The G20’s economic leadership deficit

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The G20 displayed unprecedented global economic leadership in the past. That leadership is needed again today. Hannibal Hanschke/Reuters

Few have heard of the Baltic Dry Index. It measures the demand for bulk shipping carriers, used for international trade. It usually attracts little attention. But nine years ago this index had the undivided attention of the 20 most powerful leaders in the world.

It was when the global financial system was on a precipice. Stock markets were crashing. Credit markets were freezing. Rolling failures across financial institutions were shattering confidence. Unable to wait for monthly trade data, the Baltic Dry Index showed in real-time what many leaders feared: global trade and commerce were grinding to a halt.

Leaders faced the real prospect of another Great Depression. But they were determined not to make the mistakes of the past. They resisted a return to protectionism. They slashed interest rates and buttressed the International Monetary Fund and development banks. Over the next three years, they implemented US$5 trillion of co-ordinated fiscal stimulus, the largest in history.

That leadership is needed again today. The risks leaders face at the latest G20 meeting in Hamburg, Germany, might not be as serious as those the leaders who met in Washington faced back in 2008. But the risks are present, and leaders are disengaging with the G20’s ever-expanding agenda. They are more likely to use the G20 for cheap political point scoring than for advancing co-operation on critical global challenges.
Australia can play a role in helping the G20 to deliver this leadership.

**Economic challenges**

Protectionist measures are on the rise. Protectionist rhetoric is rising faster. The World Trade Organisation shows that the stock of trade-restrictive measures is growing, up 8.5% in the 12 months to May 2017 alone.

The G20’s growth agenda from 2014 is in tatters. The G20 committed to make G20 GDP 2.1% bigger by 2018. Instead, the International Monetary Fund forecasts it to fall short by almost 6%.

A strong, effective G20 is manifestly in the interests of the global community, but particularly of Australia. Three-quarters of our merchandise trade is with G20 countries. Our banks rely on them for wholesale funding. Our tourism sector relies on them for two-thirds of our tourists. Our universities rely on them for the vast majority of their students.

Critically, the G20 is an opportunity for Australia to have a say in how global governance will be shaped in the years ahead and to be a regional champion for Asia.

Through in-depth interviews with over 40 central bank governors, ministers and officials from G20 countries, my research suggests there are practical things the G20 could do to increase its relevance. Importantly, participants see Australia as a developed economy, closely integrated in Asia and which promotes the values of the open, rules-based international order. This makes Australia well placed to push for pragmatic changes to improve the G20 process, particularly having hosted the 2014 meeting.

My interviewees warned that the G20’s agenda is too heavily dictated by the host country. In 2011, when France hosted the meeting, President Nicolas Sarkozy asked UK Prime Minister David Cameron to produce a report on reforming global governance. This instantly elevated the issue and saw substantial involvement from other leaders. Australia should push for allowing more leaders to champion the issues important to them, rather than leaving it all to the host country.

Participants similarly suggested that the G20’s peer-review process is too weak. This is the process through which countries review and give advice on each other’s policies. It’s critical to the G20’s ability to generate peer pressure, which is how a non-binding forum influences policies.

But participants saw this process as being a “tick and flick” exercise, isolated to junior officials in G20 working groups. Australia should advocate to change this, elevating the peer-review process to the level of ministers, governors and leaders. This will allow the people who have political capital to raise substantive points with one another.

For the G20 to demonstrate global leadership, participants suggest that it needs a genuine agenda for growth, with a stronger focus on making growth more inclusive. The OECD has some suggestions for this, such as investment in infrastructure, education and microeconomic reforms that lift workforce participation and create new opportunities for quality investment. The IMF shows that GDP gains can be 25% larger if structural reforms like this are co-ordinated between countries.
Participants also wanted progress on trade but warned that reaching agreement has been difficult. **Recent research suggests the G20 should seek to promote consistency between the plethora of global, regional and bilateral trade agreements and develop a framework for how they can be scaled up into a global, WTO-led agreement.**

The research shows that countries benefit most when trade liberalisation happens globally, but the “noodle bowl” of existing trade agreements is a nightmare for exporters to navigate. Australia, as a strong advocate for free trade, is well placed to show leadership on this issue.

Outcomes on trade are also vital for inclusive growth. **Research shows that the poor can afford 63% more goods and services because of free trade, more than twice the benefit that flows to the rich.**

But talk is cheap. It’s easy to commit to reforms but **only half of G20 commitments are being implemented.** Australia should push for a serious accountability framework to monitor implementation and identify the countries that fall short.

A weakening of the G20 is a weakening of Australia’s international influence. Few countries have a greater incentive to put solutions on the table.

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