

Notes from ANU-Brookings Workshop, Washington, 11 June 2013

Session 1

I. Principles and Perspectives on Global Governance

The purpose of the meeting and the project was to lay out fresh ideas to ensure the G20 is relevant and effective, without simply describing the work done to date. The need for fresh ideas is particularly timely given the current circumstance of the G20: there is growing scepticism about its ability to go beyond rhetoric and provide solutions to pressing global problems. The project can contribute to improving the state of affairs by identifying missing issue areas, such as climate change and the development agenda, and proposing concrete policies for the G20. The group assembled would be well-placed to take the G20 beyond its immediate focus on macro coordination and to think more about the engagement of Asian economies in the G20 process and how global economic governance can be well-adapted to dealing with the emerging and other economies.

II. Managing G20 Summits

Should the G20 unravel, any replacement organisation is unlikely to include Australia. Australia therefore has a keen national interest in making sure the G20 in 2014 is successful, which involves successfully championing the interests of the G20 as a whole, rather than pushing Australia's own interests. Two challenges present themselves in making sure the summit is successful: firstly, the need to avoid adding more and more issues to the G20 agenda, secondly the need to make sure leaders are engaged by the agenda.

Much of the discussion focused on making the best use of both the workstreams and the summits themselves. Although the workstreams have been fairly successful, there are various issues that they have not discussed, such as tax havens (which Australia plans to push), shadow economies, organised crime, the rights of migrants, and illicit capital flows. There is a danger of their focus becoming too narrow and technical, and of the G20 becoming too bureaucratic an organisation, a danger heightened by meeting annually.. Two suggestions to counter this were made. The first was to give leaders two days together, rather than one, during which time they could, in informal discussion, devote more time to long-term strategic global challenges affecting livelihoods of people, such as those being dealt with by the international community over the next two years in the post-2015 development agenda. This would enable leaders to lead with respect to issues close to public concerns and aspirations, avoiding being trapped by the technicalities of financial markets, for example which affect people but directly involve banks, financial markets, wealth managers and policy makers. The second was that the leaders of the G20 should not shy away from meeting more often, if the circumstances demanded it. The Euro crisis provides an example of a period when more timely meetings might have been desirable.

The G20 agenda beyond 2015, which the Australian summit will play a large part in shaping includes the development agenda. The development agenda, in particular infrastructure investment and regulatory reform, is one priority. This agenda might be better served by inviting more developing countries, particularly Asian, African countries, and fewer European countries to participate in the conference as observers. Issues that fall between the economic and the foreign policy spheres, such as Somali piracy, the Arctic or the South China Sea might also be addressed in the G20 agenda.

III. a. Monetary Policy Coordination and the Role of Central Banks

The crisis has clearly led to the reevaluation of much received wisdom about central banking and financial regulation. Firstly, the idea that central banks are independent organisations whose sole objective is inflation targeting is clearly problematic. Central banks are responsive to political concerns about output and employment, and have shown themselves willing to implement policies that will raise these, even at the risk of higher inflation. Secondly, the idea that macroprudential regulation was a matter for national regulators, with little need for international regulation, has also been shown to be false, even if central banks are yet to go beyond the mere need for discussion.

This contrasts with the consensus, since the 1980s, that the monetary policies of larger countries clearly have spillovers for other countries. Partly as a result, there is a fairly well-developed system of information coordination on monetary policy, which is the result of frequent meetings between central bank governors and their deputies over the years. These meetings have created the trust and personal connexions between central bankers that make coordination much easier in the event of a crisis. It was argued that the same degree of personal knowledge was not present between finance ministries and ministers.

Thanks to this informal community of central bankers, the liquidity policy coordination following the crisis, which was led by the US Fed outside of the G20, has been fairly successful, and has had a positive effect on global rebalancing, notwithstanding continuing large surpluses in the Germany and northern Europe. The G20 appears to have played little direct part in this. However, this does not mean the G20 has been redundant in coordinating the work of central banks; witness in particular the creation of the FSB which was clearly led by the G20 and its part in increased central bank interaction.

Session 2

III. b. Global rebalancing and the G20 process

On macroeconomic imbalances, the view that in the modern world, one needn't worry about large current account imbalances, as these would simply be the result of fundamentals, a view associated with Alan Greenspan, was contrasted and the more traditional view that large imbalances were a problem. The point

was made that in the traditional Keynesian framework large current account deficits are not contractionary *per se*. Rather, it is large sudden changes in current accounts (and other imbalances, be they international, domestic, sectoral) that wreak havoc as imbalances that built up gradually suddenly unwind (c.f. Olivier Blanchard).

On the empirical side, the major facts of the evolution of current account imbalances over the past decade were reviewed. Apart from the better-known trends concerning China and the US, attention was drawn to the fact that northern European countries, particularly Germany, had seen their current account surpluses grow over the last decade to the point where Germany alone had a larger current account surplus than China in 2012. The persistence of Northern European surpluses is all the more remarkable for having been largely unaffected by the fall in southern European current account deficits since the start of the crisis.

The third and final element of the discussion was the development of ways to effectively monitor and prevent the build-up of major external imbalances. It was observed that this question has largely gone off the G20 agenda since the Seoul agenda as the current account imbalances between China and the US have receded. As these real imbalances have declined, financial imbalances have increased in size and now constitute more salient and severe system risks. The G20's best effort to date, the MAP, has not been fully effective in part due to the reliance on data provided by G20 countries, endangering the independence of the IMF. One possibility would be to shift the focus of the MAP to both real and financial imbalances, relying on independent analysis by the IMF for both.

It is clear that resolving imbalances will require firstly an independent evaluation of both the role of country policies in creating imbalances, and whether imbalances are dangerously large, and secondly a mechanism whereby policies that create imbalances can be sanctioned. A large part of the discussion therefore concerned the role of the IMF in carrying out the first task. Currently, the role of the executive board in ratifying evaluations allows influential countries to meddle in reports and escape criticism. The existing transparency rules are also insufficient, as they don't say anything, and would have a hard time saying anything, about the pressures that might be exerted *before* the writing of a report actually starts. The stalled governance reforms of the IMF, identified as necessary by the G20, should, at least in theory, make it possible for the Fund to carry out bilateral and multilateral analysis, free of interference. On the second problem, enforcement, this should be the concern of the G20 itself, informed by totally independent evaluation by the IMF. In this area, it was warned against trying to inject macro and currency considerations into the WTO and its dispute resolution mechanism to enforce international balance between countries. Nothing good would come of conflating trade and macro matters in this way.

III. c. Financial Regulatory Reform.

Two main points were made in the discussion of the paper presented by Yoshio Okubo. Firstly, it was felt that the chapter should pay greater attention to the role of large, powerful, private vested interests in a lightly regulated financial market. These powerful interests are a factor that, in addition to the complexity of financial markets, makes them difficult to regulate properly. Secondly, the importance of avoiding groupthink was argued for. Different countries with different situations and different degrees of development of financial markets should be allowed some flexibility in taking different approaches to the regulations of these markets.

Session 3

IV. a. Trade and WTO reform

The WTO is in difficulty. This is the result of its having a large and diverse membership, with different interests, and a trade negotiation agenda that has expanded to more sensitive regulatory questions, raising the perceived cost to sovereignty of continued WTO agreements, making it near impossible to agree to single undertakings. Compounding this, the nature of trade has changed, with regional production networks now a main driver of increases in trade. The kind of reforms that will favour the growth of such production networks are not the traditional reductions in tariffs on goods that the GATT/WTO was successful in bringing about, but behind the border reforms to facilitate trade in services and tasks, and the movement of capital, specifically investment flows.

The G20 needs to show leadership on a couple of issues to rescue the WTO, and guarantee the success of liberalising behind-the-border reforms. First, G20 leaders need to re-assert the centrality of the most-favoured nation principle in future negotiations over behind-the-border liberalisation. Reforms to, say, services that are not based on this principle will simply hand domestic rents to a preferred foreign country or group of countries, rather than opening services to competition more broadly. Secondly a means of granting some credit to countries for unilateral reforms that are based on accepted principles of good regulation is needed, thus recognising the good liberalising work already done in the tit-for-tat world of trade negotiations.

The problem of the growth of multilateral preferential trade agreements was also discussed. Preferential trade agreements punish non-members, damaging the global trading system. Furthermore, they do not promote the growth of supply chains, which are instead the result of earlier unilateral liberalisation and which have grown even in the absence of free trade agreements. More generally, any group of countries, including the G20, that wishes to take a lead in setting principles for trade and behind-the-border liberalisation needs to be aware that other countries will not necessarily sign onto to any principles the more restricted set of countries agrees to.

The G20 could expand the context in which trade is discussed, and not only see it in the light of crisis-management, where the goal is to limit damage from protectionist policies. Instead, the G20 should be making the links between trade and development, trade and the recovery, trade and data flows, and trade and climate change clearer, and discuss trade in this strategic light. This would require consideration of the state of play including how to make progress on regulatory and investment issues beyond the traditional trade liberalisation agenda and how to reconvene preferential trade arrangements with strengthening the global trade regime.

IV. b. The G20 and development

This session took up the earlier discussion, stressing the importance of linking agendas, particularly the infrastructure, regulatory reform, trade and recovery agendas. This will be the central challenge in crafting the post-2015 agenda, where it will be important to move from the current focus on “strong, sustainable, and balanced growth,” to a focus on “balanced growth and development.” This latter concept attempts to fuse more explicitly social, economic, and environmental issues, rather than treating them, as is currently the case, as separate issues, with separate solutions.

This more unified vision should lead to a single, implementable agenda for the G20. It was argued that part of making this happen, and making it successful, would be positioning the Development working group as a monitor, asking what is going on in the post-2015 agenda. This working group could also link the elements discussed above to the front-line issues of greatest concern to countries such as India and Indonesia, and could set the priorities better, focusing on what were termed “potential trillion-dollar issues”, such as fossil fuel subsidies, tax avoidance, and illicit capital flows.

IV. c. Climate Change

The note on global governance and the background paper on climate change tabled provide a good basis for an approach to climate change in the G20, stressing the reinforcement of unilateral action by major players. Major countries have made substantial changes to greenhouse gas emissions. These changes add up to major changes in emissions trajectories (for example in China, the United States, Europe, Japan, Brazil and Indonesia). The G20 is seen as being able to give heft to surrogate coordination through unilateral action.

IV. d. The role of China

Expected developments in the Chinese economy out until the end of the decade will change its fundamental interaction with the global economy. As factor cost levels are changing, China will soon face the middle-income trap. Structural change, though still unrecognised by many economists, has started, as the wealth distribution starts narrowing consumption starts increasing. The period will see China transition from ‘economic miracle’ to normal growth. This will have many implications for the rest of the world. China will become a source of

global inflation rather than disinflation, as previously. There will be a new global division of labour as China's economy moves up the value-added chain. Further changes will come from the massive reform program currently being planned by Chinese officials, which is likely to aim for partial capital account convertibility by 2015, and full convertibility by 2020.

As China becomes the world's largest economy, it will be the first time that both a developing country and developed countries will be making collective global decisions. The next few years will therefore be important in redefining the relationship between China and rest of world. China feels it has been an active participant in the G20, but some of its government ministries remain frustrated by the limited decision-making developing countries are granted. For example, Quantitative Easing in the developed world has had big effects on the developing world, but this issue has not addressed properly in the G20. The post-2015 agenda therefore needs to encourage developing countries to play a much more active role; if it can't reflect the demands of developing countries, it will be no different from the G7.

An important aspect of such a more inclusive agenda could be to consider China's role in debt sustainability and a new framework for dealing with it. Thinking about what China's role in this would be that doesn't upset others, such as China's potential capital flows to developing countries, would be very interesting, and usefully elevated.

IV. e. The G20 and regional organisations

The final session briefly focused on the best way to relate the G20 to other regional and issue-specific organisations. Here it was argued that, even as the G20 shifts towards the formation of issue-specific coalitions and loose regional groupings, any tendency to form solid blocs should be resisted. In relating to other organisations, the G20 should aim for agreement on general principles for reform, which regional organisations could play a role in driving, while on issue-specific international organisations, such as the WTO, the G20 is best-placed to make sure that they are working properly, reform them where necessary, and then let them operate in their respective spheres of competence without further interference.

Summary

The book, in its introduction, needs to lay out the prisoners' dilemmas that exist in many dimensions of national policy-making. These dilemmas involve situations where there is a net gain when all participants can be assured that everyone will cooperate, but where such cooperation is difficult to assure. *Mutual cooperation is therefore the unifying theme of the book*, and thinking through the specific prisoners' dilemmas rigorously, and setting them out in the book, will provide a solid base from which policy discussions can take place in

which the core intellectual problems become accessible to a wider range of participants.

The G20 also needs to be seen as both a top-down and a bottom-up process. Too often the focus has been on the top, when the emphasis should also be on the bottom-up, and on exploring the links with and between regional groupings. This will help ensure greater consistency between the action at the regional level and the G20, which may not currently exist, particularly in the areas of trade and domestic regulation. Doing this for regulatory reform will be particularly important to delivering on regional infrastructure investment and can be carried through the G20 process.

Looking to Australia's role as hosts in 2014, it is clear that tax avoidance will be a very important topic. However, making the summit a success will also require the elaboration of four or five broader themes for which the support of civil society can be secured, and around which to organise the work of the G20 for that year. The book can focus on these themes and on the specific work on them that needs to be done.

Among the broader themes touched on were:

- Broadening the G20 “framework for strong, sustainable, balanced growth” to include and emphasise social and environmental issues along with economic and development issues.
- Identifying issues that would engage leaders in dialogue on longer term strategic issues that tend to be linked to each other such as poverty, development and sustainability embodied in the post-2015 global agenda.
- Investment in recovery through expanding infrastructure uptake
- Identifying the trillion-dollar can-do issues
- Reaffirming core principles in global trade and regulation and setting out a strategic vision for the global trade and investment regime linked to recovery, development and climate change.
- Declaration of mutual, independent action on climate change
- Developing common perspectives on the role of the emerging economies and China in positive global outcomes