Policy ideas for the Brisbane G20 Summit: Reflections on Think20 2014

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OVERVIEW

MIKE CALLAGHAN

This issue of the Monitor contains reflections on Think20 2014. The Think20 involves think tanks and academics from G20 countries. The aim of the Think20 is to feed policy ideas into the G20 process.

The first Think20 meeting to be held under Australia’s G20 presidency was hosted by the Lowy Institute in Sydney, 11 December 2013. There were over 40 participants from G20 countries. In advance of the meeting, participants provided a short paper outlining their policy recommendations for the Brisbane G20 Summit. These papers have been published and are also available online.

Following are papers prepared by myself, Daniela Strube and Hugh Jorgensen covering the four policy areas covered at the Think20 meeting on 11 December 2013. The papers deal with:

- The G20’s economic and finance challenges
- Trade liberalisation
- Infrastructure
- Development

The papers are not a summary of the meeting nor do they reflect the agreed views of participants. They reflect the authors’ views on the four topics listed above, and on the ideas raised within the Think20 papers and the discussion at the meeting. Each paper focuses on specific policy proposals that could be advanced by the G20 in 2014.

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1 Director, G20 Studies Centre, Lowy Institute for International Policy.
THE G20’S ECONOMIC AND FINANCE CHALLENGES

MIKE CALLAGHAN

INTRODUCTION

The G20 leaders’ process was established in November 2008 in response to a global financial and economic crisis. In an effort to prevent similar, future crises, G20 leaders set about the task of stabilising the global economy, restoring growth, and initiating a process to strengthen financial regulation.

Although these objectives remain ‘work in progress’, the achievements of the G20 in responding to the crisis need to be recognised, including the provision of: coordinated liquidity injections, international resources for crisis countries, coordinated fiscal stimulus measures, and action to deal with failures in financial regulation. But five years after the crisis, global growth is still weak and the risks are on the downside. The post-crisis global recovery remains ‘arduous and protracted’, and global production has yet to return to pre-crisis levels. Unemployment remains high in many countries and wealth and income inequality is increasing. It is estimated that over 22 million jobs have been lost globally since the beginning of the crisis, and that 600 million jobs need to be created over the next fifteen years to sustain current employment levels. Evidently, lifting economic growth and creating jobs must remain the priority of the G20.

CONCERNS OVER THE POLICY MIX

Adding to the uncertainties that confront the global economy are the questions about the appropriateness and sustainability of the suite of macroeconomic policy tools that have been utilised in the wake of the financial crisis. Economic policy is in uncharted waters. There has been ongoing debate around the use of fiscal policy as a growth booster versus the need to consolidate fiscal positions and reduce public debt levels. A tendency towards fiscal consolidation has contributed to the adoption of unorthodox monetary policies and substantial quantitative easing. This has resulted in substantial spillover impacts, particularly through attempts – even if indirect – to boost export-led growth via currency depreciation. As with all monetary policy, the effects of quantitative

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1 Director, G20 Studies Centre, Lowy Institute for International Policy
INCREASED CAPITAL VOLATILITY

A major concern confronting many economies, particularly emerging markets, is increased capital volatility due to the unwinding of quantitative easing in a number of advanced economies. Shoring up the mechanisms that deal with such volatility, such as improving the adequacy of safety nets, both global and regional, needs to be on the G20’s agenda. While the resources of the IMF have been increased, there remain concerns over its governance structure and the appropriateness of its response to the European debt crisis. Regional financial arrangements, including bilateral currency swaps, are proliferating. Resolving how the resources of the IMF can best be combined with regional funding arrangements in responding to capital volatility would also boost global economic resilience.

The G20 has struggled to deliver a clear, consistent and coordinated message as to how members are cooperating to restore growth and create jobs. The leaders’ declaration and action plan released at the St Petersburg Summit did acknowledge the challenges and risks to the global economy, and leaders said that they would address them. But their action plan largely consisted of a list of policies already announced or already being implemented by members. Moreover, the United States did not mention its monetary and exchange rate policies in its submission to the Mutual Assessment Process (MAP) outlined in St Petersburg – both major factors in the trajectory of the global recovery. Given that international cooperation is essential and goes to the heart of the G20 process, members have to get back on the same page and demonstrate that the G20 truly is an effective forum for dealing with international economic issues and fostering cooperation. In particular, the G20 must develop a clearer, more consistent narrative about how members are cooperating to strengthen global economic growth and create jobs. That being said, the reality is that each country’s policies are ultimately set according to its individual national circumstances and interests.

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6 Ibid.
9 Ibid.
10 Ye Yu, “G20 Economic Priorities for 2014: Reforming the MAP.”
13 Serrate, “The Threats of Transition, and the Need to Speed Up the Building of a Robust Market Infrastructure.”
THE MAP IS A WORK IN PROGRESS

The G20 Framework for Strong, Sustainable and Balanced Growth – supported by the MAP – is meant to be the basis by which G20 members analyse national economic policies and their spillover effects on other countries and on global growth, with the goal of formulating adjustment commitments. The success of the Framework and MAP is therefore closely connected to the success of the G20 as a whole. Yet the MAP, like the G20’s task of strengthening global growth, can best be described as ‘work in progress’.

However, while the Framework and the MAP should be at the core of the G20 process, a range of views as to the intent and purpose of both the Framework and MAP exist. Proposed objectives for the MAP include: establishing a mechanism for reducing global imbalances; shifting the balance of global demand growth; managing medium-term fiscal consolidation; bringing structure into the consultation process in a complex and integrated global economy; strengthening international cooperation in the making of macroeconomic policy; and, providing a means to enhance cooperation between the major economies.

The widely acknowledged strength of the Framework’s MAP, is that it is ‘owned’ by G20 members, bolstered by high-quality technical input from the International Financial Institutions. Its weakness, which it shares with other attempts at economic surveillance, is that the MAP has no enforcement power over a member other than the potential public embarrassment of being criticised by other G20 members for failing to implement its commitments. However, with agreements reached on a consensus basis, and a tendency to favour ‘peer protection’ over peer review, the scope for public embarrassment of G20 members as part of the MAP has, in practice, been minimal.

The acid test of the MAP and the associated action plans that have been released at each G20 summit is whether they are influencing the policy choices of G20 members.

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14 Stephen Pickford, “G20 Economic Priorities for 2014: Reforming the MAP.”
17 Stephen Pickford, “G20 Economic Priorities for 2014: Reforming the MAP.”
18 Ibid.
21 Ye Yu, “G20 Economic Priorities for 2014: Reforming the MAP.”
THE TASK OF STRENGTHENING FINANCIAL REGULATION

A very large financial regulatory reform agenda is notionally underway. However, as the crisis was essentially a North Atlantic financial crisis, the G20’s work on strengthening financial regulation has been described as a process by which non-G7 countries were asked to introduce reforms that addressed the financial regulatory weaknesses of the G7 economies. In other words, in re-regulating their own financial systems, the G7 asked the rest of the world to do the same, even though other countries had not necessarily been as ‘hands-off’ as the G7 in terms of their approach to financial regulation and supervision prior to the crisis. There has been progress in establishing new financial standards, but gaps remain and implementation has been patchy. For example, a weakness of Basel III is its maintenance of the internal ratings-based approach, which allows banks to use differing methods of risk-weighting assets in determining their required amount of regulatory capital. For example, the average amount of risk-weighted assets as a percentage of total assets among large EU banks is 33 per cent, while the US average is about 58 per cent, meaning that the other assets require no capital. While the capital position of most banks has been improved since the crisis, the question remains whether the current approach will be effective in delivering both a stable, transparent, and efficient banking system. In a similar vein, with the rules on over-the-counter (OTC) derivatives trading and clearing still to be implemented, there are deep concerns over the consistency of their implementation across jurisdictions, as it remains too early to assess the effectiveness and appropriateness of these reforms.

POLICY RECOMMENDATIONS

For the G20 to remain relevant and to draw on its strengths, the Brisbane Summit should address the main issues confronting the global economy and concentrate on the areas requiring international cooperation.

The economic/finance policy options that could be pursued at the Brisbane Summit can be divided into three, interconnected categories:

- Measures to lift growth
- Dealing with risks and vulnerabilities
- Strengthening the MAP process

THE NEED FOR A G20 GROWTH STRATEGY

The development of a combined G20 growth strategy, which outlines how G20 members are working together to lift growth, along with

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24 Ibid.
The development of a combined G20 growth strategy, which outlines how G20 members are working together to lift growth, along with the release of each member’s individual growth strategy, should be elevated as top priorities for Brisbane. In the St Petersburg declaration, leaders requested their finance ministers develop comprehensive growth strategies for presentation at the Brisbane Summit. The growth strategies represent an opportunity for the G20 to deliver a consistent and coordinated economic narrative, to reposition the Framework for Strong, Sustainable and Balanced Growth at the centre of the G20’s activities, and demonstrate that all of the G20’s work is directed towards lifting growth. The coordinated growth strategy should also demonstrate that G20 members are aware that their policy choices can impact on the prospects of other countries – both positively and negatively – and that they will act accordingly.

The growth strategy should be comprehensive and embrace all aspects of economic policy and not be seen as primarily focused on fiscal consolidation or reducing external imbalances. The strategy should also reflect the differing circumstances of individual G20 economies. For example, much attention has been directed towards the role that increased infrastructure spending can play in lifting growth. Increased infrastructure spending has an important role to play in the recovery of some countries, while in others, the priority is not so much to lift investment, but to stimulate private consumption expenditure. The growth strategies should also cover the importance of ensuring macroeconomic stability through appropriately targeted monetary and fiscal policies, keeping markets open, facilitating private investment, liberalising trade, along with promoting efficient product and labour markets, which includes appropriately targeted education and skills programs. The growth strategies should incorporate the importance of empowering small and medium-sized businesses, recognising their role in creating jobs. Reducing social and economic inequalities should also be a core component of the G20’s bid to promote balanced and sustainable growth, as should efforts at lifting the growth prospects of developing economies.

The importance of efficient and stable financial markets ought to be recognised as a central component of achieving sustainable growth. With this in mind, the growth strategy launched at the Brisbane Summit should include steps that improve the G20’s oversight of financial regulation. As the detailed development of new financial standards is being undertaken through the standard-setting bodies and the Financial Stability Board (FSB), the G20 should focus on the ‘big-picture’ issues, including taking stock of the overall progress made on achieving stable and efficient financial systems. It should also assess whether the new standards are being implemented consistently, and whether they...

26 Such as China.
29 Mike Callaghan, “The Brisbane Summit Needs to Deliver a G20 Coordinated Growth Strategy.”
are leading to any unintended consequences, particularly with respect to emerging markets and developing countries. The importance of ensuring the FSB has a balanced agenda that includes financial market regulation also needs to be acknowledged, as the FSB has tended to focus more on bank regulation.

An important component of the comprehensive growth strategy will be combating tax avoidance and evasion, particularly ‘base erosion and profit shifting’ by corporates. Declining tax revenues are a problem for governments at a time when many are fiscally constrained. Tax evasion and avoidance also raise domestic political concerns about fairness. The position of developing countries has to be specifically recognised, because improving their ability to raise taxes is critical to their growth prospects.

DEALING WITH RISKS AND VULNERABILITIES

As part of the task of lifting growth on a sustainable basis, the G20 must be responsive to all risks and vulnerabilities threatening the global economy and take appropriate action. As such, there have been calls for the G20 to establish an early warning system to detect potential threats in advance. Currently the G20 MAP concentrates on developments in the real economy. The IMF, with support from the FSB, has the lead in evaluating global financial risk and providing an early warning system for signalling vulnerabilities. However the IMF’s analysis of the financial sector and its assessment of vulnerabilities is not directly discussed by G20 finance ministers and central bank governors or leaders. As such, rather than the G20 attempting to implement its own early alert or vulnerability exercise, there is a need to improve the interaction between IMF surveillance and the G20. The G20 has to be more supportive and responsive to all aspects of IMF and FSB surveillance, particularly the identification of vulnerabilities and systemic risks.

As part of better integrating the MAP with IMF surveillance, the G20’s work program should explicitly address the highest priority issues raised in the IMF’s World Economic Outlook (WEO) report. For example, the October 2013 WEO identified that the priority issues needing to be addressed included the speed of fiscal consolidation, completing the process of repairing financial institutions’ balance sheets, and managing the volatility of capital flows. These issues should be directly addressed in the development of the G20’s growth strategies. As mentioned earlier, the adequacy of financial safety nets in dealing with capital volatility needs to be examined by the G20 in 2014, including the relationship between the IMF with regional safety nets. The role of bilateral central swap lines should also be considered,

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30 Jose Siaba Serrate, “The Threats of Transition, and the Need to Speed up the Building of a Robust Market Infrastructure.”

31 Stephen Pickford, “G20 Economic Priorities for 2014: Reforming the MAP.”
along with examining the possibility of endorsing a set of principles for such swaps.32

STRENGTHENING THE MAP

There are a number of approaches that could be taken in an effort to strengthen the MAP. The current approach of encouraging countries to commit to implementing specific structural reforms could be extended, along with the peer review process as part of the activities of the Framework Working Group. Countries could be requested to provide more specific reform commitments with implementation timetables that could be monitored as part of the MAP.33 To date, countries have largely only identified already announced policies that are being implemented, and it is difficult to see how the G20 MAP process has contributed to influencing members’ policy choices.

An alternative to using the MAP to monitor the detail of structural reforms is to elevate the nature of the discussion within the G20, such that an examination of the spillovers and appropriateness of the chosen policy mix within each country’s overall growth strategy becomes the focus of the discussion.

At a minimum, the documentation released as part of the MAP needs to be streamlined. Longer and more detailed reports and annexes do not necessarily enhance the effectiveness of the MAP. The results of the MAP should be presented in a single, targeted, and coherent document.34

Another option for strengthening the MAP would be to seek the input of external, independent experts (other than the IFIs). However this would reduce the ownership of the MAP, which is meant to be one of its strengths, and likely reduce the willingness of members to meaningfully participate in the process. Public pressure is perhaps the most important motivating mechanism for enforcing commitments made as part of the MAP. To the extent that the G20 increases its transparency and publishes the reports from the Framework Working Group in advance of the summit, this will allow for external review before leaders discuss the reports.

FINAL COMMENT – G20 LEADERS NEED VISION

The world needs leadership and leaders need vision.35 G20 leaders should be preparing for the challenges of tomorrow as well as meeting the demands of today. Leaders should look to the future and assess how technological advancements, the digital economy, and the changing

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34 Ibid.
35 Mike Callaghan, “Introducing a Forward-Looking Component to the G20 Leaders’ Agenda.”
nature of global business practices are not only challenging tax laws and the regulation of globally operating financial firms, but also trade policy and many aspects of economic and social policies. Technological change will not stop – it will lead to greater interconnectedness and the need for closer cooperation between countries. Engagement in the ‘vision thing’ will reinforce the need for the G20 to be an effective forum for international economic cooperation, as well as emphasise the importance of having effective international economic institutions.
THE G20 AND TRADE LIBERALISATION

MIKE CALLAGHAN

INTRODUCTION

The papers prepared for the Think20 meeting held on 11 December 2013 were written in advance of the WTO ministerial meeting in Bali on 6-7 December 2013. Many of the participants were sceptical as to whether an agreement would be reached in Bali, although all emphasised the importance of an open, rules-based multilateral trading system to support global growth.

The fact that an agreement was reached at the Bali WTO ministerial meeting was a very welcome development. It is the first multilateral trade agreement to have been reached by the WTO since it was established in 1995, and comes after 12 years of protracted negotiations over the Doha Development Agenda (DDA) that commenced in 2001. Even if the outcome from Bali was but a small component of the range of issues within the DDA, the Bali WTO deal demonstrated that the WTO can be a forum for negotiating multilateral trade agreements.

Notwithstanding the agreement in Bali, the future of the multilateral trading system is a pressing issue for the international community, and it must be a key priority for the G20 in 2014.

CHALLENGES

Trade and investment play a critical role in promoting economic growth. G20 leaders have acknowledged this, although their involvement in global trade issues has largely been limited to the annual inclusion of a ‘standstill’ clause in each leader’s communiqué, where G20 members commit to avoid introducing new protectionist measures. While G20 leaders have repeatedly indicated their support for the successful completion of the Doha Round, the G20’s impact on the DDA has been very limited, if it has had any impact at all. Nevertheless, at the St Petersburg Summit, G20 leaders agreed to make ‘significant contributions’ to make the Bali negotiations a success. It is difficult to determine, however, to what extent this statement by G20 leaders contributed to the successful outcome at the Bali meeting.

IMPACT OF THE STANDSTILL AGAINST PROTECTIONIST MEASURES

The standstill against protectionist pressures, which was first introduced at the Washington G20 leaders’ meeting in November 2008, and has...
since been extended at subsequent summits – the latest was the extension at the St Petersburg Summit to end 2016 – has generally been considered as one of the more significant outcomes from the G20 process. However the performance of G20 members in honouring the pledge against introducing new protectionist measures has been patchy.\(^2\) The latest report by the WTO on G20 trade measures notes that between mid-May 2013 and mid-November 2013, 116 new trade-restrictive measures were identified.\(^3\) The new measures affect around 1.1 per cent of G20 merchandise imports and the WTO says that protectionism is on the rise. The total amount of G20 trade subject to restrictive measures is accumulating because, notwithstanding a commitment by G20 members to remove trade restrictions put in place since the crisis, the WTO reports that only around 20 per cent of the total number of trade-restrictive measures taken since October 2008 have been removed.\(^4\)

The trade-restrictive or distorting effects of behind-the-border measures – such as subsidies, public procurement, and goods and services regulations – are more difficult to measure and are not covered in the WTO report on G20 trade measures.\(^5\) The Global Trade Alert (GTA) project, headed by Simon Evenett, has issued 14 reports monitoring overall protectionist pressures since 2009. The GTA defines protectionism as anything that hurts another country’s commercial interest. According to the GTA, at least 400 ‘beggar-thy-neighbour’ policies have been put in place each year since 2009, and that trend is on the rise.\(^6\) Moreover, in terms of the success of the G20’s standstill on protectionist pressures, Evenett reports that “what is striking is that, on all but one criteria, the performance of the G20 members is not markedly better than the next 10 mid-sized trading nations”.\(^7\)

**TREND TOWARDS REGIONAL TRADING AGREEMENTS**

The multilateral trading system remains the strongest force for economic growth and the best defence against distorting protectionism. For decades, developing countries have benefited from progressive trade liberalisation driven by developed economies.\(^8\) However, the

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\(^4\) Ibid.


\(^7\) Alan S. Alexandroff, “The Fear of Fragmentation.”

protracted nature of the DDA multilateral trade negotiations has seen trade liberalisation being pursued more through bilateral and regional trade arrangements. And there is growing concern that the move towards mega-regional trade agreements – such as the Trans-Pacific Partnership (TPP), and the Transatlantic Trade and Investment Partnership (TTIP) – will see trade rules become increasingly Balkanised and unequal, with confusing sets of rules of origin, differing treatment of international property rights, and variable arrangements for dealing with state-owned enterprises. There is also a concern that these regional agreements will substantially distract the parties involved from pursuing multilateral trade liberalisation and will further alienate developing countries not included in the mega-regional processes. Protagonists for the regional agreements argue, however, that they constitute ‘competitive liberalisation’ and can serve as building blocks for wider trade liberalisation.

WHAT IS THE SIGNIFICANCE OF THE BALI TRADE DEAL?

As noted, the WTO trade deal agreed in Bali on 7 December 2013 was very welcome. If no agreement had been reached, the credibility of the WTO as a forum for trade liberalisation would have taken a mortal blow. But the Bali deal was ‘Doha lite’. It involved elements of the Doha Round where it was thought a deal could be readily achieved. The main achievement was the trade facilitation agreement (reducing the cost of moving goods through customs borders). But will the Bali deal alone breathe life into multilateral trade liberalisation and raise the prospect that the more ambitious aspects of Doha can be completed?

While the package of measures that formed the Bali deal were largely composed of those which were regarded as ‘most likely’ to be readily delivered, the negotiations still took over two years. The Bali agreement demonstrated how difficult it is to reach an outcome when working with 159 countries, even on issues that are considered to be less contentious. WTO decisions are made on a consensus basis, meaning all members must agree on all elements of a package of measures, such that any one member can scuttle a whole deal by not agreeing to one issue. For example, the Bali deal, and the future of the WTO, nearly came unstuck at the last minute over India’s refusal to accept some of the agricultural aspects of the agreement, as well as Cuba’s objection to the removal of a reference to the US trade embargo on Cuba.

There was a degree of enthusiasm following the Bali deal, with the view that it was a stepping stone to the completion of the Doha Round. But given the experience of the negotiations to date and the outcome at Bali, it is difficult to see how the ambitious elements of Doha will be achieved.

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9 Alan S. Alexandroff, “The Fear of Fragmentation.”
11 Ibid.
agreed. Changes are needed to the way multilateral negotiations are conducted within the WTO, and the WTO has to move on from the Doha Round.

POLICY RECOMMENDATIONS

PUT TRADE AT THE CENTRE OF THE G20 GROWTH AGENDA

A major priority for the G20 in 2014 should be to truly embrace the importance of trade openness and the multilateral trading system to global growth and development. Trade ought not to be considered as but one item on a crowded G20 agenda, nor one that is primarily the responsibility of trade ministers. International trade belongs at the centre of the G20’s agenda on growth.12 It should form the core of the comprehensive growth strategies that leaders requested be prepared by finance ministers for presentation at the Brisbane Summit.

As part of embracing the importance of trade to growth, G20 leaders should aim to provide strategic guidance on the future of the multilateral trading system. The trade ministers in Bali called on WTO negotiators to use the next twelve months to draft a work plan for the future. As noted, however, major changes are required if substantial progress on multilateral liberalisation is to be achieved. The G20 is not the place to attempt to do the detailed work of the WTO. But it is the place to provide strategic political direction on the future of the global trading system. Towards this end, there are a number of specific steps the G20 could take at the Brisbane Summit to demonstrate the importance its members place on maintaining and expanding open markets.

STRENGTHEN THE STANDSTILL ON PROTECTIONIST MEASURES

As noted, the standstill on protectionism is one of the more significant agreements reached by the G20. Moreover, that the main focus of any discussion on trade issues at G20 summits has been on whether to extend the standstill and for how long, shows that these discussions have sometimes been contentious. However the focus at the Brisbane Summit should not be on whether to extend the standstill, but on how it could be strengthened. The inter-agency effort aimed at evaluating the compliance of G20 members with the standstill agreement should not only be continued – it should also be given greater publicity.13 In particular, the latest report should be directly discussed at the G20 summit, and the leaders’ communiqué should include a reference as to how G20 members are responding to the latest report on their trade measures. This could include the establishment of a peer review process within the G20 to monitor adherence to the standstill commitment.14

13 Peter Draper, “Strengthening Global Trade Liberalisation: Enhancing the G20’s Role.”
The monitoring should also cover non-tariff measures, or what is called ‘murky protectionism’. In addition, specific attention should be given to monitoring the commitment to roll back protectionist measures that have been introduced since the crisis.\(^\text{15}\)

**SET A STRATEGIC DIRECTION FOR DOHA, BALI AND BEYOND**

The G20 should go beyond providing pro forma statements on trade in communiqués and provide genuine political commitment to finally ‘conclude’ the Doha Round and to start focusing on the future of the multilateral trading system and the WTO post-Doha.\(^\text{16}\) The momentum achieved with the Bali agreement should not be lost, and the G20 could build on it by explicitly calling on WTO trade ministers to identify another set of development-focused deliverables from the Doha agenda. With the leaders’ endorsement, trade ministers should commit to the speedy negotiation of this ‘newer’ package, with the explicit objective of concluding the Doha Round so that they can start to consider the post-Doha world. Negotiations in the post-Doha world should avoid repeating the WTO’s ambitious and wide-ranging agendas with a single undertaking of the past, where ‘nothing is agreed until everything is agreed’. Negotiations should instead target specific areas and allow for plurilateral agreements that allow WTO members to opt in, such as the Information Technology Agreement, International Services Agreement, and Government Procurement Agreement.\(^\text{17}\)

The discussions over the future of the WTO should be anchored around the governance of global value chains and their implications for international trade negotiations. As Suparna Karmaka has pointed out, “the new trade liberalisation agenda should recognise the centrality of global value chain production and trade patterns when (re)designing global trade governance rules in order to reflect new business models and trade trends”.\(^\text{18}\) When contrasted with the negative effects of divergent and complex ‘rules of origin’ present in regional agreements, multilateral negotiations are more effective and beneficial in facilitating trade when global value chains are properly accounted for. An example of how global value chains are altering traditional thinking around trade policy can be found in the recent EU-China solar panel anti-dumping case. Given the interdependence and intra-sectoral trade in the solar industries in the disputing countries, there was little industry support for the introduction of trade-restrictive measures in response to alleged anti-competitive behaviour by Chinese exporters.\(^\text{19}\) Specific attention

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\(^{\text{15}}\) Peter Draper, “Strengthening Global Trade Liberalisation: Enhancing the G20’s Role.”

\(^{\text{16}}\) Ivan T.M. Oliveira, “The G20 Trade Agenda: Proposals for the Australian Presidency.”


\(^{\text{19}}\) Ibid.
also needs to be devoted to the needs of developing countries in relation to plugging into global value chains as well as upgrading within global value chains. This should be an important aspect of the G20’s efforts at supporting development.

Consideration of the implications of global value chains needs to be elevated beyond discussions between trade officials and trade ministers and should be a key item on the agenda for G20 sherpas and leaders. The St Petersburg leaders’ declaration calls on the OECD to deliver a report on global value chains by mid-2014. However the OECD and WTO have already completed a number of reports on global value chains. The G20 needs to move beyond just calling on international organisations to prepare reports and instead needs to seriously pursue the full implications of global value chains for trade policy and trade negotiations. In order to elevate the consideration of this issue, a G20 leader(s) could be asked to prepare an assessment of global value chains for consideration by their fellow leaders at the Brisbane Summit.

MULTILATERAL TRADE AND REGIONAL TRADE AGREEMENTS

As noted, there is a concern that the current partiality towards regional trade agreements is a threat to multilateral trade liberalisation. However, because the main proponents of regional agreements are members of the G20, it is important that they make every effort to deliver on the commitment in the St Petersburg declaration that “we commit to ensure that regional trade agreements support the multilateral trading scheme”.

The G20 must work hard to bring more transparency to regional agreements by implementing the actions outlined in the document Advancing Transparency in Regional Trade Agreements which was released at the St Petersburg Summit. Information sharing is not taking place so far. Specific steps should be taken to monitor whether G20 members are honouring this commitment and a report on compliance should be submitted for consideration at the Brisbane Summit. A G20 working group should be established to define concrete mechanisms for monitoring and reviewing regional trade agreements in the WTO (based on the model of the Trade Policy Review Mechanism). The G20 should also support the introduction of some consistency into the rules that form the basis of the regional agreements. For example, rules covering country of origin and technical and health standards potentially risk discriminating against countries that are not involved in the regional agreements, which is regrettable, as these are mainly developing countries. Introducing some consistency into these areas...
might include the establishment of an independent process to develop model clauses that could be incorporated into regional agreements.25

A MULTILATERAL INVESTMENT AGREEMENT – AT SOME STAGE?
Investment is governed haphazardly at the multilateral level. There are thousands of international investment agreements, both bilateral and plurilateral. Many of the regional trade agreements currently being negotiated include investment protection agreements. The attempt to pursue a Multilateral Investment Agreement (MIA) through the OECD in the mid-1990s was very controversial and ultimately not successful. A draft MIA was severely criticised by civil society, which argued that excessive protection of foreign investors would be to the detriment of host governments, particularly in developing countries.

The absence of a more coordinated approach to establishing a multilateral investment regime has arguably not impeded the growth of foreign direct investment around the world. Moreover, while the WTO appears the logical place to advance the negotiation of a multilateral investment agreement, its lack of progress on the trade front suggests it might not be the best launching pad for a new set of negotiations. In addition, the immediate priority for the WTO should be on concluding and moving on from the Doha Round. Nevertheless, if G20 leaders are to look to the future, and in particular the future of the WTO, they should initiate a serious discussion of the future of multilateral investment governance under the oversight of the WTO.26

26 Peter Draper, “Strengthening Global Trade Liberalisation: Enhancing the G20’s Role.”
THE G20 AND INFRASTRUCTURE

DANIELA STRUBE1

INTRODUCTION

The Australian G20 presidency has indicated that infrastructure will be a priority of the G20 in 2014. There is a significant global infrastructure gap – McKinsey estimates that in the period to 2030, USD 57 trillion or 3.5 per cent of global GDP will have to be devoted to infrastructure just to support projected GDP growth, otherwise growth will be stifled. 2 This is almost 60 per cent more than the USD 36 trillion that has been spent on infrastructure globally since 1995. 3 OECD estimates are similar, which suggest USD 50 trillion is needed to maintain current growth rates, as well as an additional USD 45 trillion if climate change adaptation and mitigation targets for 2050 are to be met. 4

CHALLENGES

Due to the need for higher growth after the global financial crisis, infrastructure investment has received a great deal of attention from policy-makers. In particular, it is seen as a way of lifting economic demand and activity in the short term. While this renewed focus on infrastructure is a positive development given the global infrastructure shortfall, this general enthusiasm needs to be met with a sense of caution, and an objective and critical mindset. A few key challenges to improving infrastructure investment are discussed in this paper.

TECHNICAL AND POLITICAL CHALLENGES TO INFRASTRUCTURE FINANCING

Infrastructure investment decisions are highly complex. Because of their large scale, long life, and illiquid nature, infrastructure projects contain a large degree of unpredictability. This complicates ex ante policy evaluations, because they rely upon assessments on the future state of an uncertain world. Particular risks associated with infrastructure include environmental and climate risks, technology risk, and regulatory risk. Project appraisals that fail to capture important information often result in ‘white elephants’ – costly projects that are unfit for the purpose, and that ultimately turn into a liability for the investor(s) and the community.

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1 Research Fellow, G20 Studies Centre, Lowy Institute for International Policy.
3 Ibid.
In addition to these technical challenges, infrastructure investment decisions are intrinsically political. Infrastructure tends to be popular among politicians, because a bridge or a road represents an immediate and tangible output for the money that is spent. However, investing in infrastructure typically means committing very large amounts of (public) money to a project intended for public use for years, if not decades or even centuries to come. Naturally, key stakeholders have a vested interest in influencing the design and financing of such a project. Ideally, though, infrastructure investment should not be seen as a policy end in itself, but rather a means to promote long-term growth and prosperity among the community.

DIFFERENT COUNTRIES – DIFFERENT CHALLENGES

Although infrastructure gaps are apparent in many countries, there are inevitably other policy areas competing for the attention of leaders. Furthermore, countries with infrastructure gaps do not necessarily have them for the same reasons, meaning it may not be appropriate for all G20 countries to commit significant amounts of government resources to infrastructure investment, not least at the expense of other more pressing policy areas. China, for example, is currently attempting to transition from an investment-led to a consumption-based economy. China analysts increasingly worry about the risk of overinvestment in China and associated negative externalities. Similariy, other advanced economies, such as Japan and parts of Europe, are relatively oversaturated in terms of infrastructure supply. Essentially, just as the critical obstacles to growth vary from country to country, there is likely to be a need for an equally diverse and country-specific set of policy responses.

Emerging and developing countries are, and will continue to be, driving forces of global economic growth in the twenty-first century. However, a large part of the global infrastructure gap concerns emerging and developing countries, and is therefore worthy of G20 attention. The global infrastructure agenda should be repurposed to adapt to this reality, for example by prioritising the extension of South-South transit routes. Large aggregate efficiency gains can be expected from facilitating South-South trade. Multilateral Development Banks (MDBs) are particularly well placed to promote a South-South connectivity agenda.

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6 McKinsey Global Institute, “Infrastructure Productivity: How to Save $1 Trillion a Year.”
8 Ibid.
Nevertheless, although the infrastructure needs of emerging and developing countries are pronounced, raising the funds for investment in these countries has, historically, proven to be a challenge. However, the issue has not been a matter of locating capital, so much as trying to shift the preference of large savings available in emerging economies towards productive infrastructure investment projects outside of the developed world.¹⁰ Emerging market investors still seem to prefer established, advanced markets, while portfolio managers in developed countries have demonstrated a similar reluctance to explore emerging economy opportunities on a large scale. At least part of the underlying problem that motivates this biased investment behaviour is insufficient market depth, particularly in local currency markets, but also more generally in emerging and developing countries.¹¹ The G20 has already taken steps towards promoting local currency bond markets (LCBMs) by commissioning the development of a Common Diagnostic Framework (CDF) on LCBMs. However, follow-up on the CDF has been weak. It has not been a G20 policy priority.

**HOW TO INCLUDE THE PRIVATE SECTOR**

Leveraging private funds for socially important infrastructure projects is desirable. However, exactly how and to what extent infrastructure policy should focus on increasing private sector participation is contentious. For a long time, public-private partnerships (PPPs) seemed to be the answer to the chronic shortage of infrastructure financing. But the last few decades have produced mixed evidence on PPPs, and experts have become increasingly sceptical of their value, warning against a ‘PPP bias’.¹²

PPPs are highly complex instruments. Many governments, not only in developing countries, lack the capacity to effectively deal with PPPs.¹³ On top of the usual administrative burden associated with infrastructure investment, PPPs bring the added problem of ‘moral hazard’, whereby downside risks are generally implicitly borne by the public party, not the

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The social dimension of infrastructure involves making sure that the benefits from infrastructure projects are fairly shared among investors and the wider community.

private investor.\textsuperscript{14} Again, the G20 has a role to play here in providing guidance on how to effectively include the private sector in meeting the global infrastructure challenge.

INSUFFICIENT ATTENTION TO THE NON-ECONOMIC DIMENSIONS OF INFRASTRUCTURE PROJECTS

In addition to economic importance, infrastructure projects have enormous social, environmental, and governance implications. Infrastructure is a quasi-public good. Pure public goods are non-rival and non-excludable. Non-excludability means that no one can be excluded from using the good or service. User fees and access restrictions make it possible to exclude people from using the good or service provided by many types of infrastructure. Non-rivalry requires that the benefits from using a good or service do not diminish with an increasing number of users. This is generally not the case for infrastructure either, since the expanded use of roads leads to congestion, as is the case for electricity networks. However, it is precisely the task of governments to ensure all citizens and companies can benefit from essential services. In addition, infrastructure produces external effects that may result in disproportionate (or unintended) benefits accruing to some stakeholders, such as for landowners whose land values are elevated due to better connectivity courtesy of infrastructure investment in the area. The social dimension of infrastructure involves making sure that the benefits from infrastructure projects are fairly shared among investors and the wider community.

Infrastructure projects typically also have an environmental impact, both in the immediate construction stage, and later on in the utilisation phase. Because infrastructure projects are typically long-term in nature, it is important to avoid locking in unsustainable technologies that may exacerbate the environmental footprint of the community for a long time. Therefore, infrastructure projects need to be as forward-looking and technologically advanced as possible.

In a similar vein, it is important to avoid a bias toward expanding infrastructure supply. Improving the productivity of existing infrastructure can yield large benefits, and often may be more cost-effective and environmentally sustainable than traditional supply-side measures.\textsuperscript{15} Moreover, infrastructure investment also involves important opportunities to positively contribute to environmental policy goals, provided environmental and climate objectives are appropriately integrated into project appraisal.

Finally, sound governance is a critical factor in the success of infrastructure investment. Regulatory risk is in fact one of the major

\textsuperscript{14} See for example Dennis De Clerck, Erik Demeulemeester, and Willy Herroelen, “Public Private Partnerships: Look before You Leap into Marriage,” \textit{Review of Business and Economic Literature} 57, no. 3 (2012).

\textsuperscript{15} McKinsey Global Institute, “Infrastructure Productivity: How to Save $1 Trillion a Year.”
concerns of investors considering infrastructure investment, especially in developing and emerging countries. Similarly, governance problems are another issue that private sector investors must take into account before investing in PPP arrangements. In fact, making progress on the transparency aspect of infrastructure investment may not only improve project performance, but also contribute to advancing the broader governance agenda.

**POLICY RECOMMENDATIONS**

Defining an appropriate role for the G20 in promoting infrastructure investment is a crucial, and often overlooked, first step. The first question for the G20 should be where or whether it can actually add value to the efforts of international organisations and individual countries in facilitating increased infrastructure investment.

**AN INTEGRATED VIEW OF INFRASTRUCTURE AS A DETERMINANT OF GROWTH**

The G20 should stress that the objective of infrastructure policy should not be dominated by short-term considerations, such as immediately boosting economic activity. While such an outcome is obviously welcome, it should not be the sole or primary motivation for undertaking a particular infrastructure project. Rather, the G20 should commit to a more strategic and long-term perspective on infrastructure investment. In terms of enhancing growth potential, infrastructure issues should also not be considered in isolation from the wider G20 ‘growth and jobs’ agenda. To achieve this, the Infrastructure and Investment Working Group needs to work closely with the finance track and the Framework Working Group. In particular, any G20 initiative on infrastructure investment should be tightly embedded in the ‘coordinated growth strategies’ that are to be presented at the Brisbane Summit. These growth strategies should clearly outline how infrastructure investment is expected to contribute to fostering strong, sustainable and balanced growth.

**QUALITY OF INFRASTRUCTURE SPENDING**

The G20’s role in terms of promoting infrastructure investment should be about setting the ‘big picture’ strategy. This requires, among other things, updating the way government spending is accounted for. The fiscal repercussions of the global financial crisis have reinforced a pessimistic view of government spending, such that it has come to be treated by political leaders as a necessary evil, that is to be kept at bay. In the context of promoting infrastructure investment, the G20 can promote a differentiated view of public spending and contribute to a more balanced assessment of productive investment. One way to

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facilitate this would be to single out the investment (capital) component of the budget and separate it from general government expenses (operations account).17

Carefully designed and high-quality infrastructure investment may offer a responsible avenue out of the strict austerity mind-set that still dominates public policy in many countries. Infrastructure projects typically create substantial ancillary demand in the construction phase. Sound infrastructure projects also represent a productive asset that may generate positive productivity spillovers on local and regional business activity that can contribute to facilitating a demand-led exit from the depressed growth of the last few years.

AVOID ‘ONE SIZE FITS ALL’ APPROACHES

The causes of infrastructure gaps and barriers to investment vary among countries. The G20 needs to resist the temptation to come out with ‘one size fits all’ solutions for infrastructure investment. Before infrastructure investment is elevated to a policy priority, the extent to which increased infrastructure spending is required and the impediments that need to be addressed in order to facilitate such investment need to be properly evaluated, separately for every G20 country and also vis-à-vis other policy areas.

PRIVATE SECTOR PARTICIPATION SHOULD NOT BE AN END IN ITSELF

Increased private sector participation in infrastructure spending should not be an objective in itself. While promoting the private sector may produce a number of positive policy externalities, the overall objective of getting the best value for (taxpayers’) money should prevail. The G20 should promote a value-for-money approach to identifying funding sources.18 PPPs will continue to play a role in infrastructure investment where it is sensible to do so. But PPPs should not be seen as the default choice per se, but one of several possible alternatives.

THE ROLE OF MDBS NEEDS TO BE REDEFINED

As a leader-centred forum that is at least broadly regionally representative, the G20 is well placed to push for a broad review of the role of international organisations, and in particular MDBs, in global governance. Although this goes beyond the immediate infrastructure agenda, in terms of their specific role in addressing the investment challenge, the G20 can provide strategic direction to the MDBs to

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enhance their ability to deliver on their infrastructure commitments. While increasing the funding available to MDBs would likely strengthen their capacity to deliver financial assistance to infrastructure projects, resource commitments may be hard to obtain from many G20 members due to the protracted recovery from the global financial crisis. However, there are several ways in which the G20 can support the technical role of MDBs in global infrastructure investment without necessarily making (substantial) new financial commitments.

First, the G20 should encourage the International Financial Institutions (IFIs) to step up their commitment to supporting emerging and developing countries in the deepening of their capital markets. A ‘re-energising’ of the G20-MDBs work on LCBMs would be an important first step. In particular, the G20 countries should commit to supporting the implementation of the Common Diagnostic Framework on LCBMs, both in the G20’s emerging member countries and by offering assistance to non-G20 developing countries.\(^{19}\)

In addition to strengthening the enabling environment for infrastructure investment, MDBs also have a technical assistance role to play in selecting and managing infrastructure projects. One innovative avenue may lie in cooperating with credit rating agencies (CRAs), whereby the MDBs’ technical expertise is combined with the CRAs’ key position in the international financial architecture. MDB-CRA cooperation could strengthen project appraisals and make infrastructure investment more attractive to a range of institutional investors.\(^{20}\)

**BETTER INTEGRATE SOCIAL, ENVIRONMENTAL AND GOVERNANCE CONCERNS**

Focusing on the ‘good governance’ of the entire infrastructure project cycle – from project appraisal to project design and from contract setup to project construction and maintenance – is particularly crucial for enhancing the productivity of infrastructure investment. The G20 can respond to this issue by encouraging the devolution of decision-making authority to those levels of government that are better equipped to efficiently deal with infrastructure project management. However, the key factor in improving infrastructure governance is transparency, and the G20 countries can play a role in this area by providing ‘leadership by example’.

Finally, infrastructure policy must be about more than building new roads and bridges. G20 members should commit to attaching at least as much priority to improving the productivity of existing infrastructure as on expanding supply. Better infrastructure management through demand-side policies should be an integral element of any G20


infrastructure pledge at the Brisbane Summit. Demand-side policies go beyond congestion pricing and include non-price alternatives such as using traffic monitoring technologies to optimise capacity utilisation and minimise congestion.21 A demand-side and productivity-maximising approach also opens up ample opportunities for integrating environmental and climate perspectives into infrastructure policy.

The G20 can provide leadership in promoting the comprehensive integration of climate objectives into infrastructure projects as a viable option for achieving tangible progress in the reduction of greenhouse gas emissions.

CONCLUSION

From the analysis above, it is clear that fostering infrastructure investment entails significant opportunities for the global economy and that the G20 should be proactive in this area. However, infrastructure cannot be a remedy for every ailment, and a careful diagnosis of the issue is needed if the G20 is to ensure it produces an efficient and responsible implementation strategy that contributes to the wider objective of strong, sustainable and balanced growth.

21 McKinsey Global Institute, “Infrastructure Productivity: How to Save $1 Trillion a Year.”
THE G20 AND DEVELOPMENT: GROWING A BACKBONE

HUGH JORGENSEN

INTRODUCTION

Coherent, catalytic and concise – these are three words that are rarely used to describe the G20’s development agenda. Despite its generally laudable commitments, the G20 has struggled to bridge the gap between articulating and actually implementing its stated development priorities. The 2013 chair of the G20’s Development Working Group (DWG), Andrei Bokarev, conceded publicly that “it is not always clear what [the] G20 is doing on the development front, what concrete steps and decisions have been taken [and] what particular results it has helped to achieve”.2 Having been likened by harsher critics to a primordial creature lacking in both teeth and spine,3 it is evidently time the G20’s development program grew a policy backbone, lest it become extinct, or worse, another irrelevant annual bureaucratic talk-shop, disconnected from the real concerns of G20 leaders.

This is especially important in 2014, the penultimate year of preparation before world leaders convene to adopt the United Nations’ post-2015 development agenda (the successor to the Millennium Development Goals – MDGs), and also the United Nations Framework Convention on Climate Change (UNFCCC) 21st Conference of Parties in Paris (COP21) – where UNFCCC members will make a last-ditch attempt to ratify a successor treaty to the Kyoto Protocol. Left solely to UN leadership, the post-2015 development agenda is in danger of becoming an ‘unfocused, unending and unattractive’ wishlist.4 If the G20 wishes to ‘value-add’ to the global development agenda, it should aim to facilitate a convergence between the major UN initiatives and its own primary objective of ‘strong, sustainable and balanced growth’, accompanied by ‘concrete and time-bound’ commitments.5 But before the G20 outlines any ‘concrete’ commitments, it must ensure it has an appropriate

If the G20 wishes to ‘value-add’ to the global development agenda, it should aim to facilitate a convergence between the major UN initiatives and its own primary objective of ‘strong, sustainable and balanced growth’.

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development strategy in place. This means it will have to recalibrate the way in which it engages with the development agenda, as well as pursue more compelling and consequential outcomes that are worthy of the time, attention and unique capacity of G20 leaders. In reflecting on the Think20 2014 discussion on development, this paper provides some thoughts on how the G20’s development strategy might be refined, before concluding with some specific policy recommendations.

WHY THE G20 DEVELOPMENT STRATEGY NEEDS A RETHINK

The G20 has at least outlined a handful of core objectives that, if fully realised, would represent a major ‘value-add’ to the broader development agenda. Most notably, in 2009, G20 members determined better development policies were not only desirable in their own right, but also had a potentially crucial role to play in boosting global aggregate demand in the wake of the recent financial crisis. While the G20 has dabbled in development issues since its inception in 1999 (initially as a forum for finance ministers and central bank governors), this commendable linkage of development policy with the G20’s overall plan for global economic recovery showed G20 members recognised the post-crisis need to deliberately build upon and move beyond the Millennium Development Goals (MDGs) and the Washington Consensus, respectively. The potential role of development as a ‘driver of global growth’ was formally recognised in the 2009 Pittsburgh G20 Summit’s Framework for Strong, Sustainable and Balanced Growth (FSSBG). The ‘Seoul Development Consensus for Shared Growth’, a key outcome document from the 2010 Seoul G20 Summit, gave depth to this reconceptualisation of development through a ‘multi-year action plan’ (MYAP) composed of nine ‘pillars’. Distinguishing the G20’s primary role as a forum for economic cooperation, the first four pillars of the Seoul Development Consensus focus on key boosters of economic growth: infrastructure, human resource development, trade, and private investment and job creation. The next four pillars correspond with major threats to the economic resilience of low-income countries (LICs): financial inclusion, ‘growth with resilience’, food security, and domestic resource mobilisation. The ninth pillar of ‘knowledge sharing’ underlies the practicality of pursuing the previous eight in a holistic way, as well as the value of G20 members cooperating with one another in their respective implementation of the Seoul consensus.

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8 Wonhyuk Lim, “The Development Agenda for the Brisbane G20 Summit.”
However, in practice, the G20’s contribution to development has not lived up to the rhetoric. Although the Seoul pillars are all worthy in their own right, their abundance means that no G20 chair has managed, or even attempted, to comprehensively address them all. Indeed, G20 chairs have, post-Seoul, chosen to focus on only a handful of these pillars at a time, or, in some cases, have chosen to further complicate matters by adding their own, as in 2012, when the Mexican hosts added a tenth pillar of ‘green growth’.

The Mexican presidency also divided the responsibility for pursuing the aforementioned pillars between the sherpa and finance ‘streams’, resulting in an awkward policy formation process whereby finance officials are often left out of discussions on development issues that lie within their sphere of influence, and vice versa for development officials. Moreover, given that many of the G20’s development commitments touch on matters such as trade, infrastructure, agricultural development, tax, anti-corruption, and policies on commodity and food price volatility, their success clearly means ministerial representatives from a greater number of government departments need to be involved, than simply those that focus on development and aid.

The separation of certain development issues from the finance stream and the FSSBG also means they are no longer included within the G20’s main accountability process – the Mutual Assessment Process (MAP). This further diminishes the G20’s claim to have devised an ‘inclusive’ global growth strategy that truly incorporates the development agenda into its post-crisis plan for economic recovery. Hence, while a lack of resource commitments has been identified as a major hindrance to the G20’s delivery of development policy, the annual variability of the G20’s development agenda has made it difficult for the DWG to present an especially compelling or coherent case to leaders for increasing development outlays over the long term, particularly given the post-crisis political inclination of leaders towards economic austerity.

Thus, although the G20 certainly ought to allocate resource outlays that are commensurate with its stated development objectives, there are two prior discernable political challenges that the G20 development stream should address if it is to even earn the continued interest of leaders, let alone obtain potential future financial endorsement for its recommendations. These are, first, improving the succinctness and political appeal of the G20’s development agenda from the perspective of leaders, and, second, distributing the responsibility for designing and implementing the G20’s development priorities to individuals or agencies...

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11 Barry Carin, “The G20 and Development.”
13 Ibid.
14 Wonhyuk Lim, “The Development Agenda for the Brisbane G20 Summit.”
that actually have the authority and resources to implement them. In short, the G20’s work on development should become more integrated with the overall focus of the forum, and less of an afterthought.

PROMOTING A LEADER-DRIVEN DEVELOPMENT AGENDA

As long as G20 summits provide an opportunity for leaders to directly engage with one another in strengthening the global economy, then the political incentive to participate in the process is strong. Conversely, the more the agenda comes to be perceived as a vessel for hot air, the less likely it is that leaders will want to attend. Accordingly, if the development component of the G20 agenda is to improve and not detract from the overall potency of the G20, an effort should be made to directly involve leaders in honing its design.

This is not to say that leaders should be involved in negotiating the detail of development policies, rather, leaders should simply take a greater role in ensuring that the G20’s development agenda actually reflects their collective interests and unique capacities as the leaders of twenty ‘systemically significant economies’. For instance, a large proportion of the development section from the St Petersburg leaders’ communiqué (and previous communiqués) is filled with references to the establishment of ‘knowledge-sharing platforms’, best-practice ‘toolkits’, the commissioning or endorsement of various reports, and other such efforts that have been aptly described by Robin Davies as ‘busy work’. This kind of ‘busy work’ is best left to bureaucrats; development issues that warrant the involvement of leaders are those that are systemic, that have fallen through the institutional gaps of the global governance system, and that contribute to both global development and economic growth. It is unlikely that development policies that do not meet these criteria need to be elevated to the leaders’ level, or that they enhance the credibility of the G20 when they are. G20 leaders have a limited appetite as to how many issues they can meaningfully pursue.

As indicated earlier, the G20’s engagement with development could be made more coherent if Australia put an end to the awkward allocation of responsibility between the finance and sherpa streams (of note, the same logic also applies to many other areas of the G20 agenda). Although the St Petersburg Development Outlook (and communiqué) commits to “enhancing policy coordination across different G20 work streams in order to ensure greater impact on developing countries”, this will be difficult to achieve if the ‘silo mentality’ of the current ‘inherited preparatory system’ is kept in place. Ideally, in a more integrated process, leaders would be able to work with their sherpas to ensure all ministers with a portfolio responsibility that was pertinent to a development objective would be part of the discussion. This can be highlighted with the example of food security, which is an issue that realistically lies within the jurisdiction of up to six ministries: “agriculture (subsidies), energy (biofuel policies), finance (regulation of derivatives markets and...
investment), public works (rural infrastructure), welfare (safety nets) and science (research)”. Until the DWG is able to draw upon all of the necessary policy instruments in formulating its recommendations to leaders, the decline in the seniority of civil servants who attend its meetings will likely persist. By way of ensuring leaders take a greater personal ownership of – and interest in – the G20 development agenda, it has been proposed that the Australian prime minister, in his capacity as the 2014 G20 chair, invite a selection of leaders to directly present a report to their fellow G20 leaders on a pressing systemic issue in need of political support from the G20. Some of the areas suggested for such reports include:

- “**Domestic Resource Mobilisation:** invite the United States and China to prepare a joint proposal for international cooperative tax arrangements to deal with tax evasion, money laundering and corrupt practices”

- “**Financial Inclusion:** invite India and Mexico to jointly present options for new institutional arrangements, such as a ‘Global Microfinance Facility’ in the World Bank Group to lever new Official Development Assistant (ODA) commitments and private sector investment in the microfinance sector”

The hope is that leaders would have a greater political or diplomatic incentive to realise a particular objective if their name was on the original plan underlying the commitment, or if it came from a fellow leader and was not merely a case of ‘rubber-stamping’ a suggestion from a meeting of officials.

Before concluding with an outline of specific development policy recommendations for the G20 agenda, it is worth noting that if the G20 is to establish credibility as a development actor, it also needs to be more accountable to its commitments. Even if G20 leaders are able to bring about a more integrated and coherent agenda, this will only matter in so far as they can deliver in practice. Hence, if development is to play a part in the ‘coordinated G20 growth strategy’ – set to be delivered in Brisbane and discussed in an earlier section – then the 2010 decision to separate the G20’s work on development from the FSSBG and the MAP should be reversed. Although not without its problems, the MAP is at least preferable to conducting an accountability assessment of the DWG’s work program without reference to the rest of the G20 agenda, not least because the G20’s work on development was initially conceived as one of five key pillars within the FSSBG. This would hopefully lead to more ‘rounded’ development accountability reports than that delivered at St Petersburg; although the notion was worthy, the Saint

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15 Barry Carin, “The G20 and Development.”
17 Barry Carin, “The G20 and Development.”
**Petersburg Accountability Report on G20 Development Commitments**

only presented “the results of the implementation of the Seoul summit decisions, omitting those of the previous leaders’ meetings”. The St Petersburg report also did not review the individual performances of G20 members, and instead offered a more generalised account that leaves even the MAP looking superior as an accountability measure.

**POLICY RECOMMENDATIONS**

**ESTABLISH A ‘G20 2015 STRATEGIC CONVERGENCE GROUP’**

The G20’s primary development goal, under Australia’s presidency, should be to strengthen the links between the major, but currently uncoordinated, development processes underway in 2014/15. These include the G20’s own FSSBG, UNFCCC COP21, the post-2015 MDGs, and the UN’s sustainable development agenda. By establishing a strategic convergence group, the G20 could ‘assist upstream’ to these processes by “shaping coherent, convergent outcomes”. Although many of these processes share common objectives, they are being coordinated by officials from different ministries who would benefit from an overarching narrative and strategic leadership that is within the capacity of the G20. It would certainly be a test of the G20’s ‘global leadership’ ability. But tightening the post-2015 international development agenda, giving it political heft, and ensuring that practical targets were delegated to the appropriate set of ministries (not just development agencies) would all be feathers in the G20’s cap.

**INVOLVE LICs IN ANY CHANGES TO THE MANDATE OF THE IFIs AND MDBs**

The existence of a development component within the G20 agenda reflects the recognition among G20 members that ‘strong, sustainable and balanced growth’ is only achievable if it is available to all countries, not just major rich or developing economies. The G20 should assess the mandate and resources of the major development agencies and banks and whether they are appropriately equipped to assist LICs in pursuing the kinds of policies that are espoused within the broader G20 agenda. For example, unless LICs can access the required level of technical assistance to meaningfully implement the tax reforms and tax-sharing arrangements that are espoused within the OECD’s recommendations on Base Erosion and Profit Shifting (BEPS), and that are necessary to properly implement the United Nations Convention against Corruption or to utilise the WTO’s Dispute Settlement Body, then due to regulatory arbitrage, these initiatives will ultimately languish.

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19 Wonhyuk Lim, “The Development Agenda for the Brisbane G20 Summit.”
The same logic also applies to the Australian Government’s special interest in pursuing an infrastructure financing agenda. The hurdles to long-term infrastructure investment in LICs (not least those in Southeast Asia) are starkly different from those in developed and developing economies, and require significant MDB assistance in areas like liquidity market deepening, infrastructure project selection, and assessing the suitability of projects for public-private partnership financing.

Hence, before pursuing increases in ODA and funding for the IFIs and MDBs, if the G20 is to credibly claim a role as a forum that works for all countries and not just its own members, it needs to work with LICs in providing strategic guidance for, and applying pressure upon, the major IFIs and development agencies to set targets that align with the principles of the FSSBG, and that incorporate the particular needs and interests of LICs.20

Of note, the G20 also has a strong opportunity in 2014 to push forward the G20’s commitment to lowering the cost of remittance transfers between countries. Given this is the only G20 commitment to have ever been accompanied by a set numerical target (in 2011, leaders committed to a reduction of 5 per cent by 2014), this would be a welcome result for LICs.21

DO SOMETHING ABOUT CLIMATE CHANGE

Climate change cannot be left off the G20 agenda. It has been referenced at every G20 leaders’ summit since the inaugural meeting in Washington, and there are few pressing globally systemic issues more in need of guidance from G20 leaders.22 Although the G20 should not seek to do the work of the UNFCCC, the proximity of the Brisbane Summit to COP21 in Paris, where UNFCCC members will attempt to design a successor to Kyoto, means that leaders will be again expected to advance discussions on climate change in some form. That the November Brisbane Summit is wedged between the September 2014 Climate Summit, organised by the UN Secretary-General, and the December UNFCCC COP20 in Peru, will intensify the political pressure on G20 leaders to make progress in Brisbane. To not do so will risk damaging the G20’s credibility as a global governance actor.

There are a handful of actions that the G20 could take in this area. For example, one of the more surprising outcomes from the St Petersburg

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Summit was an initiative led by China and the United States to reduce the production and consumption of hydrofluorocarbons (HFCs – super greenhouse gases) in line with the Montreal Protocol. At Brisbane, the G20 should look to advance discussions on climate change financing. While Brisbane is not the place to seek an agreement on this issue, if leaders were to engage in serious discussion about how best to raise funding – drawing upon the numerous major reports that have been previously commissioned on the topic – and also how the money might best be spent, this would be a welcome step forward in advance of the COP21 negotiations in Paris.

Leaders could also boost the momentum of the preparations for the Paris negotiations by committing to attend the meeting, although this would obviously be contingent on whether they have anything meaningful to say. Given that the atmosphere is itself a global public good, leaders might also look at their domestic environmental policies, such as vehicle fuel efficiency standards and fossil fuel subsidies, and whether these are calibrated to provide the right incentives in terms of reducing greenhouse gas emissions.

CONCLUSION

The G20’s work on development is arguably one of the most publicly accessible components of the forum’s agenda. For the general public, and those uninitiated in the technocracy of global governance and how it connects to reality, mainstay G20 issues like strengthening global financial regulation, enhancing the role and mandate of the major multilateral institutions, and even the objectives of the FSSBG itself are either opaque, or at best, abstract objectives. For many, it is large, tangible, and visible challenges such as poverty, global (and domestic) income inequality, the effects of climate change, or even smaller day-to-day issues like the high cost of remittances, that can serve as a point of entry for discussions around the role and purpose of the G20. For the G20 to retain any influence, political leaders have to be able to bridge its work, much of it important and high-level, with the expectations of their own citizenry. Value-adding to the global development agenda in the ways described in this paper would hopefully galvanise public support for the G20, and strengthen its future as a politically workable and relevant process. It is in the interests of the G20, and Australia as its president, that it does so.

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CONTRIBUTORS

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