

# PLAYBOOK FOR THE BRISBANE G20 SUMMIT



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**LOWY INSTITUTE**  
FOR INTERNATIONAL POLICY



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# Executive Summary

It is important that the Brisbane G20 Leaders' Summit be a success. It must help 'reenergise' the G20, because the world needs an effective G20. But there is more at stake for Australia. If the G20 is not effective, any alternative forum for international economic cooperation would likely exclude Australia.

For the Brisbane summit to be a success, Australia will need to improve the way the G20 works, define a focused agenda and directly engage leaders. A pragmatic, business-like approach is required. Most importantly, the Brisbane summit must achieve tangible, meaningful outcomes.

The overall objective should be to continue the quest for stronger, more sustainable and more equitable economic and jobs growth. To give substance to these objectives, the Brisbane summit must make progress on some difficult, but important, international economic issues. Priorities should include:

- Developing a clearer, more consistent and more coordinated strategy for restoring global growth. The G20 no longer has a consistent growth narrative. An outcome from the Brisbane summit should be the 'G20 Coordinated Growth Strategy'.

- Breathing life into the **multilateral trading system**. In a world that may be dominated by mega-regional trading blocs, the Brisbane summit should begin the process of resurrecting the multilateral trading system.
- Tackling **climate change financing** so as to build momentum for the climate change negotiations in 2015. The G20 cannot do the work of the United Nations Framework Convention on Climate Change (UNFCCC), but it has to get serious on climate change.
- Delivering tangible progress on the international effort to **combat tax evasion and avoidance**. This was a major outcome from St. Petersburg and involved the endorsement of high-level principles. The ball has been passed to Australia and it has to show progress on what is a complex and contentious issue.
- 'Mainstreaming' **development** into the G20 agenda and not treating it as an 'add-on'.

To achieve outcomes in these areas will require a strategic game plan and a major, coordinated 12-month campaign. Australia will need a good 'playbook' for the Brisbane summit to be a success.

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# G20 Playbook

## United team, strong captain, clear game-plan

Australia will chair the G20 for 12 months from 1 December 2013. It will be the largest international economic meeting held in Australia. But it is more than just an opportunity to showcase the country to a large number of world leaders, many of whom will be visiting Australia for the first time.

As G20 chair, Australia will have the opportunity to influence the international economic agenda, and importantly, to strengthen international economic governance. Australia must make the most of this opportunity. As an open trading economy that relies upon the world's savings to help finance its investment opportunities, Australia's economic fortunes are tied to the success of the G20 in building a stronger and more stable global economy.

Many commentators have expressed high expectations for Australia's performance as G20 chair. This is a testament to the contribution the country has made to international forums in the past. But it also reflects concerns that the G20's effectiveness is slipping and the desire that Australia will 'reenergise' the forum. Meeting these expectations will require a major effort not only by the government, but by many non-government actors, as well. It will require a united team, a strong captain and a comprehensive 'game-plan'.

This paper outlines the strategy, priorities and steps required for the Brisbane summit to be a success – a 'playbook' for Australia's G20 presidency. It covers five key elements:

- **The motivation:** an effective G20 is important to Australia and the global economy.
- **The challenge:** the growing concerns that the G20's effectiveness is waning.
- **The strategy:** the need for a coherent agenda, clear narrative, greater transparency and stronger accountability.
- **The priorities:** the main, or 'headline', outcomes that should emerge from the Brisbane Leaders' Summit.
- **The campaign:** the importance of a targeted 12-month campaign involving both government and non-government actors working together to achieve the key outcomes identified for the Brisbane summit.

## The Motivation

Hosting a successful G20 summit should not be just a matter of national pride for Australia. An effective G20 is important to Australia and to the world. The G20 provides a forum for international economic cooperation among developed and emerging markets and the opportunity to deal with difficult global economic issues in a manner that will benefit all economies.

The 2008 global financial crisis was the catalyst for the G20 becoming a leaders' level forum. The makeup of the G20, bringing together developed and emerging economies, reflects the changing shape of the global economy. Emerging markets and developing countries now account for just over 50 per cent of global output. At the turn of this century they accounted for around 37 per cent. This meant that any attempt at a coordinated response to the expanding financial crisis in 2008 could not be based on a forum, such as the G8, composed solely of major advanced economies. Emerging markets and developing countries such as China, India, Brazil and South Africa had to be included. The global economy had become so diverse that it could no longer be led by one country or a small group of advanced economies.

Having succeeded with its initial response to the 2008 crisis, the longer-term challenge facing the G20 is to transform itself from being a 'global crisis responder' to an ongoing 'global steering committee' for the world's economy, to use the words of the former Canadian prime minister, Paul Martin.<sup>1</sup> But, in a multi-polar global economy, with new players on the scene that have different economic structures and cultural backgrounds, making the G20 an effective forum for global economic leadership and economic cooperation is a difficult task.

Because of its diverse membership, the G20 is better positioned than any other current forum to promote international economic cooperation. Although the mere existence of economic interlinkages and the interdependent nature of the global economy will not inevitably lead to closer cooperation. And there is no certainty that the G20 will provide the economic leadership that the world needs. But it is clearly in the interests of Australia and all countries that it does so.

## AN ALTERNATIVE TO THE G20 WOULD EXCLUDE AUSTRALIA

Australia has a narrower interest in the success of the G20. If the G20 fails, it is highly likely that any replacement forum would exclude countries such as Australia. One of the criticisms of the G20 is that it is too large. A smaller grouping would likely include the major advanced and emerging markets and economies representing particular regions of the world. Australia may not be included in such circumstances.

Australia's exclusion from any new global 'steering committee' would represent more than just an injury to national pride. Australia would lose the opportunity it now has to influence, at the highest political level, global economic initiatives with a direct impact on the country, including the development of international financial regulatory standards, the reform of international financial institutions and the future course of multilateral economic agreements. Countries such as Australia have much to offer to international groupings. As Colin Bradford has noted, middle powers tend to represent more than just their own interests and place multilateralism nearer the centre of their foreign policies.<sup>2</sup> They also tend to take a pragmatic approach to global problems rather than an ideological one, as well as cushioning the tensions between major powers. In addition, Australia has a record of providing ideas, consensus-building skills and building trust.

It is in Australia's self-interest, and the interests of the global economy, for the G20 to be an effective forum for international economic cooperation. Australia must, therefore, do everything possible to make its term as G20 chair as successful as possible.

## The Challenge

The general consensus is that the G20 has seen its best days and that those were in its role as a 'crisis responder'. The Washington summit in November 2008, the London summit in April 2009 and the Pittsburgh summit in September 2009 provided an effective response to the global financial crisis. G20 leaders pledged to stimulate economic activity through combined fiscal action of over \$5 trillion to strengthen financial regulation, avoid protectionism and expand the lending capacity of the international financial institutions. Their action helped to stabilise financial markets and contain a likely economic free-fall.

More recently, there has been growing criticism that the G20 has failed to live up to the initial high hopes of introducing a new age of global economic cooperation. Recent leaders' summits have been described as little more than talk-shops.

The general image of the G20 is reflected in the summary of headlines and reactions to recent summits compiled by Barry Carin and David Shorr:

*Toronto's 2010 G20 summit was described as 'A Failure All Around'. The Guardian trashed the 2011 Cannes meeting with the headline 'G20 Summit: Slumping to the Occasion', complaining the 'G20 had a chance to get a grip on the sovereign debt crisis. But they failed, and all the big questions remain on the table'. Inability to resolve the Eurozone debt crisis was described as 'A Greek Tragedy and a Grand Failure'. The 2012 Los Cabos summit was no different; Oxfam complained, 'G20 Fails 1 Billion Hungry people Worldwide: Development and Food Security Sidelined'.<sup>3</sup>*

Commentary on the St. Petersburg summit in September 2013 has been similarly negative. In part, this is because the summit was overshadowed by tensions between the major powers over the Syrian crisis. Carsten Volkery, writing in *Der Spiegel*, said that the summit was a failure on all fronts, both on foreign policy and economic policy.<sup>4</sup> Alessandro Leipold declared that the St. Petersburg summit represented a death certificate for global economic cooperation.<sup>5</sup>

In a similar vein, Thomas Bernes said that the St. Petersburg summit was the most forgettable of the eight G20 summits held to date and that 'the G20 may be becoming forgettable as a forum to provide the global economic leadership that it was created to achieve'.<sup>6</sup>

Much of the criticism is harsh and reflects unrealistic expectations of what can be achieved by any international forum. The G20 is also a victim of its own early success in responding to the global financial crisis in 2008-09. In addition, a considerable amount of the criticism reflects the failure of individual governments to implement necessary domestic economic policies. And notwithstanding the concerns over the St. Petersburg summit, there were some notable outcomes. These include: the extension of the standstill on protectionist measures until 2016; the commitment to automatically exchange tax information among G20 members by end 2015; the endorsement of the OECD action plan on combatting corporate tax avoidance; and the agreement to phase out the production of hydrocarbons through the Montreal protocol.

## THE G20 DOES HAVE PROBLEMS

But the G20 does have problems. It has failed to grapple with some of the thorniest issues confronting the global economy. The addition of new items to the agenda without the resolution of existing ones has given the impression of ‘mission creep’. The G20’s credibility has been damaged by the failure to deliver on key promises, such as the commitments to complete the Doha Development Round of international trade talks and to implement reform of International Monetary Fund (IMF) quota and governance. The G20’s processes are becoming increasingly bureaucratic. Its communiqués are getting longer but do little more than endorse reports prepared by international organisations and officials.

At a broader level, the G20 has failed to meet its commitments to restore strong global economic growth, whilst unemployment remains unacceptably high in a number of countries. Five years after the global financial crisis, the IMF is still predicting that global growth will remain subdued at slightly above 3 per cent, the same as 2012 and lower than forecast in April 2013.<sup>7</sup> In the years prior to the crisis in 2008, world growth averaged 4 per cent per annum.

Some of the reasons cited for the apparent decline in the G20’s effectiveness have included the increasing breadth of the agenda, the size of the forum and the difficulty of reaching agreement among countries with diverse interests. The common resolve demonstrated at the Washington and London summits during the height of the global financial crisis has evaporated. Economies have recovered at different speeds and have varying policy requirements. As Alessandro Leipold observes, while everybody pays lip service to the world’s growing interdependence, passivity quickly comes to the fore when the first, frail shoots of economic recovery appear.<sup>8</sup>

The challenge Australia faces as chair in 2014 is to reverse the widespread perception that the effectiveness of the G20 is on the slide. The best way this can be done is by ensuring that significant progress is achieved on a few major international economic issues at the Brisbane summit. To achieve that goal, Australia will need to strengthen the G20 by ensuring that there are clear and common objectives, better communication, greater transparency and strengthened accountability.

## The Strategy

When leaders address the media at the conclusion of the Brisbane summit on 16 November 2014, they should have the same message as to the key outcomes of the summit. This has not been the case with recent summits. But to achieve substantive outcomes, more rigour has to be introduced into G20 processes, particularly in terms of setting the agenda.

The way to achieve greater coherence in the G20’s agenda is to reposition the **Framework for Strong, Sustainable and Balanced Growth** at the core of the G20’s activities. This was the original intent when the Framework was introduced at the Pittsburgh summit in September 2009. As leaders said in Pittsburgh:

*Today we are launching a Framework for Strong, Sustainable, and Balanced Growth. To put in place this framework, we commit to develop a process whereby we set out our objectives, put forward policies to achieve these objectives, and together assess our progress.<sup>9</sup>*

Since the Pittsburgh summit, however, the Framework has been relegated, along with the associated Mutual Assessment Process, to a sub-component of the finance stream of the G20’s work. The discussion of the Framework is confined to an agenda item on the global economy in the meetings of finance ministers and central bank governors. The preparatory work is undertaken by the Framework Working Group, consisting of mid-level officials. Much of the focus is on macroeconomic issues, although recently there have been efforts to introduce a system to assess members’ progress on implementing structural reforms. Little of the working group’s activities are made public and not much attention is paid to the material it produces.

Placing the Framework at the core of the G20’s work will help reinforce that the agenda items are interrelated. For example, creating the right environment to support growth will require a regulatory environment that supports a stable and efficient financial system, open, competitive and flexible labour and product markets and efforts to prevent corruption. Similarly, trade liberalisation is central to creating jobs and promoting development, which in turn is a core aspect of lifting global growth.

One of Australia’s objectives as chair in 2014 should be to re-launch the Framework as the overarching structure for the forum. If this could be achieved, it would be an important legacy of Australia’s presidency that would strengthen the G20. One step towards making the Framework more central

would be for the existing Framework Working Group to be renamed the ‘Economic Policy Working Group’. If there is to be a working group on the Framework, its task should be to coordinate all G20 activities and it should report directly to the sherpas.

#### **CLEAR OBJECTIVES, STRONG ACCOUNTABILITY, BETTER COMMUNICATION**

As part of putting more rigour into the G20 processes, Australia should outline very early in its presidency what it considers to be the objective for the G20 in 2014 and the specific priorities to be pursued. The broad objective should be to ‘**promote stronger, sustainable, and more equitable economic and jobs growth**’. But it will be important to move beyond such a high-level objective and outline a few, specific priorities for leaders to address at the Brisbane summit.

Central to the credibility of the G20 is its ability to deliver on its commitments. At every summit, each member provides a status report on its implementation of policy commitments. It is a rather perfunctory document that receives no public attention. One result is that the G20 continues to be criticised for failing to have a rigorous accountability mechanism. Efforts at introducing ‘peer review’ into the G20, particularly through the Mutual Assessment Process, remain a work in progress and the rigour of the exercise is unclear.

The challenge is to make G20 members accountable for their commitments without turning it into a finger-pointing exercise that would be divisive and detract from efforts to build greater cooperation. G20 members are more likely to deliver on their commitments if they feel there is likely to be domestic political backlash from any failure to implement commitments, or more importantly, to achieve results.<sup>10</sup> Better public communication and transparency are, therefore, important aspects of improving members’ performance.

There are a number of steps that Australia should pursue to strengthen accountability. A **more coordinated accountability approach** could be introduced for all G20 activities. Currently, each agenda item has its own accountability mechanisms. For example, the Framework Working Group is developing an accountability framework that is attempting to incorporate peer reviews. The Development Working Group has also introduced an accountability report. Progress on implementing financial sector reforms is overseen by the Financial Stability Board and reported separately to the G20. On trade matters, the

Organisation for Economic Co-operation and Development (OECD) and World Trade Organization (WTO) prepare reports on compliance with the standstill on protectionist measures. Then there is the very perfunctory ‘overview’ report that is intended to report on members’ progress in implementing policy commitments.

To help develop greater cohesion around the G20 process, a more thorough accountability report would pull together the key assessments from the various separate reports and replace the current brief, member-prepared report on the implementation of policy commitments. In addition, rather than just focusing on members’ self-assessments, greater attention could be given to the assessments of members’ performance as prepared by international organisations, along with input from the non-government sector, including business, civil society and think tanks.

**Communication** has been a weakness of the G20. The length of communiqués and statements from each successive summit has grown. The leaders’ statement from the Washington summit in 2008 was 10 pages. At St. Petersburg in 2013, the leaders’ declaration was 27 pages, with over 200 pages of supporting material. The leaders’ declaration now contains detail on nearly every item being considered in the G20 process, descriptive statements and lengthy references to reports prepared by international organisations and officials. The result is that it is hard to discern what the key messages and decisions were from the summit.

The same trend is evident in other G20 meetings. When the United Kingdom chaired the G20 in 2009, the then chancellor of the exchequer, Alistair Darling, had a rule that the communiqués from meetings of G20 finance ministers and central bank governors could not exceed two pages. This focused the mind of the drafters. In contrast, the communiqué from the July 2013 meeting of G20 finance ministers and central bank governors was nine pages.

Australia should prepare shorter, sharper G20 statements. In particular, the leaders’ declaration following the Brisbane summit should focus on the main items actually agreed at the summit. A longer statement covering progress and the state of play on all the issues on the G20 agenda should be covered in a separate release, although the overall volume of supporting documents should also be significantly reduced. A similar approach should be adopted for meetings of G20 finance ministers and central bank governors in 2014.

By placing the Framework at the core of the G20’s agenda, and by making a concerted effort to explain how all



the agenda items contribute to meeting members' shared objectives, Australia can improve the G20's communications. Of course, it is always easier to prepare a clear, concise communiqué if something significant is achieved at a summit. To do that, however, Australia will need to have clear priorities for its presidency.

## The Priorities

A critical aspect of the G20 process is the involvement of national leaders. It provides the opportunity for them to address intractable global economic issues. This opportunity should not be wasted in Brisbane.

British Prime Minister David Cameron noted, in his report on global governance at the Cannes summit in 2011, that the G20's 'resources, particularly its leader's time and political capital, are limited. It must therefore manage its formal agenda accordingly, by balancing the changing agenda of an annual presidency with the need to retain focus and avoid overstretch.'<sup>11</sup>

Australia should put David Cameron's comments into practice and propose a focused agenda for the Brisbane summit, aimed at making tangible progress on some priority international economic issues. But it will be important to get leaders involved, because it is only leaders who can achieve progress on the most difficult political issues. The history of the G20, particularly its response to the 2008 global financial crisis, underlines what can be achieved when leaders become directly involved. However the trend in recent summits has been for leaders to largely endorse the work of international organisations or officials. The summit is in danger of becoming a routine international meeting where leaders only focus on the agenda just prior to arriving. Australia has to engage leaders well in advance of the actual meeting on the importance of making progress at the summit on some priority international issues.

To achieve substantive outcomes, the G20 chair needs to be prepared to have the political battles necessary to make progress. Considerable preparation, time and effort will be required – including the chair's direct involvement in negotiations with other leaders. While Australia must set clear priorities and aim for tangible outcomes, it must also be realistic about what can be achieved. Expectations need to be managed. Many issues cannot be resolved at one summit. But if a contentious issue is seriously addressed, and this builds momentum towards resolving the issue, then this can be a valuable outcome.

Having a leaders' agenda that focuses on a few major international economic issues does not mean abandoning all the other work that is currently being done by the G20. Much of this work is valuable and should be continued. The G20 should formally adopt a **multi-tracked approach**, with the leaders' summit focusing on a few critical issues while the rest of the work is continued at the official or ministerial level in consultation with the international organisations. As noted, there should be a single, focused leaders' declaration coming from the summit, with the rest of the G20's activities recorded in a separate G20 report that is issued by the chair.

Priority issues for a G20 leaders' summit should be those that are important for the future of the global economy, those that cannot be solved by individual countries acting unilaterally, and those where the international efforts to make progress are stuck. Based on these criteria, the priorities for the Brisbane summit should include the following:

### 1. DEVELOPING A 'G20 COORDINATED GROWTH STRATEGY'

Five years after the crisis, there has not been a strong recovery in the global economy and growth remains below potential. Unemployment is high, particularly among the young, public debt is at worrying levels, financial fragmentation is growing, monetary policy is in uncharted waters and capital flows are volatile. There is also reason to be concerned about the sustainability of current growth rates, given the slowdown in emerging economies and the vulnerabilities confronting many economies. In addition, inequality is growing within most countries.

In recent years, 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 focus has been more on areas of disagreement than those of agreement, as illustrated by the debate over 'growth versus austerity' or the concerns by many members over the use of quantitative easing by some major developed economies, with resulting concerns over 'currency wars'. As Pierre Siklos has observed, 'the G20 has given the appearance of not being able to convincingly sing from the same song sheet.'<sup>12</sup>

The Action Plan released at the St. Petersburg summit acknowledged the risks to the global economy, but the 'action' consisted largely of a listing of policies already announced or already being implemented by members.<sup>13</sup> There was little mention of the need to cooperate and little evidence that G20 countries have a coherent strategy and

are actually cooperating in their policy settings, recognising that by acting together they can achieve outcomes that exceed those they can achieve by acting alone.

A priority for Australia as chair in 2014 must be to get G20 members back on the same page and to 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. The G20 must also demonstrate that it is backing its words about cooperation with deeds. To that end some of the steps the G20 could take in 2014 include:

- In the St. Petersburg declaration, leaders requested their finance ministers to ‘develop further comprehensive growth strategies for presentation to the Brisbane Summit’. This should be a top priority for the G20 in 2014, with the addition that the focus should be on developing ‘coordinated’ growth strategies. It is also an opportunity to place the Framework for Strong, Sustainable and Balanced Growth at the centre of the G20 activities and demonstrate that all of the G20’s work is part of the growth strategy. Steps should be taken to revitalise both the Mutual Assessment Process and the ‘action plans’ that are released after each summit. As noted, these plans have hitherto been a list of already announced commitments by countries and receive little attention. The plans should reflect how countries are cooperating. The development of a ‘**G20 coordinated growth strategy**’ for the Brisbane summit should not be left to officials. Finance ministers and central bank governors must be directly involved and it should be a key component of the leaders’ summit in November 2014.
- The preparation of a ‘G20 coordinated growth strategy’ is also an opportunity to **refocus the meetings of finance ministers and central bank governors**. These meetings should not be excessively procedural or burdened with a fixed agenda. Finance ministers and governors must be responsive to the challenges that can quickly arise in a volatile global economy, but they must also be focused on the longer-term policy measures needed to restore growth. The challenge confronting ministers and governors in 2014 will continue to be dealing with weak global demand at a time when the limits of accommodative fiscal and monetary policies have largely been reached. Ministers and governors will have to prepare and communicate in 2014 an economic policy mix that provides for the orderly consolidation

of fiscal positions, the gradual exit from the various extraordinary monetary policy settings, combined with measures to boost private demand. Critical to boosting private demand will be an accelerated program of structural reforms.

- While the importance of more decisive action on structural reforms was recognised at St. Petersburg, one of the constraints of the current G20 arrangements is that most finance ministers do not have responsibility in their jurisdictions for the required structural measures. Attempts to deal with this have included one-off joint G20 meetings, such as the meeting of G20 finance ministers and labour ministers in 2013, or separate one-off meetings of G20 ministers of labour or trade, for example. An initiative that should be introduced in 2014 is to **open up the finance ministers’ process** so that other ministers directly responsible for the structural reforms being considered can attend on an ‘as needed’ basis. The decision on which ministers should go to a meeting would depend on the topics being discussed and the domestic division of responsibilities. Each country would have two seats at the table at each meeting, but who occupied the seats would depend on the topic being discussed.
- One area of focus of the finance stream in 2014 should be on improving the **oversight of international efforts to strengthen financial regulation**. This is meant to be a core priority of the forum, but the G20 has largely become a rubber stamp for the technical work of the Financial Stability Board. The issue of financial regulation requires more dedicated ministerial oversight than it is currently receiving, as the finance sector will be the source of future crises, just as it has been in the past. The G20 should not be caught up in the details of financial regulation, but should focus on the bigger picture, such as assessing overall progress on achieving a stable and efficient financial sector that meets the needs of the real economy. One way that this could be achieved would be for the G20 finance ministers’ meetings that take place at the time of the spring meetings of the IMF to focus on financial regulation. This would help remove the current duplication associated with back-to-back meetings of G20 finance ministers and the IMF’s International Monetary and Finance Committee (IMFC). These meetings currently have similar agendas and there is an overlap of members.

## 2. BREATHING LIFE BACK INTO THE MULTILATERAL TRADING SYSTEM

The expansion of international trade, which has been a driving force behind the growth in the global economy, has been facilitated by a multilateral system that has helped set and police the rules of the game. But the global trading system is in trouble. The most obvious symptom is the repeated failure to complete the Doha Development Round of world trade talks. Although there are other problems, including: the world's most pressing trade policy issues not being on the negotiating table; the current system no longer being appropriate for a world of supply chains; growing state intervention in trade flows and a gradual, cumulative rise in trade distortions.<sup>14</sup>

In terms of concluding the **Doha Development Round**, the G20 has failed to show leadership. At various summits, leaders have committed to completing an ambitious and balanced conclusion to the round. At the Seoul summit, leaders said they recognised that 2011 was a critical window of opportunity and they were now entering the 'end game'. But this sense of urgency was not transmitted back to trade negotiators in Geneva. The G20 has conspicuously and repeatedly failed to deliver on one of the most intractable issues confronting the global economy, and this has damaged the G20's credibility.

An area where the G20 has been more successful is the **standstill against new protectionist measures**. At their first meeting in Washington DC in November 2008, G20 leaders committed '... within the next 12 months, we will refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing World Trade Organisation (WTO) inconsistent measures to stimulate exports.'<sup>15</sup> This standstill commitment was extended at the London summit in April 2009 until end-2010, renewed until end-2013 at the Toronto summit in June 2010 and extended again at the Los Cabos summit until end-2014. In St. Petersburg, the standstill was extended to end-2016 and leaders reaffirmed their commitment to roll back new protectionist measures.

According to assessments of the standstill by the WTO, OECD and United Nations Conference on Trade and Development (UNCTAD), the G20's record on compliance is positive. While there has been a steady accumulation of trade restrictions by G20 members, there has been no widespread retreat to protectionism. However, other trade policy assessments have not been as sanguine, pointing to a

rise in 'murky protectionism' by G20 countries in the form of non-tariff barriers that are not subject to multilateral trade rules.<sup>16</sup>

In the absence of progress on multilateral trade liberalisation, countries are voting with their feet, stepping outside the WTO to negotiate bilateral and regional trade agreements, with the current focus on what are described as 'mega-regional' deals. The mega-regional trading arrangements being pursued by the United States – the Trans-Pacific Partnership (TPP) and the Trans-Atlantic Trade and Investment Partnership (TTIP) – threaten to divide the global trading system into two large, although non-exclusive, regions defined by discriminatory preferences.<sup>17</sup> They discriminate against major emerging markets and developing countries. The IMF has warned that the regional focus of trade agreements entails risks of fragmentation in global trade, absent a renewed commitment to completing the Doha round.<sup>18</sup> If the G20 is truly the premier forum for international economic cooperation, it should be concerned about this situation and should do something about it.

Trade is on the G20 agenda and cannot be ignored under the Australian presidency. A decisive milestone in terms of the future of the multilateral trading system is likely to be the outcome from the Ninth WTO Ministerial Conference (MC9) to be held in Bali from 3-6 December 2013. Recognising that a comprehensive package will not eventuate from the Doha round, the aim at this ministerial is to reach agreement in a few areas, specifically trade facilitation, agriculture and particular issues relevant to least developed countries (LDCs). This includes implementing the agreement to grant duty-free and quota-free access for goods originating from LDCs. The St. Petersburg leaders' declaration states that a successful outcome at MC9 would be a stepping stone to further multilateral trade liberalisation, and provide confidence for future Doha negotiations. Leaders called on all WTO members to show the necessary flexibility to 'bridge existing gaps and deliver positive and balanced results at MC9'.<sup>19</sup>

A successful outcome of the Bali WTO trade ministers' meeting would mean that there was life in the multilateral system – and in the WTO as a negotiating forum for trade liberalisation. It would also provide a basis for the G20 to help revive the multilateral trading system in 2014. However, if the 'existing gaps' are not bridged and little is achieved at the Bali meeting, that would be a body blow to the multilateral system. In that case, there will be an even greater need for the G20 to bring the disappointment of the Doha round to an end and set an agenda for reviving the

multilateral trading system. Unlike at previous summits, in 2014 the G20 leaders would not be able to deal with the 'trade issue' by simply expressing a commitment to some future WTO meeting. In 2014, the G20 will likely have to tackle the future of the WTO head on.

Specific proposals that could be advanced through the G20 in support of the multilateral trading system include:

- Placing international trade at the heart of the G20's commitment to deliver economic growth and employment and to promote development.
- Upgrading and refining the standstill agreement on protectionism to cover WTO-consistent measures of protectionism (non-tariff barriers) and achieve actual progress in rolling back new protectionist measures.
- If there is progress at MC9, building on the momentum and putting a major effort into advancing further aspects of liberalisation. If MC9 is not a success, the G20 should focus on aspects that can still be saved, such as an agreement dealing with trade facilitation, the provision of duty-free and quota-free access for LDCs' goods, phasing out farm export subsidies, reforming the WTO dispute resolution process, and introducing new disciplines on food export controls.
- Encouraging the WTO to bring the trade policy agenda into the twenty-first century by recognising the importance of services trade and global supply chains.
- Recognising the scale of the proposed mega-regional trading arrangements and seeking to negotiate the provisions of the mega-regionals with a view to their global application.
- Advancing plurilateral agreements within the WTO, whereby subsets of countries forge agreements on certain issues and allow those countries with reservations to stand aside.

### 3. BUILDING MOMENTUM ON CLIMATE CHANGE

The world's climate is the clearest example of a global public good, and as such, a clear candidate for G20 attention. It is an area where global cooperation is essential. Yet the world continues to search for an international agreement to deal with human impact on the global climate. Global talks have not yet provided an agreement to cut emissions of greenhouse gases.

The proposal for a new international legally binding agreement to curb emissions was rejected at the UNFCCC conference in Copenhagen in 2009. At the UNFCCC conference in Doha in 2012, it was agreed that a new round of negotiations would aim to achieve an international protocol on climate change by the time of the UNFCCC conference in Paris in 2015.

As the history of the UNFCCC negotiations has demonstrated, reaching an international agreement on reducing emissions will be very difficult. The problem of equity is a major obstacle. Developing countries make the point that the bulk of the existing stock of emissions was caused by developed countries, which now insist that developing countries cannot use the same high-emissions path to development. Consequently, developing countries expect developed countries to provide financing and technology to meet their costs in dealing with and adapting to climate change. International climate change negotiations are ultimately about money.<sup>20</sup> As Martin Khor notes, 'developing countries have development imperatives, and their ability to undertake climate actions depends on the extent of support they receive from developed countries.'<sup>21</sup>

At the Copenhagen UNFCCC conference, developed country signatories agreed to provide \$30 billion by end-2012 in 'fast-start' finance and to mobilise \$100 billion annually to assist with climate adaptation and mitigation efforts by developing countries. Funding was to come from an unspecified variety of sources, public and private, bilateral and multilateral, including alternative sources of finance. Donor countries have met their initial commitment to fast-start finance. But for various reasons, including the legacy of the financial crisis, a funding hiatus looms between the end of the 'fast-start' climate funding (2010-12) and the 2020 commitment. As Barry Carin states, 'the climate change debate is stuck. The many justifiable projects to mitigate or adapt to climate change are sidelined for lack of money.'<sup>22</sup>

In 2010, the UN Secretary-General's high-level Advisory Group on Climate Change Financing published an analysis of different financing sources that could be used to raise the \$100 billion per year by 2020. The report claims that the goal can be achieved by a combination of measures, including the introduction of a carbon price, a tax on the maritime and aviation sectors, currency taxes and financial transaction taxes. The feasibility and likelihood of implementing such taxes was not canvassed. Another funding option that has been canvassed involves a special allocation of the IMF's Special Drawing Rights (SDR). But this would require 85 per cent of IMF shareholders to agree to such an allocation.



Progress on **climate change financing**, which is critical to progress on reducing global emissions, is a prime example of an intractable global issue requiring input at the highest political level. As the premier forum for international economic cooperation, the G20 should provide political direction to help advance climate change talks. It is on the agenda, but progress has not been encouraging. In 2011, the G20 French presidency requested a report from international organisations and regional development banks on financing climate change adaptation. The group's report, *Mobilizing Climate Finance*, covered such options as carbon taxes, financial transaction taxes, levies on the aviation and maritime sectors, green climate bonds as well as redirecting fossil fuel subsidies.<sup>23</sup> But the report was never discussed and the political feasibility of the options was never explored. In Los Cabos in 2012, G20 leaders established a study group on climate finance. The study group achieved little and released a progress report that identified its future work as the sharing of experiences and the exchanging of information.<sup>24</sup>

At the St. Petersburg summit, US President Barack Obama and Chinese President Xi Jinping announced a bilateral agreement to eliminate potent greenhouse gases through the Montreal Protocol, the 1987 agreement that phased out ozone-depleting substances. This came on top of the announcement in July 2013 by the US-China Climate Change Working Group of initiatives in the areas of: transportation; smart grids; carbon capture, utilisation and storage; energy efficiency; and data transparency.<sup>25</sup> These initiatives have led to speculation that the United States and China are 'finally getting serious about climate change.'<sup>26</sup>

The G20 as a whole will, however, also need to get serious about climate change. In St. Petersburg, leaders reiterated their support for a protocol on curbing emissions by 2015, supported the operationalisation of the Green Climate Fund, and called on finance ministers to build on the work of the G20 Climate Finance Study Group and report back to them at the Brisbane summit. However, if the current approach of the Study Group is pursued, there will be no progress in advancing climate change financing. The G20 would have provided little, if any, support for the UNFCCC negotiations seeking to reach a new agreement by 2015.

The G20 should seek to **build momentum on climate change issues in 2014**. It should do this in two ways. First, explore in depth the feasibility of the various climate financing options that have been raised and seek to find a way forward. The aim should be to narrow the options and either identify a preferred approach to mobilising the required climate

change financing or, alternatively, isolate the issues that will need to be resolved in order to make progress. Second, the G20 should consider where and how climate funds should be spent, recognising that progress on this issue may be a pre-condition before making progress in identifying where the money can come from.

Moving beyond the rhetoric to consider the issue of climate change financing in 2014, even if an agreement were not reached, would send a signal from G20 leaders that they take the climate change issue seriously and would add momentum to the UNFCCC's negotiations.

#### 4. MAINTAINING THE MOMENTUM TO COMBAT TAX EVASION AND AVOIDANCE

Agreement on combatting tax evasion and avoidance was a significant outcome of the St. Petersburg summit. The G20's focus is on reducing tax evasion by promoting greater tax transparency and the **automatic exchange of tax information**, and by dealing with **base erosion and profit shifting (BEPS)**. BEPS are strategies used by corporates to exploit loopholes, particularly in double tax agreements, to make profits disappear for tax purposes or to shift profits to jurisdictions with little or no taxation.

Combatting tax evasion and avoidance is a major objective of most G20 members. Declining tax revenues are clearly a problem for governments at a time when many countries are fiscally constrained, but tax evasion and avoidance also raises domestic political concerns about fairness. Media reports that major corporations are paying minimal tax resonate powerfully with taxpayers facing the consequences of tight fiscal consolidation measures.

Tax is an area that requires international cooperation. Countries have long recognised the importance of international rules to avoid double taxation. However, with economies becoming more globally integrated, and multinational corporations representing an increasing proportion of global output, no country acting alone can combat BEPS. It is a global issue requiring a global solution.

At St. Petersburg, G20 leaders endorsed the automatic exchange of tax information by all countries, as well as an OECD action plan for multinational cooperation to establish an OECD/G20 BEPS project. This initiative has been described as 'the most significant potential change to international tax for decades.'<sup>27</sup> As chair of the G20 in 2014, Australia must maintain momentum in reforming international tax rules. It is a complex and contentious area

and progress will not be maintained without an ongoing political push at the highest level. Australia needs to follow through on the initiatives of the Russian chair on this issue. The credibility of the G20 would be damaged if one chair launched an initiative that was considered to be of major significance, but was then seen to languish in the hands of its successor as chair. But while maintaining the momentum on BEPS must be a priority for the G20 in 2014, there are no quick fixes. Nevertheless, the G20 will need to demonstrate to the international community that progress is being made in meeting concerns over tax fairness. But it will also need to avoid setting excessively tight timeframes that lead to poor outcomes, or failure to meet deadlines which will damage the G20's credibility.

In 2014, the G20 should focus on the following three areas with respect to tax evasion and avoidance:

- First, a major effort should be directed towards expanding the **exchange of tax information and tax transparency**. Priorities include completing the new single global standard for the automatic exchange of tax information in line with the commitment made at St. Petersburg. In addition, as a way to deal with BEPS, the G20 should drive the requirement for taxpayers in all jurisdictions to disclose more targeted information about tax planning strategies. The threat of reputational damage that can come from the exposure of aggressive tax planning strategies can be a powerful tool in combating tax avoidance. This should include reporting on the **beneficial ownership of companies** (that is, the identity of the owners of companies). In addition, a major effort should be directed at getting all G20 members to commit to the **Extractive Industry Transparency Initiative**, which is a global standard for revenue transparency and accountability in the extractive industry sector. Transparency is an area that can be advanced relatively quickly and does not require the negotiation of an international agreement or protocol, which would be a major challenge in advancing the rest of the G20/OECD BEPS action plan.
- Second, the work on BEPS should be presented as part of the G20's efforts to deal with the **challenges arising from a rapidly changing and integrated global economy**. The core of the problem is the failure of international tax laws to keep up with global and technological developments, including the rise of the digital economy. But the pace of change is unlikely to slow and its impact is not limited to tax laws. Trade policy has also not kept pace with the rise of value-added chains where

goods are now 'made in the world' rather than made in one country. Building on the factors underlying the BEPS work, Australia should introduce a more forward looking component into the G20's deliberations in 2014, with consideration of the implications of existing and likely corporate and technological developments on economic management and the need for improved international cooperation. The reality is that continuing technological improvements, such as 3D printing that could revolutionise production processes, are likely to result in further integration of economies. The G20 will have to respond accordingly.

- Third, it is important that the work on increased tax transparency and BEPS is seen as a global exercise and not solely an OECD/G20 project. A priority in 2014 should be to **ensure that developing countries are a key part of these efforts** and that their needs are taken into account. For example, there should be a meeting of G20 and non-G20 countries on the issue during 2014, with a particular focus on the implications of BEPS for developing countries. The G20 must avoid the impression that it has only given a priority to the issue of corporate tax avoidance in response to some high profile cases in G20 countries. Ensuring multinational corporations pay their fair share of tax is a major problem confronting developing countries and improving their revenue mobilisation capacity would be a major advance for their development.

## 5. MAINSTREAMING DEVELOPMENT IN THE G20 AGENDA

Development has to be a priority for the G20. It is crucial for the legitimacy of the forum. The G20 cannot be solely absorbed with the issues confronting its members. Progress has been made on a number of development issues in the G20, including: supporting reforms and increasing resources for the multilateral development banks; enhancing food security; and reducing the cost of remittances. Notwithstanding this progress, there is much criticism of the G20's development agenda, which has been described as 'diffuse, lacking a coherent narrative and disconnected from the central concerns of [the] G20....'<sup>28</sup>

In St. Petersburg, leaders committed to improving the activities of the Development Working Group through a number of steps, including concentrating on fewer key areas, enhancing coordination across different G20 work streams, and expanding engagement with stakeholders, especially low income countries (LICs). The priority for the G20 in 2014 should be to act on these steps and **better integrate**

development into the G20's agenda. This could be described as 'mainstreaming' development into the G20 agenda.

The development agenda should not be considered an addition to the G20's main agenda, conducted independently from the rest of the forum's processes through the Development Working Group. Specifically, in 2014 the G20 should be more focussed on the development implications of all the issues it is pursuing. In terms of the proposed priorities for the Brisbane summit, this should include the following:

- The preparation of a coordinated G20 growth strategy, in line with the St. Petersburg leaders' declaration, that includes the implications for other countries, particularly low-income countries. One of the most important things that G20 members can do for development is to restore strong growth in their economies. A more coherent G20 growth narrative must also take into account how the economic advancement of developing countries contributes to stronger and more sustainable global growth.
- The recognition that one of the G20's motivations in promoting open trade is the positive role it plays in development. In particular, one concern about the trend towards mega-regional trade agreements is that they discriminate against developing countries.
- The recognition that the G20's work on combatting tax evasion and avoidance is a vital concern for developing countries. Boosting their revenue raising capacity would significantly boost their development prospects. Developing countries must be directly included in the efforts to deal with corporate tax avoidance.
- The acknowledgment that the concerns of developing countries and progress on implementing the commitments on climate change financing will be vital to the future course of climate change negotiations.
- The significant enhancement of the G20's outreach to developing countries. The current consultation process is insufficient and ad hoc. More structured, comprehensive and regular consultation with developing countries should be introduced.

## The Campaign

Ensuring that the Brisbane G20 summit is a success will require a targeted campaign by the Australian chair. Some of the key steps in that campaign should include:

- **The Prime Minister must own the process:** The personal involvement of the Prime Minister at all stages of Australia's G20 presidency is vital. The Prime Minister must 'own' the agenda and be personally committed to the Brisbane summit delivering substantive outcomes. Early and regular contact with fellow leaders will be important. The depth of the Prime Minister's relations with G20 leaders will be a crucial element in making progress on contentious issues. Similarly, the treasurer must establish a good working relationship with other G20 finance ministers.
- **Release a concept paper:** As soon as possible after 1 December 2013, Australia should forward to G20 members a concept paper outlining its proposed approach to chairing the G20 in 2014. The message should be that the process will be targeted, streamlined, pragmatic and most importantly, focused on results. It should state that priority will be given to effective communication, particularly in outlining how the activities of the G20 are interrelated and aimed at improving people's lives. It should also emphasise that the Framework will be the core of the G20 process.
- **Outline the priorities for 2014:** The overarching objective of the G20 in 2014 should be promoting stronger, more sustainable and more equitable global economic and jobs growth. In order to achieve this objective, Australia should outline very early in its presidency the specific priorities it will be seeking to advance at the Brisbane Leaders' Summit.
- **Get leaders involved:** It appears that leaders are increasingly becoming less engaged with the G20. Preparations for summits and negotiations of outcomes are left to officials. This was not the case with the initial G20 leaders' summits. The challenge is to get leaders more directly involved in the lead-up to the summit and in working towards achieving outcomes. A targeted agenda that aims to make progress on some difficult, but important, global issues would attract the attention of leaders. But the G20 chair will need to be actively involved in pursuing the priorities for the Brisbane summit with other G20 leaders in the lead-up to the summit. This should involve overseas visits and regular

phone calls. A new initiative should be introduced in the form of video-conferences with leaders. The actual summit should be the culmination of an active campaign to achieve substantive outcomes.

- **Engage the non-government sector:** The G20 process has grown to include meetings of business representatives (B20), civil society (C20), labour organisations (L20), youth (Y20) and think tanks (T20). Each of these groupings has a series of meetings and consultations aimed at producing recommendations for the leaders' summit. These recommendations are then submitted to the summit chair. This is an important part of the outreach process, but it should be a two-way process. The chair should seek to use these consultations to influence the domestic constituencies of G20 countries on the importance of achieving progress on identified priorities. The most important consultations are not those that take place within these consultative groupings, but those between the members of these non-government groups and their respective leaders, ministers and officials. The aim should be to use the consultative groups to build a groundswell of support for key outcomes at the Brisbane summit. Leaders are more likely to be responsive to demands of their own citizens than the entreaties of their fellow G20 leaders or the chair.
- **Strengthen accountability:** A number of steps should be taken to strengthen G20 accountability. Having a more consolidated accountability process for all G20 activities under the rubric of the Framework would be an important step. However, a greater effort should also be directed at involving the non-government sector in assessing whether G20 members are delivering on their commitments. Towards that end, a G20 'accountability conference' should be held in the months leading up to the Brisbane summit, which would provide the opportunity for business, civil society, labour organisations, think tanks and academics, along with international organisations, to provide their views on the G20's performance and its implementation of commitments.

## Conclusion

Australia's hosting of the G20 is both an opportunity and a challenge. It will be the most important international economic meeting that Australia has ever hosted. National pride will be on the line, but even more than that some very tangible national interests will be in play as well. Australia has a genuine interest in the G20 succeeding. A credible and effective G20 can help achieve stronger and more stable global economic growth, which is vital to Australia's own economic growth. A weak and ineffective G20 is likely to be replaced by another international forum of which Australia is unlikely to be a member. If this occurs, Australia would lose the opportunity to directly influence the international economic and regulatory environment in which it operates.

As it plans for the Brisbane summit, Australia should aim to actively engage G20 leaders to achieve tangible, meaningful results. This is the best way to reinvigorate the G20 and help ensure that it lives up to the aspiration of being the 'premier forum for international economic cooperation.' To achieve this, a major effort by Australia, particularly from the Prime Minister, will be required. But it will also require the input of non-government actors. What is required is a targeted, intensive, 12-month campaign aimed at achieving results. If Australia pulls it off, the Brisbane summit will set a benchmark for all G20 summits to come.



# Annex:

## What is the G20?

The G20 was formed in 1999 following the Asian Financial Crisis, in recognition of the need to broaden the dialogue on international economic issues beyond developed economies to include emerging markets and developing countries. There were no formal membership criteria for the group, beyond it being described as a mechanism for a dialogue between ‘systemically important’ countries. The G20 commenced with 19 countries and the European Union.

### Members of G20 and share of global GDP (PPP basis)

United States	18.9	Italy	2.2
China	14.9	Mexico	2.1
India	5.6	Korea	1.9
Japan	3.8	Canada	1.8
Germany	3.0	Indonesia	1.5
Russia	3.0	Turkey	1.4
Brazil	2.8	Australia	1.2
United Kingdom	2.8	Saudi Arabia	1.1
France	2.7	European Commission	-

Over time other countries and international organisations were invited to G20 meetings. Spain became a ‘permanent invitee’. For the St. Petersburg summit in 2013, Russia invited Ethiopia (Chair of the African Union in 2013), Senegal (chair of NEPAD in 2013), Kazakhstan, Brunei Darussalam (chair of ASEAN in 2013), and Singapore (chair of Global Governance Group). International organisations are also invited including the Financial Stability Board, the International Labour Organisation, the International Monetary Fund, the Organisation for Economic Cooperation and Development, the United Nations, the World Bank, and the World Trade Organisation.

Between 1999 and 2008, G20 finance ministers and central bank governors met annually. It became practice for the chair of the meeting to be rotated between members. In 2008, President Bush invited leaders from G20 countries to a meeting in Washington to respond to the global financial crisis. The G20 meeting in St. Petersburg in 2013 was the eighth leaders’ summit. In 2009 and 2010, there were two leaders’ meetings each year. Since 2011, G20 leaders have met annually. G20 finance ministers and central bank governors normally meet four times each year.

The G20 is an informal, consensus based grouping. It has no permanent secretariat. Preparation for the leaders’ meeting is overseen by national ‘sherpas’, acting as representatives of their respective leaders. The outreach activities in the lead-up to a summit now include business representatives (B20), civil society (C20), labour organisations (L20), think tanks (T20) and youth (Y20).



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