Funds
- Asian Bond Initiatives as part of long-term financing for infrastructure
Structural Issues on Infrastructure Development

- **Vertical and horizontal fragmentations in the government:**
  - After decentralization, local governments play a bigger role in infrastructure development.

- **Regulatory barriers:**
  - Land acquisition bill
  - Protected services sectors (air, land, maritime transportation, railways, toll road, telecommunication, financial, logistics, power, oil and gas, water resources, water supply, etc.,)
  - Unequal treatment of private sectors against state-owned enterprises (SOEs looking for profitable projects)
  - Those that are related to PPP including guarantee fund, viability financing gap (not yet fully operational).

- **Infrastructure projects becoming political commodities:**
  - For example, at the local level, there are some evidence that after local leaders are directly elected by constituents, the number of paved roads increased but the number of passable roads decreased, indicating that quantity of roads come at the cost of quality of roads.
  - Moreover, it was shown that building better roads increased electibility of local leaders.
  - Sunda Strait Bridge?
  - Some experts say, even the MP3EI...
Regulators are also operators of infrastructure projects. For example, Pelindo III is the operator of Indonesia's main port but it is also the port authority.

Inefficient fossil fuel subsidies has left little space in the government budget.

Despite Indonesia's dilapidated physical infrastructure, almost 30 per cent of the 2013 national budget is spent on poorly targeted energy subsidies, but only about 12 per cent is spent on infrastructure and 5 per cent on social expenditure. (Recently revised)

Subsidizing fossil fuel also degrades the environment and discourages innovations of renewable energy, and is a drain to Indonesia’s Balance of Payment.
The private sector has supported PPPs mostly through lending and some bond purchases.

It can also raise financing using the projected income stream (either paid by users or governments) from a concession as collateral. The process can be formalized with securitization of future revenues (IMF 2004, Ketkar and Ratha 2009).

But, given the limited domestic capital markets, ASEAN countries have not yet resorted to securitization.

There is room to explore what institutional investors can do, in particular, pension funds.
Is Financing a Key Constraint?

- In the context of ASEAN:
  - “Financing is a constraint for PPP, but it is NOT because supply does not exist. Rather, it is because there are not enough commercially viable projects to which private investors can be attracted.” (Shishido, Zen & Sugiyama, 2013)
    - Inadequate Investor friendly environment:
      - Appropriate investment climate with sector reforms are crucial (who would invest in the power sector if power tariff adjustments are politically next to impossible?)
    - Even projects with high economic returns are not seen as commercially viable as they are not carefully developed and structured:
      - substantial human and financial resources should be devoted to project development so projects become commercially viable.

- In Indonesia, there is a risk-perception gap between private and public sector that result in large delays between signing of a contract and implementation of a project:
  - according to some sources, the average is 7 years.
“Indonesia currently does not have any viable project that is ready to be offered to private sector.... Even the guarantee units could not find any project from the national pipeline that is ready to be guaranteed. No private sector want to be involved until the problems of (1) setting up an income model that factors in rate of return on investment (ROI), (2) establishing long-term policy consistency plus contingency for any force majeure, and (3) finding funds to finance big upfront costs (that in some cases need government funding) that will impact the investors' risk perception, are solved.” (MoF official, 2013)
There are a few factors causing this:
- The government lacks the capacity to develop project with acceptable ROI.
- MP3EI lacks the understanding of the nature of PPP projects.
- Regulation on PPP stipulates that projects under US$500 million should be under the PPP schemes. Many projects in outer islands that have value less than that number, i.e. small electricity, irrigation, etc., may be stalled because of this.

Currently, the Ministry of Finance (MOF) is designing a new PPP unit responsible of preparation of projects to support existing units under MOF that support the government guarantee, funding the viability gap, support equity, etc.
Reflecting from Indonesia’s experience, what can the G20 do?

- Process is as important as the end goal:
  - Sharing information of best practices, e.g. with India.
  - Capacity building:
    - building institutions for PPP helps improve governance
  - Recognizing diversity in the government capacity.

- Do we care?

- What is the added value of the G20, relative to other regional and global fora, including ASEAN and APEC?
  - Must be complemented, coordinated and synergized.
  - At the end of the day, all these initiatives must build up private sector’s confidence to invest.
  - Only in G20 (but later, APEC also), infrastructure financing is introduced and seen through the lens of crisis management, global rebalancing and sources of growth and jobs.
Although private sector investment is needed, there are infrastructure projects that cannot be financed through PPP schemes nor pure private sector investment.

- Fiscal reforms, e.g. in the case of Indonesia, is needed.

G20 should recognize the importance of having viable projects and not only the importance of financing infrastructure investment.

G20 should recognize that services are inputs to productivity.

- Regulatory reforms related to services sectors are often needed to successfully implement infrastructure projects.
- Key regulatory uncertainties such as land, investment and trade restrictions also need to be resolved.
Higher level of coordination between different governmental agencies and ministries must be encouraged.

- Monitoring scheme and reform-minded champions as well as getting critical mass are key to achieve milestones.
  - Indonesia’s new MoF and Governor of BI.
- Stronger coordination among central and local governments is also key for implementation in many countries.

Equal treatments of private sectors and state-owned enterprises, and development on institutions to support infrastructure investment should move towards independent regulators.

- Competition should also be encouraged.
- G20 should support the establishment of institutions that would support the implementation of PPP, especially for countries that rely heavily on private sectors in financing infrastructure development, including guarantee funds, viability financing gap, etc..

- G20 may encourage sub-national bonds or any other innovative sources of financing that could be an additional source of funding for infrastructure projects in some countries.

- G20 should support regional and local bonds to help finance infrastructure development, especially in the Asian region with excess savings.

- G20 could draw lessons from the ASEAN Infrastructure Fund, which was co-financed by ASEAN countries and the ADB to finance ADB projects in ASEAN countries.
Overview

The G20 is currently the ‘premier forum for international economic cooperation’, with political leaders from the nations that provide over 80% of the world’s output meeting to face the complexity of globalised markets. Since 2010, the G20 has had a significant development agenda. My argument is that the world is facing a global reckoning point in 2015 on many crucial international development issues; including climate change finance, aid effectiveness, transparency reforms and the end of the United Nations (UN) Millennium Development Goals (MDGs) which provide the current global framework and targets for development. Diplomatic impasses have resulted in a range of international fora between rising powers such as Brazil, Russia, India, China, South Africa (the Outreach 5) and Mexico (BRICSAM) and the G7 countries, but also other groups of nations.

The G20 is therefore important for as a ‘lever for progress’ on these development issues because the right actors are at the table to break these deadlocks. This is not to dismiss the serious legitimacy issues the G20 has with membership and outreach. In this sense, at this historical juncture, the G20 is a critical platform of the future for global governance, as it is a forum with deliberately shared membership between emerging and dominant powers, and it is nimble enough to move quickly. Will it become equivalent to the role of the United Nations Security Council over time, with a limited membership, part crisis management and part steering committee, dealing with threats to international peace and security?

However, the proclaimed development agenda of the G20 known as the Seoul Development Consensus is fractured, diffuse, mostly divorced from the overall G20 framework, peripheral to leaders declarations, and often opaque to external scrutiny. There has been some significant progress, described below. Often the G20 has struggled to find its comparative advantage in this area of its work, possibly due to the seemingly inherent conflicts between social equity and an economic growth agenda (often characterised by the phrase ‘the rising tide lifts all boats’). Many commentators in the wider international development field have maintained that rather than tinker, G20 policies and practices as a whole must contribute to growth which reduces inequality, ensuring development is sustainable (in social and environmental terms) and tackling poverty.

Dirk Willem te Velde argues that the G20 needs to broaden its development work to explicitly cover the economic implications of G20 core actions in fiscal, financial, trade, exchange rate, and environmental policies for non-G20 countries. Andrew Cooper and Ramesh Thakur argue further that the Seoul Development Consensus:

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4 Dirk Willem te Velde, „Accountability and effectiveness of the G20’s role in promoting development“, ODI report, October 2012.
not only sidelined the Washington Consensus on neoliberalism, but it also moved the development debate in rich countries beyond merely the design and level of aid packages to focus instead on structurally important pillars of development like education, skills, infrastructure, domestic mobilisation of resources, private-sector led growth, social inclusion and food security. In other words, it returned to looking as successful models of development outside the West, including of course, South Korea…

The expiration of the Seoul Multi-Year Action Plan (MYAP) offers an opportunity for the G20 as a whole to reformulate and reprioritise its work on development. The G20 should at least do no harm to poor people living inside its own member state borders, nor people living in pockets of extreme poverty in non-member countries, nor Least Development Countries (LDCs). Above that, it can provide political pressure and mobilise resources to end stalemates that affect progress to eradicate poverty in other fora. In my view, the G20 should analyse, forecast, share, model good behaviour and pressure, rather than ‘do’ or pledge in the development arena, especially where its actions affect poor nations excluded from the conversation. If the troika adopt a ‘back to basics’ approach to the Brisbane G20 Summit 2014, the area of most consensus in the development pillar would be food security, clean energy and financial inclusion/income inequality (food, fuel, finance).

I recommend the G20 should work harder in its other pillars to promote policy coherence for development, especially the ‘beyond aid’ agenda, in areas such as trade facilitation, labour mobility, gender equality and climate finance. To this end, a development pillar/column should be added to the mutual assessment framework as an accountability measure.

**What contribution has the G20 made to the development agenda?**

**Conceptual**

At the conceptual level, the G20 has made little advance to the way development issues are considered thus far compared to other global institutions, despite the promise expressed by Cooper and Thakur by the Seoul Summit. The various declarations the G20 showing commitment to development outcomes are clear, but it is equally clear that development principles espoused were instrumentalised to achieving overall growth in the early years, strongly influenced by the IMF. The G20 Framework for Strong, Sustainable, and Balanced Growth from 2009 states that members will ‘promote balanced and sustainable economic development in order to narrow development imbalances and reduce poverty’. More specifically in the Pittsburgh Declaration, leaders resolve to:

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6 The principle of Policy Coherence for Development (PCD) has been formally adopted by the OECD and the European Union.
7 Beyond Aid” issues include trade, migration, investment, environmental issues, security and technology.
8 Examples offered by ODI include (te Velde, op cit, Appendix A, p. 14):
   - Data (value) on imports from LICs, remittances, foreign direct investment (FDI) and bank lending to LICs;
   - Current account, exchange rate data, government deficits/debt;
   - Oil and commodity prices (assumptions; internally consistent prices);
   - Spending on global public goods;
   - Forecasts on official development assistance (ODA).
9 The Framework on Strong, Sustainable and Balance Growth (“Growth Framework”) launched at the 2009 Pittsburgh (US) Summit. This “Growth Framework” constitutes the matrix of policies within which 1) each G20 country makes commitments and to which each country is held accountable; and 2) G20 collective commitments are articulated and tracked. Both of these functions are monitored through the IMF’s Mutual
To take new steps to increase access to food, fuel and finance among the world’s poorest while clamping down on illicit outflows. Steps to reduce the development gap can be a potent driver of global growth. (emphasis added).

This is quite different than the development approach taken by the UN, which is based on the right to development by states,\(^\text{10}\) and the right of individuals to lead a life of human dignity, encompassing a range of economic and social human rights.\(^\text{11}\) The multilateral development banks have also moved in this direction (albeit often under external pressure). Sustainable development also has a different, much wider meaning in UN contexts such as the Rio +20 Summit Outcomes in 2013 than it does in the G20 context.

G20 leaders at the Seoul Summit in 2010 reiterated this approach, but made it a more core part of the mission: ‘Narrowing the development gap and reducing poverty are integral to our broader objective of achieving strong, sustainable and balanced growth and ensuring a more robust and resilient global economy for all’. The Seoul Development Consensus for Shared Growth focused on six principles: focus on growth, partnership, tackle systemic issues, private sector, complementarity, and outcome orientation. It also outlined nine pillars: infrastructure, private investment and job creation, human resource development, trade, financial inclusion, growth with resilience (social protection and remittances), food security, domestic resource mobilisation and knowledge sharing.

The Communiqué of the G20 Ministerial Meeting on Development in 2011\(^\text{12}\) notes that it took the shock of the global financial crisis to realise:

\textit{The global economic crisis affected disproportionately the most vulnerable people. In the context of global risks, there is a growing need to develop mechanisms to offer better protection and ensure a more inclusive growth path.}

Further, a more social element is added:

\textit{the G20 will continue its work to promote a strong, balanced and sustainable growth, to narrow gaps in levels of prosperity, to foster a shared and inclusive growth, to further reduce poverty, promote gender equality and contribute to job creation.}

At Los Cabos in 2012, leaders were moving into language that sounded more like the OECD or UNDP in its focus on country-led priorities that tie into UN targets:

\textit{We reaffirm our commitment to work with developing countries, particularly low income countries, and to support them in implementing the nationally driven policies and priorities which are needed to fulfill internationally agreed development goals, particularly the Millennium Development Goals (MDGs) and beyond.}

\(^{10}\) Declaration on the Right to Development, 4 December 1986, A/RES/41/128


\(^{12}\) Communiqué of the G20 Ministerial Meeting on Development, 23 September 2011, Washington DC, USA.
This closer conceptual alignment may make it easier for the G20 to work with existing development actors, and it should also help narrow down where the G20 should prioritise and can add value.

Poverty is something the G20 should know about, after all, because most G20 nations are dealing with it within their own borders as well, or have transitioned from an aid recipient into a donor like South Korea. More than one half of the world’s poorest people live in G20 nations, as this IDS graph makes clear.

Actual

There have been some serious successes in the development arena, not always clearly labelled as such. The G20 has mobilised $1.1 trillion to withstand the global financial crisis, with $50 billion directly for low-income countries (LICs), both of which supported development, although arguably not enough to alleviate all the suffering the food crisis caused.

- Development of an Anti-Corruption Plan and political support and ratification of the UN Convention Against Corruption.
- The G20 has stimulated bigger quotas for lending to LDCs, and voting quota reform for the International Financial Institutions, (yet to be implemented in full).
- There have been incremental gains on food security, especially around increasing transparency over reserve stocks e.g. the Agricultural Market Information System and the Excessive Food Price Variability Early Warning system. The G20’s work on AgResults in 2012 was welcomed by development actors, adding value by coordinating the work of various international organisations.
- The G20 set up the high level panel on infrastructure investment, bringing stakeholders together to unlock binding constraints to infrastructure finance in Cannes.
- Under the Mexican’s presidency, held just before the Rio +20 summit, the G20 developed a nascent agenda on inclusive green growth.

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13 Robin Davies, „After the siesta: whither the G20’s development agenda?“, Development Policy Centre blog, 5 July 2012.
14 Although the HLP plans were criticized as having little to say about the social or environment dimensions of mega-projects. See further Nancy Alexander, Beyond the Public Eye: High-Level Panel on Infrastructure To Unveil its Recommendations for G20 Leaders, October 26, 2011.
The G20 asked Bill Gates to consider innovative financing for development in 2011, and his report recommended the Financial Transactions Tax (so called Robin Hood Tax), keeping it on the G2 agenda.

The G20 has set numerical targets to reduce the costs of remittances; although there has been less progress in other areas such as Duty-Free, Quota-Free.

There have been commitments to support Domestic Resource Mobilisation (eg Global Forum on Transparency and Exchange of Information for Tax Purposes set up in 2012, and the Extractives Industries Transparency Initiative).

Social protection floor has been agreed to ‘in broad principle’.

Commitment to reduce the cost of remittances.

Financial inclusion instruments and indicators developed, Russia to develop further.

Replenishment of the regional MDBs and IDA (especially London commitment of $100billion).

Attempts to tackle secrecy jurisdictions

Discussion at the Cannes Summit about humanitarian food reserves in the context of the Horn of Africa crisis.

What more can the G20 do?

According to the official Russian document, The Russian Presidency of the G20 in 2013, the current development agenda focuses on capacity-building in four areas:

1. food security with a focus on increasing agricultural production and addressing malnutrition;
2. infrastructure;
3. financial inclusion with a focus on financial literacy and access to financial services for women, migrants and youth; and
4. human resource development, especially developing skill sets that suit market needs.

In addition, the document states that the G20 will support the UN’s creation of a post-2015 agenda, deliver the G20 Accountability Report on Development and a St. Petersburg Development Action Plan.15

St. Petersburg Development Action Plan

Various development thinkers and international NGOs have been coming up with their wish list for the upcoming St Petersburg Development Principles.16 Most commentators will be looking for specific, measureable and time-bound commitments on key issues in the successor to the MYAP, which should also focus on a process of quality engagement with LDCs.

Some have focused on the enduring agenda items of food security and commodity-price volatility, fuel, especially the long-standing commitment of the G20 to a phase-out of all fossil fuel subsidies, yet to be realised.17 The G20 recently established a working group on climate change financing, and many environmental NGOs hold hope that it could be a circuit-breaker leading up to the UNFCC.

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15 Available at [http://www.g20.org/docs/g20_russia/outline#11](http://www.g20.org/docs/g20_russia/outline#11)
17 For example Barry Carin and David Short, „The G20 as a Lever for Progress“ CIGI G20 Papers, No. 7, February 2013.
Other ideas that have been raised by civil society in preparation for the St Petersburg Summit include that the G20 should:

- Promote fairer fiscal systems, including the promotion of more redistributive or progressive taxation policies, to ensure the availability of sufficient revenue for transformative services such as universal healthcare and education; and
- Agree on existing and innovative financing mechanisms to ensure there are sufficient finances to narrow the development gap.
- Deliver a reduction in income inequality by directly targeting sectors of the economy important to poor men and women’s livelihoods, such as small businesses and small-scale agriculture, and by setting ambitious national targets to reduce inequality between the highest and lowest income quintiles;
- Take action to address tax havens and improve tax transparency so that developing countries do not lose the revenue they need to invest in ending poverty and inequality.  

The finance gap and design/risk issues for investment in infrastructure for development outcomes is clearly an area of the development agenda that has the potential to be placed on the leadership track negotiations. The issue of public-private partnerships in this area raises significant concerns for many development commentators. How to finance and handle the risk issues for what I term ‘leapfrog’ green and clean infrastructure (including technology infrastructure) that meets the development needs of states and also safeguards vulnerable communities is a key debate for St Petersburg and the next troika period.

Time for a gender moment

If the G20 is serious about development outcomes and equitable growth, then it needs to get serious about gender equality, as every other development actor has over the last twenty years. Despite a promising paragraph in the Los Cabos Leaders Declaration and several references to health and education over the years, the G20 has been seriously deficient in its recognition of gender issues in the global economy, despite the clear evidence base for such issue in terms of productivity and every facet of the G20’s focus. Partly this is because of the under-representation of women in G20 processes thus far, only 25 percent of the heads of state of the G20 member countries are currently women. The figure for sherpas is even lower, with only 15 percent women. James Heintz argues:

Broad-based economic policies have gender-specific effects because sources of gender inequality interact with changes in the economic environment to produce distinct outcomes for women and men. Gender-blind policies are rarely gender-neutral.

The G20 needs a seminal moment on this issue, as the Security Council had in 2000 with the emergence of the Women Peace and Security agenda. Heintz recommends the development of a

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18 Recommendations of the Civil 20 on the G20, the MDGs and the Post-2015 Processes, May 2013.
19 See further Amar Bhattacharya, Mattia Romani, and Nicholas Stern. “Infrastructure for development: Meeting the challenge”, Policy paper by the Center for Climate Change Economics and Policy, the Grantham Research Institute on Climate Change and the Environment and the Inter-Governmental Group of Twenty-Four, 2012.
22 Op cit, p. 3.
Toolkit on Economic Policy and Gender to integrate gender into the G20’s agenda, plus some serious attention to gender in the new Development Action Plan.\(^\text{23}\)

**The Post-2015 Agenda**

Many development commentators, myself included, were apprehensive about the inclusion of the post-2015 agenda onto the already full agenda of the Development Working Group, preferring this to be an exclusively UN-led process. The right role for G20 members is in the demonstration of political leadership for the achievement of the current goals. They should demonstrate and act on their commitment to achieve the MDGs; commit sufficient resources to achieve the MDGs by committing sufficient ODA and mobilizing sufficient domestic resources, as appropriate; and promote new approaches to development financing by agreeing on existing and innovative financing mechanisms.

G20 members could also deliver collective statements endorsing a bottom-up process for the development of a single post-2015 framework and the full inclusion of southern perspectives in the new framework; and define carefully the role of the G20 in order to ensure there is no duplication with UN processes.\(^\text{24}\) But the G20 could also inform the UN processes in a meaningful way with its capacity for modeling, forecasting and analysis of economic drivers. Whatever comes out of the 2015 process, be it new MDGs of Sustainable Development Goals, the G20 should link its development agenda and its Framework definitions to these, to prevent diffusion and confusion.

**Conclusion**

Core G20 macroeconomic and financial policies have a significant impact on poverty and development. The G20 should commit to adopting a Policy Coherence for Development approach to ensure that decision-making on core G20 policies and actions includes an assessment of the impact on poor people within G20 borders, and developing countries. The G20 should further promote a *beyond aid agenda*: the G8, OECD DAC and the UN led post-2015 debate already address aid effectiveness questions, so let the G20 focus on other flows, such as remittances and private finance.

The G20 needs to lift its game considerably in relation to gender analysis, indicators and outcomes.

The G20 should be accountable to these overall development and equity outcomes. A development pillar/column should be added to the mutual assessment framework as an accountability measure.

Finally, the G20 is a site where poverty and wealth sit very close together. It should do more to understand itself and the relationship between development, growth and inequality before the G20 can fulfil its global governance potential.

\(^{23}\) Op cit, p. 4.
\(^{24}\) Recommendations of the Civil 20 on the G20, the MDGs and the Post-2015 Processes, May 2013.
Regional ‘Think 20’ Seminar

‘The G20 Leaders’ Process Five Years On: An Assessment From an Asian Perspective’
Coherence and Humility
Development Priorities for the G20

Susan Harris Rimmer, Asia-Pacific College of Diplomacy
Two bold propositions

1. Inclusive development needs to be at the heart of the G20 agenda and part of the ‘growth’ message for the G20 if it wants to survive and thrive as the premier forum of international development cooperation.

2. Lack of attention to gender analysis, lack of women’s representation in G20 processes and little attention to issues of gender equality must be remedied.

Investing in gender equality will lead to Strong, Sustainable and Balanced Growth

G20 + W = SSBG
Three assumptions

1. Development as freedom – not just economic growth but opportunities for the poorest.

2. Global governance theory - G20 is like a great dinner party (or ‘lever for progress’). Opportunities for leadership.

3. Accountability to G20 agenda/promises important… but so is accountability to citizens of G20 countries, non-G20 countries and especially the world’s poorest people.
Six recommendations

1. At least, do no harm. The Development Working Group should explicitly monitor the economic implications of G20 core actions in fiscal, financial, trade, exchange rate and environmental policies for non-G20 countries, esp LDCs.

2. A development pillar/column should be added to the mutual assessment framework.

3. The G20’s future lies in the ‘beyond aid’ agenda (trade facilitation, labour mobility, gender equality, climate finance, migration, technology etc), and the aim should be policy coherence for development.
Policy Coherence/Beyond aid
Six recommendations

4. Greatest leadership challenge in 2013-2014 is the achievement of the Millennium Development Goals and making sure something decent comes next.

5. Leaders Declarations need to speak to inclusive growth and acknowledge poverty and inequality challenges within G20.

6. G20 is not a credible development actor without paying serious attention to gender equality issues. The new Development Action Plan must be informed by serious gender analysis and indicators.
Inclusive development

- **China**: 208
- **India**: 456
- **Rest of World**: 617
- **Brazil**: 10
- **EU**: 2
- **Turkey**: 2
- **South Africa**: 12
- **Russia**: 3
- **Indonesia**: 66
- **Mexico**: 4
Inequality on the rise

Equality of income in G20 compared over two decades, 1990-2010

Per cent change in gini coefficient towards greater equality

Less equal  More equal

Source: Gini using data from H. Solt (2010)
'The Standardized World Income Inequality Database' (wIID)
Gender equality and the G20: The third billion
Outreach and political leadership
Outreach and leadership
Outreach and leadership
Thank you.

Stay tuned for ‘Troika Diplomacy’
Regional ‘Think 20’ Seminar

‘The G20 Leaders’ Process Five Years On: An Assessment From an Asian Perspective’
Regional ‘Think 20’ Seminar

‘The G20 Leaders’ Process Five Years On: An Assessment From an Asian Perspective’
G20 Development Agenda

Wonhyuk Lim
Director of Global Economy Research
I. Evolution of the Global Development Agenda
   - Beyond the Washington Consensus and MDGs
   - Historical Experience with Growth and Poverty Reduction
   - 2010 G20 Seoul Development Consensus for Shared Growth
   - 2011 Busan HLF4: From Aid Effectiveness to Development Effectiveness
   - Post-2015 Development Agenda: Beyond Basic Human Needs

II. Five Strategic Roles for the G20 to 2015 and Beyond
   - Convergence in Development, Sustainability, and Climate Change
   - Country Transformation and Global Partnership
   - Financial Integrity and Development Finance
   - Economic Transformation of Africa
   - Strategic Thinking on Global Transformations
The key is for a country to retain ownership of its development and progressively expand its capacity to add value and manage risk even as it actively learns from, and engages with, the outside world (beyond the Washington Consensus and the Millennium Development Goals).
Breakdown of the Washington Consensus

- **Washington Consensus 1: Stabilize, Privatize, and Liberalize**
  - Skepticism from practitioners and scholars familiar with East Asia’s development even at the height of triumphant neoliberalism

- **Washington Consensus 2: Get the Institutions Right**
  - “Picking winners” in another guise?: Is picking right institutions easier than picking right industries?
  - Local context of institutional innovations

- **Disillusionment with the Washington Consensus**
  - Disappointing performance of Russia and Central Europe, Latin America, and Sub-Saharan Africa
  - Financial crises in emerging markets and advanced economies
  - Rapid growth of China and India

- **Search for a New Consensus**
  - Institutional Fundamentalism: Good Governance Agenda
  - Bootstrapping Approach: New Light on Asia’s Experience
  - New “Big Push” out of the Poverty Trap: UN Millennium Project
Millennium Development Goals

Breakthroughs (cf. Millennium Declaration)
- Global Partnership for Development
- Focus on Poverty and Human Development (BHNs)
- Popular Support and Political Buy-In

Methodological Features
- Simplicity and Measurability: Numerical Indicators
- Focus on Ends rather than Means: No Recipes
- Global rather than Regional/Country Targets
- No Unifying Theory of Development
- Different Levels of Abstraction (Mixed Bag)

Limitations
- Focused on LICs, Less Relevant for MICs and HICs
- Weak on Basic Freedoms and Equity
- Susceptible to Vertical Approaches (e.g., Combat malaria with vaccines vs. broad-based development)
- Insufficient to Generate Self-Sustaining Growth Based on Progressive Local Capacity Development
  (cf. Korea’s G20 consultation with LICs: industry, infrastructure, skills, and trade; Voices of the Poor: job, connectivity, security, and respect)
## Growth and Volatility: GNI Per Capita, 1960-2007

<table>
<thead>
<tr>
<th>Income classification</th>
<th>Mean growth, % p.a.</th>
<th>Volatility (standard deviation), % p.a.</th>
<th>Share of years with positive growth, %</th>
<th>Average positive growth, % p.a.</th>
<th>Average negative growth, % p.a.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>(A) Grouping countries according to 2008 GNI per capita (2008 Cohorts)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low income</td>
<td>0.2</td>
<td>6.0</td>
<td>60</td>
<td>3.6</td>
<td>-4.7</td>
</tr>
<tr>
<td>Middle income</td>
<td>2.3</td>
<td>5.0</td>
<td>78</td>
<td>4.1</td>
<td>-4.4</td>
</tr>
<tr>
<td>High income</td>
<td>3.1</td>
<td>3.6</td>
<td>89</td>
<td>3.9</td>
<td>-3.1</td>
</tr>
<tr>
<td><strong>(B) Grouping countries according to 1962 GNI per capita (1962 Cohorts)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low income</td>
<td>2.0</td>
<td>5.5</td>
<td>72</td>
<td>4.6</td>
<td>-4.3</td>
</tr>
<tr>
<td>Middle income</td>
<td>2.1</td>
<td>4.7</td>
<td>79</td>
<td>3.8</td>
<td>-4.5</td>
</tr>
<tr>
<td>High income</td>
<td>2.0</td>
<td>2.0</td>
<td>89</td>
<td>2.6</td>
<td>-2.0</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>5.7</td>
<td>3.8</td>
<td>94</td>
<td>6.4</td>
<td>-4.5</td>
</tr>
</tbody>
</table>

*2008 per capita GNI levels for MICs are $996-$12,195, with Upper MICs starting at $3,946.
Source: Winters, Lim, Hanmer, and Augustin (2010)*

The average per capita growth rates for the 1962 cohorts are remarkably similar across income groups. However, low-income countries tend to exhibit a much greater degree of growth volatility and have fewer years with positive growth than richer countries.
Regional breakdown of number of poor (millions) for the international poverty line of $1.25 a day (PPP, 2005 constant international dollars), 1981-2005

Source: Chen & Ravallion (2008)
Regional breakdown of the number of poor (millions) for the international poverty line of $1.25 a day vs. Per capita GDP (PPP, 2005 constant international dollars), 1981-2005

Source: Chen & Ravallion (2008) and WDI
Since 1950, there have been only 13 economies that have grown at an average of 7 percent a year or more for 25 years or longer (Commission on Growth and Development 2008).

- 9 Economies in Asia: China, Hong Kong (China), Indonesia, Japan, Korea, Malaysia, Singapore, Taiwan (China), and Thailand
- 4 Economies in Other Regions: Botswana, Brazil, Malta, and Oman

Only two countries (Korea and Oman) went from low-income to high-income status from 1962 to 2008. Many countries are stuck in middle income.
## Differentiating the G20 and G8 Approaches to Development

<table>
<thead>
<tr>
<th>Principle</th>
<th>G20 approach</th>
<th>G8 approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong, sustainable and balanced growth</td>
<td>Focus on growth</td>
<td>Focus on welfare/poverty</td>
</tr>
<tr>
<td></td>
<td>Global structural transformation</td>
<td>Country structural adjustment</td>
</tr>
<tr>
<td></td>
<td>Systemic risk management</td>
<td>Mitigate impact of shocks</td>
</tr>
<tr>
<td>Need for collective action</td>
<td>Coherent policies towards development</td>
<td>Focus on aid</td>
</tr>
<tr>
<td></td>
<td>Model good practice</td>
<td>Define homogeneous standards</td>
</tr>
<tr>
<td></td>
<td>Reduce free-riding through dialogue and common understanding</td>
<td>Enforce global rules</td>
</tr>
<tr>
<td>Tangible results</td>
<td>Implementation focus (templates/scorecards)</td>
<td>Announcements focus</td>
</tr>
<tr>
<td></td>
<td>Common accountability framework</td>
<td>Ad hoc accountability mechanisms</td>
</tr>
<tr>
<td></td>
<td>Significant legacy agenda</td>
<td>Fresh agenda each meeting</td>
</tr>
<tr>
<td>Legitimacy and Relevance to others</td>
<td>Global economic governance</td>
<td>G8 rules</td>
</tr>
<tr>
<td></td>
<td>Middle income and low income development issues</td>
<td>Low income focus, especially Africa</td>
</tr>
<tr>
<td></td>
<td>Involve regional organizations</td>
<td>Invite specific countries</td>
</tr>
</tbody>
</table>

Source: Kharas (2010)
### 2010 G20 Seoul Development Consensus for Shared Growth: Pillars and Actions

| Infrastructure | - Comprehensive Action Plans: information and needs assessment, review of internal MDB practices, investment climate improvement, regional integration, transparency and sustainability  
|                | - High-Level Panel for Infrastructure Investment |
| Human Resource Development | - Internationally Comparable Skills Indicators  
|                | - National Employable Skills Strategies (LIC pilots) |
| Trade (no substitute for the Doha Development Agenda) | - Enhancement Trade Capacity and Access to Markets  
|                | [Progress towards Duty Free / Quota Free for LDCs] |
| Private Investment and Job Creation | - Support for Responsible Value-Adding Private Investment and Job Creation: standards, indicators, G20 Challenge on Innovation |
| Financial Inclusion | - Global Partnership for Financial Inclusion (GPFI)  
|                | - SME Finance Challenge  
|                | - G20 Financial Inclusion Action Plan |
| Growth with Resilience | - Social Protection Programs  
|                | - Facilitation of International Remittances |
| Food Security | - Policy Coherence and Coordination  
|                | - Mitigation of Price Volatility and Protection for the Most Vulnerable |
| Domestic Resource Mobilization | - Development of More Effective Tax Systems  
|                | - Prevention of Erosion of Domestic Tax Revenues |
| Knowledge Sharing | - Enhancement of Knowledge Sharing |
Abiding by a particular set of principles/modalities in employing the chosen instruments will improve the effectiveness of these instruments in achieving the chosen objectives.

<table>
<thead>
<tr>
<th>Instruments</th>
<th>Principles/Modalities</th>
<th>Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>ODA</td>
<td>Ownership</td>
<td>1. Poverty Reduction</td>
</tr>
<tr>
<td>Philanthropy</td>
<td>Alignment</td>
<td>2. Social Development (Education, Health+)</td>
</tr>
<tr>
<td>Knowledge Sharing</td>
<td>Harmonization</td>
<td>3. Economic Growth</td>
</tr>
<tr>
<td>Investment</td>
<td>Managing for Results</td>
<td>4. Freedom</td>
</tr>
<tr>
<td>Trade</td>
<td>Mutual Accountability</td>
<td>5. Happiness/Well-Being</td>
</tr>
</tbody>
</table>

Actors

- Countries: “North” and “South”
- Int’l Organizations
- CSOs
- Firms

1+2: Millennium Development Goals (MDGs)
2+3: Human Development Index (HDI)

The Paris Declaration on Aid Effectiveness (2005) is mainly focused on the delivery and management of ODA.
“Progress” in Global Agenda

More Aid
ODA/GNI = 0.7%

Better Aid
Accra Agenda (2008)

Beyond Aid
Busan Partnership (2011)

Aid Effectiveness
- Reduce transaction cost in aid delivery and management
- Target development impact (results)

Development Effectiveness

State Effectiveness
(Effective Institutions and Policies)

Next: Effective Effectiveness???
Post-2015 Development Agenda: Background

North-South Aid Model (1990s)

• In 1990, 80% of the world’s poor lived in stable, low-income countries; in 2010, only 10% did, as 66% of the world’s poor lived in middle-income countries, and 24% in fragile, low-income countries.
• In 1990, G7 accounted for 66% of the world’s GDP at market exchange rates; in 2010, G7 accounted for 50% of the world’s GDP.
• Methodologically, external aid delivery combined with silo approach dominated global development agenda; local capacity development and holistic approach did not receive sufficient attention.

Future Development Agenda (Post-2015)

• In the 1990s, 40% of world population were city dwellers, with less than 100 million international migrants; by 2050, 70% of the world’s population will reside in cities, with 400+ million migrants.
• The growth rate of the world’s aging population jumped from 1.3% in 1997 to 3.5% in 2000; by 2050, 20% of world population will be over 60.
• The frequency of natural disasters increased five-fold since the 1970s, with estimated annual damages rising from $20 billion in the 1990s to $100 billion in the 2000s.

Focus on Poverty

“Poverty Reduction and Basic Human Development for dignified lives of the Bottom Billion”

Focus on Development as Freedom

“Freedoms are not only the primary ends of development, they are also among its principal means.”

(Amartya Sen)
Post-2015 Development Agenda

Current MDGs

1. Eradicating extreme poverty and hunger
2. Achieving universal primary education
3. Promoting gender equality and empowering women
4. Reducing child mortality
5. Improving maternal health
6. Combating HIV/AIDS, malaria, and other diseases
7. Ensuring environmental sustainability
8. Global partnership for development

UNTT Report

Inclusive Economic Development
- Eradicating income poverty & hunger
- Reducing inequalities
- Ensuring decent work & productive employment

Inclusive Social Development
- Adequate nutrition
- Quality education
- Reduced mortality & morbidity
- Gender equality
- Universal access to clean water & sanitation

Environmental Sustainability
- Protecting biodiversity
- Stable climate
- Resilience to natural hazards

Peace & Security
- Freedom from violence, conflict and abuse
- Conflict-free access to natural resources

One World Goals

- Inclusive growth
- Infrastructure
- Global governance
- Food and water
- Education and skills
- Gender equality
- Health
- Resilient communities
- Environmental sustainability
- Security
- Civil and political rights
Five Strategic Roles for the G20 to 2015 and Beyond

- Work Towards Convergence in UN Processes on Development, Sustainability, and Climate Change.

- Support developing country transformation strategies, capacities, and public management systems through the Global Partnership on Effective Development Cooperation at the country level.

- Link up the agendas for Financial Integrity, Economic Transformation and Development Finance.

- Support the Economic Transformation vision of the African Union.

- Develop the G20 role as a forum for strategic thinking on global transformation.
Convergence in Development, Sustainability, and Climate Change

◆ Challenge

◆ There are three major UN processes underway: on development strategies beyond the Millennium Development Goals (MDGs) beyond 2015, on sustainable development goals (SDGs) which are to be coherent and integrated with the post 2015 development strategies, and the UNFCCC process to produce a new Global Framework Agreement on climate change from 2020.

◆ They culminate together at the end of 2015, at which point they will be matters of high political and public interest. Achieving inspiring, coherent outcomes in 2015 will be a test of global leadership.

◆ Action

◆ Invite UNSG Ban Ki-moon to inform the St Petersburg G20 of progress and key issues in bringing the major UN processes on development, sustainability and climate change onto a converging track so that strong, coherent outcomes are achievable in 2015.

◆ Set up a G20 2015 Strategic Convergence Group, to underpin work towards significant and coherent global frameworks for inclusive and sustainable development and collective action on climate change.

◆ Assist this convergence process by strengthening or creating coordination arrangements in G20 capitals across relevant ministries.
UN Processes for New Global Frameworks (Convergence Scenario)

- Inputs from:
  - UN Task Team
  - Civil Society
  - Think Tanks
  - Other International Bodies

- Sustainable Development Solutions Network
  - Inputs to HLP Report 2015

- UN Global Compact Inputs

- HLP Meetings:
  - London
  - Monrovia
  - Ball
  - HLP Report May 2013

- UNSG High Level Panel on post 2015 Development Strategies

- Regional and Thematic Consultations

- UNGA President Special Events 2013-2014
  - Input from UNSG

- High Level Political Forum on Sustainable Development
  - Proposal to UNGA for SDGs coherent and integrated with post 2015 agenda

- COP 17 Durban Platform

- COP 18 Doha December 2012

- COP 19 Warsaw 2013

- COP 20 LAC 2014

- COP 21 Paris 2015

- Green Climate Fund

- Climate Technology Centre

- National Adaptation Plans

- UNSG convenes world leaders 2014

- UN Framework Convention on Climate Change

- Ad hoc Working Group on the Durban Platform for Enhanced Action

- Post 2015/SDGs Discussion and drafting process 2014 - 2015

- Negotiation of final drafts 2015 C33/Q4

- Post 2015 MDGs/SDGs Single Text (Convergence hypothesis)

- Green Growth paradigm links global and national agendas

- Resilient people paradigm links global and national agendas

- Education for all April 2015

- Financing for Development (fbc)

- Development Cooperation Forum July 2014

- Commission on the Status of Women March 2014

- UNCTAD WTO - Bretton Woods sessions

- World Conference on Indigenous peoples 2014

- World Conference on the Information Society Sept 2015

- Conferences on migration, nutrition, disaster reduction

- 10-year review of Landlocked and small island states

- 2nd World Summit on the Information Society 2015
Country Transformation and Global Partnership on Effective Development Cooperation

◆ Challenge

◆ Bringing fragmented efforts within coordinated national programs and public management systems has been a focus of reform for more than a decade.

◆ The Global Partnership on Effective Development Cooperation, under ministerial leadership from Indonesia, Nigeria and the UK, has created a new political space for the whole range of development actors to speed up collective action.

◆ With its cross-government and cross-system overview, and in conjunction with the UNDP and the OECD support teams, the G20 can strengthen the connection between global and local efforts to increase the effectiveness of development cooperation.

◆ Action

◆ Invite Indonesia to present a progress report to the St. Petersburg G20 on country level development cooperation models.

◆ This report should be supported by three country case studies prepared by local think tanks on the performance and problems of the development cooperation effort in these three countries (including at least one fragile state).

◆ Articulate the findings in ways that can be used by G20 leaders in shaping their policies on development cooperation.

◆ Maintain this reporting process each year as a means of promoting further cooperation among G20 countries and others to build up developing countries’ core capacities.
Country-owned development strategies and cooperation platforms
Knowledge-sharing partnerships

Regional Platforms

Country-focussed
Global-light
Busan Architecture for Effective Development Cooperation

Global Partnership for Effective Development Cooperation
DAC
Developing Countries

Private Sector
Fragile States

Parliaments

UN System
MDBs/Global Funds

Civil Society

South-south Providers*
Observer status

Steering Committee**

UN Development Cooperation Forum

Global Partnership Ministerial Meetings

UNDP/OECD Support Teams

Developed Countries

Busan Partnership Document, incorporating Paris Declaration and Accra Action Agenda

Development Cooperation Policy Partnership Platforms (Building Blocks)

* South-south providers participation on voluntary basis

** Cochairs: Indonesia, Nigeria, UK
Challenge

To achieve economic transformation in developing countries, a holistic approach to financial integrity is paramount, bringing together action across the global financial and fiscal systems to eliminate illicit flows and increase financial transparency, fostering capacity development to strengthen the institutions and resources needed to effectively manage national wealth for sustainable development progress.

The G20 is uniquely placed to help pull together these political and operational elements, taking further its work to date on corruption and related areas of international finance and development.

This involves i) closing down the channels for illicit flows that both undermine political focus on inclusive national wealth creation and adversely impact on reputation, investor confidence and new entrepreneurial talent, and ii) helping to strengthen the institutions and skills needed to intermediate and manage development finance both domestic and external.

Action

The G20 should elaborate a vision of development finance built around a holistic concept of financial integrity. This vision should set out the foundations for promoting inclusive economic transformation under effective states and for building the capacities and confidence that will drive long term development finance and underpin domestic resource mobilization and financial market development.
Challenge

In the context of the 50th anniversary of African unity this year, African leaders are launching a new phase in Africa’s renaissance designed to make Africa a dynamic, middle-income continent through strong and sustainable internal and external growth dynamics within the next 50 years. This African Leaders project is to convert growth arising from commodity revenues driven by the growing middle class in emerging countries into transformational, inclusive economic development.

Many G20 members have built valuable partnerships with African leaders and institutions, especially the African Union. G20 member South Africa plays a strong role in advancing the economic transformation agenda in Africa.

Action

Provide a strong signal of support at St. Petersburg for the new African economic transformation plan.

Invite the AU to join the G20 as a full member.

Set up a G20 African Transformation Support Group to help develop opportunities and break bottlenecks.
Strategic Thinking on Global Transformations

**Challenge**

- The dynamic and interactive megatrends operating in the global economy, and at regional and national levels, are shifting wealth and geo-political interests, creating new risks, challenges and opportunities for sustainable development.

- Looking ahead at new risks, challenges and opportunities for peaceful development, and having the tools to do so, is another key role for the G20 as a global reference point for collective thinking and collective action. International organizations with multidisciplinary policy reach can help here. The Think 20 group, the labor and business groups and civil society can organize special studies and alert reports. A further action would be to create an attractive easy-to-navigate web portal for accessing current work of relevance for global economic governance.

**Action**

- Further Develop the forward-looking, horizon-scanning role, drawing on the G20 Leaders own roles at the center of Government and on the support system of international organizations, the Think 20 and the G20 consultative for a.

- Launch a series of G20 Vision Reports.
Regional ‘Think 20’ Seminar

‘The G20 Leaders’ Process Five Years On: An Assessment From an Asian Perspective’