

Priorities and challenges for the G20 in Australia's presidency year

"The questions we've been asking are how do we raise potential global growth going forward? How do we finance investment in infrastructure? What can we do to increase participation of labour? That's where the Australian agenda comes in, **Heather Smith**, Australian G20 Sherpa said at a Friends of Europe Policy Insight discussion on "Priorities and challenges for the G20 in Australia's presidency year. The meeting was organised in cooperation with the Australian Mission to the EU and chaired by **Shada Islam**, Director of Policy at *Friends of Europe*.

Having taken over the G20 presidency from Russia on December 1st, 2013, Australia is uniquely positioned as G20 chair between the developed states in Europe and North America and the developing states of Asia-Pacific. An ostensibly 'Western' state with a free market economy and Westminster-style democracy, it also resides in the heart of Asia with a trajectory that sees it increasingly more aligned economically, with Beijing, Jakarta and New Delhi than with traditional partners in London, Paris or Washington.

Prime Minister Tony Abbott has highlighted a lack of infrastructure, high youth unemployment worldwide and the need for a private sector-led recovery as Australia's key priorities for the G20 in 2014.

Growth and jobs

Giving further details of the Australian agenda, **Smith**, said she saw it as important to keep up the momentum generated at the G20 summit in St Petersburg. "The Russians did a very good job in creating a multi-year agenda focused on growth, jobs and investment; we're moving away from the G20 as a crisis management tool and into a 'peacetime' role focused on rebuilding confidence in the global economy". Smith noted the many challenges facing the G20 caused by overall slow growth rates. "We have large output gaps, high unemployment and inflation" she stressed, adding: "We are in a period of 'shaky calm'.

"Given the interdependence of the global economy, the divide between domestic and the international is now non-existent," said Smith. Collective action was important but she added: "we're asking G20 countries what individual and collective actions can member states take to promote trade, infrastructure investment and employment." Smith noted: "We're looking at how we can manage the spill-over effect from individual states. We have some good momentum in G20 countries, what China is doing following the Third Plenum, what Prime Minister Abe is undertaking in Japan with the 'Three Arrows' and energy sector reforms in Mexico also." This individual action needed to be operationalised at the G20 level.

Corporate tax avoidance was a priority, Smith said, adding: "we have a strong commitment to have taxes paid where the economic activity is taking place and working together to exchange information so that we have greater transparency of financial transactions across G20 countries." She noted that that infrastructure was another Australian priority due to its fundamental role in promoting and aiding growth. "Until now we've had monetary policy do the heavy lifting in terms of growth. We're looking to promote private sector investment in infrastructure and focus on how we're going to achieve that through competitiveness."

Trust and inclusiveness

Smith conceded the process would not be easy: "G20 is a young organisation it's going to take time to build habits of cooperation and collaboration." The value of maintaining trust between G20 partners was important, she underlined, adding that it would be vital in implementing the agenda post-Brisbane. From Australia's perspective, as G20 chair "the key to the future success of G20 lies in outreach and understanding. We need to create a community that understands G20's relevance," Smith observed. Australia's approach was to increase G20's profile in the wider public by working with the multiple partner groups such as the B2 Business Summit, the Civil Society Dialogue and G20 Youth Summits.

As for the anticipated brevity of the final communique issued at the Brisbane summit in November this year, Smith observed, "all presidencies start off with good intentions.

EU'S G20 economic priorities

“Europe fully supports the role played by G20 with enthusiasm; we should, however, try to keep climate change a priority in spite of the divided opinions on this issue between the member states”

António José Cabral the European Union's representative to the G20.

António José Cabral, the EU's G20 Sherpa argued “the EU and Australian priorities fit very well because one of the values of G20 is that it allows us to reach cooperative solutions. This adds value to the agreements reached. It allows problems to be shared and discussed.” He said the institution was much like the European Union in aiding multilateral diplomacy.

Cabral argued that boosting growth was an issue central to the preoccupations of the EU post-crisis. “We have Europe 2020 as a long- term growth strategy, as well as country specific recommendations. Our growth strategy is in three pillars: fiscal policy, structural reforms and target investment; we are particularly focused on structural reforms.”

Concerning infrastructure investment, Cabral citing, Australian Prime Minister Abbott's speech in Davos, warned that “we have to make the case that physical infrastructure investment must be matched with human capital investment” in view of the IMF estimation that 300 million people were unemployed worldwide. The G20's approach towards infrastructure investment, he emphasised, should not be one in which it is viewed as a developmental issue.

Infrastructure investment, he argued, had far wider effects beyond development, he said, adding: “With infrastructure we all benefit. The G20 should give priority to cross border investments that allow the different parts of the world to be connected.” Cabral observed that trade plays a much more important role than it did in the past. “There are huge trade negotiations taking place between the major world powers, the EU has just concluded negotiations with Canada and has others underway with the United States and Japan”. The G20 had a role in supporting trade relating primarily to services, environmental goods, competition and export credits. The G20, he indicated should however respect the competences of the World Trade Organisation (WTO) which should provide the forum for negotiations, whilst G20 should provide the political impulse for these deals.

“The G20 Sherpas met in Sydney and I was impressed with the clarity of the objectives, the determination of the presidency, the pragmatic approach and the commitment of course to the G20 as a multilateral exercise. We have the ingredients of a successful presidency with which the European Union is more than ready to contribute, said Cabral. He concluded that the G20 can be most proud of the leadership it provided in the area of financial reform. “Financial reform was at the heart of the G20 Meeting in Washington in November 2008; in the weeks after Lehman Brothers collapsed we prevented another ‘Great Depression’ from occurring.”

Global governance

“The G20 is a sign that global governance is working, that peer pressure is working and I think that is an unprecedented event in our common history”

Karel Lannoo, Chief Executive Officer of the Centre for European Policy Studies (CEPS)

Karel Lannoo, Chief Executive Officer of the Centre for European Policy Studies (CEPS), welcomed the enormous role played by the G20 in recent years, echoing remarks by Cabral that the institution's achievements in the last five years were impressive, especially in the case of regulation of the financial services sector. This illustrated that global governance via peer pressure amongst member states was working.

Lannoo welcomed the specificity of Australia's G20 priorities. Too often he said in previous summits, the G20 agenda had been subject to revisions by states, becoming metaphorically ‘a Christmas tree’ with each country adding a specific amendment and alternatives to the G20 agenda.

The role played by G20 in European financial reform over the last five years was extensive, he said, owing to the collective peer pressure that provided political cover to member states. “Many people here in Brussels would have heard Commissioners speaking saying ‘we need to do this because of the G20’. It has been used in Europe to drive forward unprecedented financial reform including bank recapitalisation.” On trade, Lannoo argued that the regional trade pacts such as the Transatlantic Trade and Investment Partnership were more problematic. “We have agriculture tariffs of 40 percent and we are going to reduce them

with the US but not with other countries.” Lannoo stressed that the proliferation of bilateral trade deals was not compatible with the multilateral trade agenda and expressed concern that the trend away from the WTO to bilateral deals would raise tensions due to their lack of inclusivity.

Lannoo also expressed reservations over Australia’s focus on corporate taxation and on tax base erosion. “We have seen how impossible it has been at European level to do something about this issue. We have achieved at EU level only two directives harmonising corporate taxation and both of them date back to the 1990s.” As regards Australia’s focus on investments, Lannoo observed that household pensions do not factor into the long term investments outlined in the G20 agenda. “The channels for households to invest their savings into pensions are limited and are not invested in the long term because of market imperfections, the products do not exist for long term pensions.” This was a problem the G20 would eventually have to face.

A mature international actor

“The challenge for Australia going forward is to advance and promote discussion processes internationally; this is where the G20 comes into its own as an institution,”

Philomena Murray, University of Melbourne

Australia had a long history of punching above its weight, said **Philomena Murray**, Professor at the University of Melbourne. Referring to Australia as a “mature international actor”, Murray cited the country’s support for regional architecture in the Asia-Pacific and the contribution made to humanitarian aid and development. Australia’s identity in the Asia-Pacific was of enormous interest to the world as was the 2013 white paper “*Australia in the Asian Century*” that identified closer ties with East Asian actors as a priority. “This process can be both advantageous and problematic in the Asia-Pacific context; owing to its close ties with the United States”, noted Murray “Australia is too often is not fully accepted as an Asian nation.”

Australia as a successful G20 chair would need multilateral instincts in approaching member states. “The challenge for Australia in the G20 and more widely is the need to appeal to fundamental norms, interests and values of the partners of the G20,” she said, underlining the diversity of opinions within the institution. Ensuring the initiatives produced within the G20 agenda were attractive for member states to pursue would require a high degree of diplomatic skill from Australia’s diplomats, she said, agreeing that the G20 could provide the political cover and impetus for individual member states to implement the domestic agenda.

Murray added: “Australia needs to show a sustained leadership capacity, particularly as it seeks to build up habits of cooperation in the G20 as an institution.” Acknowledging the youth of the institution and emerging practices, she cited the gradual establishment of cooperation within the EU as an example.

“Australia needs to be able to facilitate coalition- building and consensus- building within the G20, drawing on its relationships outside the G20,” Murray argued, highlighting that, as with other institutions, there were membership issues and therefore ‘we should keep in mind that there are states that feel that they should be part of the G20.’ “The challenge in 2014,”Murray concluded, “is for Australia to show that it is an effective diplomatic player and mature international actor.”

“Australia has consistently supported giving developing and under developed countries greater say in global institutions like the IMF, it’s important that institutions reflect the global representativeness. It’s also the key to getting inclusive growth,”

Heather Smith, Australian G20 Sherpa

Discussion

In the discussion that followed, Smith conceded that there was no ‘silver bullet’ for getting people back to work and warned that jobless growth was a real problem in G20 states.. “We inherited from the Russian presidency, an employment task force that is focusing on structural, youth and female unemployment,” she said. “On an individual basis we’re asking countries, to change policies best suited to their individual labour markets”. At G20 level, she said collective action was focused on increasing female participation in the labour force in order to increase economic growth.

On inclusive growth, the Australian G20 presidency was going to focus on implementation in order to achieve inclusivity in global economic growth. “Inclusive growth is how we think of underpinning economic development,” argued Smith, adding: “I’ve

asked the International Labour Organisation to do a paper for the G20 Sherpas on inclusive growth". The question of digitalisation in the services sector and the structural change that will follow from economic reforms in member states would be discussed, she said, as would global governance, transparency on tax and exchange of information.

"The strength of G20," argued Smith "can be the focus on cross cutting issues like climate change." The issue was a divisive one the G20, said Smith, adding: "the debate comes down to what set of policies can be used to combat climate change". Discussions could centre on a voluntary process of discouraging the use of fossil fuels and greater action on financing and focus on renewable energies.

Recent currency devaluations in emerging markets such as Turkey and Argentina were being viewed with concern by G20, she said. The main challenges for emerging markets were the structural underpinnings that fuel future growth., including taxation regimes, infrastructure & education and the development of human capital.

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