G20 Australia 2014

Speech for Institute of Global Dialogue G20 Outreach Seminar

The G20 and the Future of Global Economic Growth

By Dr Heather Smith

24 July 2014
Senate Hall, 2nd Floor, Theo van Wijk Building, UNISA Main Campus, Pretoria

Australian Government

international relations & cooperation
Department: International Relations and Cooperation
REPUBLIC OF SOUTH AFRICA

Institute for Global Dialogue IGD

UNISA university of south africa

G20 Sherpa Heather Smith

Dr Heather Smith was appointed Deputy Secretary, G20 Sherpa in the Department of the Prime Minister and Cabinet in September 2013. Prior to this time, Dr Smith had responsibility in the department for economic, industry, infrastructure, environment and strategic policy matters in her role as Deputy Secretary, Economic and Strategy when she joined in May 2013.

In August 2010, Dr Smith was appointed Deputy Secretary in the Department of Foreign Affairs and Trade with responsibility for the Americas and Africa, North Asia, international security issues, G20 and the international economy, and information technology issues.

In February 2005, Dr Smith was appointed Deputy Director-General, Office of National Assessments with responsibility, at various times, for North Asia, South Asia, the Pacific, transnational issues, international economic issues, corporate issues, and Executive and foreign intelligence coordination.

Between 2003-2005, Dr Smith held positions at the Australian Treasury as General Manager, G20 and APEC Secretariat and General Manager, International Economy Division.

From 2000-2003, she was Assistant Director-General, International Economy Branch, Office of National Assessments.

Before joining the public service, Dr Smith was an academic working on North Asia at the Australian National University, holding various positions from 1994-2000. She also worked at the Reserve Bank of Australia from 1988-1990.

Dr Smith holds a Bachelor of Economics (First Class Honours) from the University of Queensland and a Masters and PhD in Economics from the Australian National University.

Introduction

I would like to thank the Institute of Global Dialogue and the University of South Africa (UNISA) for hosting me here today, and thanks to Professor Makhanya, Dr Zondi and Ambassador Diseko for chairing the event.
It is a pleasure to be in your beautiful country South Africa to share our perspectives on the G20. Today I would like to talk about why the G20 is important for South Africa and Australia, and the African continent as a whole. It is important to recognise that what we do in the G20 is built on shared understanding and partnership.

And Australia and South Africa are natural partners. While our nations are not geographically close, there are many similarities in background, economy and culture.

Both nations are Southern Hemisphere, Commonwealth countries. Both our economies are grounded in strong mining and resources sectors, and both rely on growing bilateral investment relationships to flourish. This means that we share a perspective on the world about what we need to do to boost growth, and the challenges that countries like ours face in achieving this.

While we are sometimes rivals on the sports field we are more often partners.

There are strong South African communities in several of Australia's major cities. South Africa is Australia's second-largest trade partner in Africa (after Nigeria) representing 26 per cent of total trade with Africa and one third of investment. We have developed solid and wide-ranging bilateral education linkages, both at the institutional level and through the Australia Awards. Our development partnership provides regional diplomacy courses and mining for development study tours. We share responsibilities in the Indian Ocean Rim Association. We signed the bilateral Plan of Action in 2010 that paves the way for an Australia-South Africa Foreign Ministers' Dialogue and biennial senior officials talks which I had the pleasure of attending. And we are dual hosting the Square Kilometre Array, one of the world's most important scientific projects.

And because of the size, location and dependencies of our economies, we are partners with shared global concerns, which are often shared by all members and non-members of the G20.

Growth in Africa

As the world's premier economic forum, the G20 is understandably pre-occupied with the health of the world economy, and the need for global economic growth.

Australia's G20 presidency is taking place at a time when the G20 and the world are transforming. The economic powerhouses of the future will not be in North American and Europe – the IMF expects emerging market and developing economies to contribute more than two-thirds of global growth in the near future.

The so-called ‘Rise of Asia’, led by China and India, is driving global growth, with Asia and the Pacific representing 30 per cent of global GDP. Asia’s growing middle class, expected to reach over half of the world’s total middle class at around 1.7 billion in 2020, is becoming more affluent and mobile, fuelling demand (slide 1).
While most countries are already highly aware of the importance of links to Asia, they are increasingly aware of the emerging boom on the horizon – Africa.

As a continent, Africa has a good story to tell about the power of reform and the benefits of a globalised economy. Much of Africa’s recent economic success – recent growth of almost 6 per cent per annum – a result of African nations opening their borders to trade and investment. Stronger economies in Africa are in turn contributing to the current growth in Asia.

On average, an African state is more than 30 per cent more open to international trade than in 1960, and two-way trade between our two continents has more than doubled in the four years between 2009 and 2013. We are also seeing a significant increase in Africa’s middle class – the African Development Bank estimates that the African middle class now includes 350 million people. South Africa’s remarkable economic and social development since its first democratic elections 20 years ago has seen a 40% increase in real per capita GDP, and a 10% reduction in poverty.

The implications of this story are significant for G20 members, as we focus our economic settings on harnessing economic growth, and ensuring that the institutions that govern our global economic system serve us well.
But the G20 also recognises that the consequences of this growth and reform are not just for G20 members – indeed, many actions of G20 members can have far-reaching effects in developing countries halfway across the globe. Africa has a special role to play here.

That is why it is so important that the G20 has strong African representation through South Africa and the heads of the African Union and the New Partnership for African Development (NEPAD), this year Mauritania and Senegal respectively. Engagement with Africa is critical, which is why Australia’s G20 Special Representative, Daniel Sloper, recently travelled to Addis Ababa to discuss the G20 agenda with the African Union Permanent Representatives Committee and with the United Nations Commission for Africa. This is a process Australia is committed to continuing to keep countries informed about the outcomes of G20 discussions and to seek perspectives.
The far-reaching effects of the actions of G20 members is also why development is not considered an isolated agenda item for the G20, but as an ever-present underpinning for all of our work – and I acknowledge the valuable contribution that South Africa makes as co-chair of the G20’s Development Working Group.

Inequality

There are two fundamental principles of the G20’s work when looking at the growth challenge.

Firstly, that by cooperating and coordinating our responses, there is significant potential for G20 actions to benefit all national economies: advanced and developing, member and non-member. In a globalised world, stronger foreign markets and free trade can only be a good thing. I will talk about trade and investment a little later on.

Secondly, that the G20's work makes a real impact on the lives of our citizens. This is important when we consider such issues as inequality.
The sluggish return to global growth has significant human consequences. Five years on from the global financial crisis, the global economy remains fragile and growth uneven. And as the International Monetary Fund reported to G20 members last month, inequality can have serious ramifications on economic growth.
We need to understand the drivers of inequality in order to address it, and increasingly we are seeing signs that it is not inequality between countries that is rising, but inequality within countries. Inclusive growth matters within and across countries.
While some causes of inequality are matters of domestic politics, the G20 can have an impact through its strategies to improve growth and implementing measures to ensure good business conduct.

Addressing holes in the international taxation system, which has not kept pace with technology and changing business practicals, is important to ensure governments receive the revenue needed to serve their people. Equally important is preventing the proceeds of economic activity being misappropriated through corrupt activities. Both of these issues are on the G20 agenda with strong support from South Africa.
When the pie is not growing, and people's living standards are not rising, achieving better outcomes for the world's most vulnerable people becomes all the more difficult – it has a direct impact on our ability to lift people from poverty, and provide the welfare and employment services that they need.

This is why Australia has prioritised growth rather than seeking to address a multitude of worthy issues. It's critical we stay focused so we can deliver real economic outcomes.
Employment is key. The best way to reduce the problem of inequality is investment in education and to create more and better jobs. This is easier said than done.

Despite Africa's recent economic achievements, the number of people living in poverty increased from 376 million in 1999 to 413 million in 2010. In a November 2013 Pew Global Survey, 70% of South Africans said inequality was a very big problem – just less than the African median of 76%.
And yet, there is also a sense of optimism – in that same survey, 50% of Africans surveyed said children alive today will be better off than their parents.

Need for growth

The problem of inequality is intricately linked to the need to generate economic growth and the means by which we achieve this. It is clear that the need for growth is global (slide 2):

The IMF expects the world economy to grow by only 3.6 per cent in 2014 (April WEO), and the forecasts are likely to go down – this compares to an average of nearly 5 per cent over the five years prior to the GFC.

The ILO estimates that in 2013 there were 62 million fewer people in jobs around the world than would have been the case based on pre-crisis trends – the hardest impacts were on young people, with over 74 million remaining unemployed.

The WTO predicts a growth rate of 4.7% in global trade for 2014, still below the pre-crisis average of 6 per cent per annum from 1980-2007.

The challenge before us means we need more reform – importantly structural reform, a challenge made harder by the 'reform-fatigued' state of many economies at the moment yet the IMF has said that without bold actions, we will continue to have prolonged sub-par economic growth, and will make little headway in reducing unemployment.

The G20 agenda

The G20 is the right forum to face this challenge. Representing roughly 85% of global GDP, over two thirds of the world's population – including two thirds of its poor – and three quarters of world trade, the G20 has the right mix of advanced and developing countries to take real action. It is the right institution for the times.

The experience of the global financial crisis shows what can happen when countries work together – the G20 contained the crisis and prevented more serious problems from arising, and held back pushes for protectionist policies. The way G20 members work together is not only vital to laying the foundations for sustainable growth, but is also vital to building habits of cooperation and trust among nations. In fact I see this as the most important and enduring role for the G20.

This year, Australia is focusing the G20 agenda around three key areas (slide 3):
Promoting strong economic growth and employment outcomes by empowering the private sector
Making the global economy more resilient to future shocks, and
Strengthening global institutions and ensuring their ongoing relevance to the global economy of the twenty-first century.

As the Australian Prime Minister said at the World Economic Forum in Davos earlier this year, the role of the private sector will be crucial to our success. You cannot have strong communities without strong economies, and you cannot have strong economies without a profitable private sector.

At the same time, as we create an environment that enables businesses to invest and employ people, we need to ensure that business is doing its share as a good corporate citizen. This is why support from both business and governments to improve the stability of the global financial system is so important, as well as proposed measures on tax and transparency reform.

Our work on growth is focussed on a key outcome (slide 4) – Finance Ministers and Central Bank Governors committed in February for G20 members to increase their collective GDP by two per cent over five years, which promises a boost of over two trillion dollars and millions of new jobs into the global economy. This kind of goal is a first for the G20, and it helps drive our ambitions. It builds in accountability in a very political way into the G20.

We will deliver on this growth ambition through a combination of measures on trade, investment and employment captured in growth strategies, which each country is preparing and that collectively aim to achieve our goal.

G20 members have taken ownership of the growth challenge. We agree on the collective goal and that individually we have to do more to meet this goal.
Let me now talk about the reforms the G20 is pursuing in more detail.

Trade

As the experiences of South Africa and Australia show, trade is fundamental to the growth of a modern economy. Indeed South Africa's economy remains the most sophisticated and diverse in Africa partly due to its trade policies.

Global trading arrangements are becoming complex – comprising World Trade Organization protocols, sector-specific agreements and more than four hundred bilateral and regional free trade agreements (FTAs).

We need to better understand this complex environment. In an era when goods and components often cross national borders many times before ending up in the hands of the final consumer as a result of global value chains, the traditional calculus of trade negotiations changes: the ability to import becomes as important as the ability to export. Goods are no longer produced in one country and sold in another – goods are 'made in the world'. In this environment, the outcome of a negotiation between two foreign countries can impact your own domestic industries.

Within the G20 we are having conversations about the importance of global value/supply chains as a means for driving growth and the need to free up behind the border measures. Between 30-60% G20 countries' exports consist of imported inputs or are used as inputs by other countries.

The OECD has found income from trade in GVCs doubled between 1995-2009: for China it increased sixfold, India fivefold, Brazil threefold. This leads to an increase in employment sustained by foreign demand.

G20 Trade Ministers discussed this when they met in Sydney last Saturday and heard directly from business about how important it is to react to these modern patterns of global commerce. It is vital to take domestic actions to streamline trade at borders and to free up services, to allow businesses, especially small and medium enterprises (SMEs), to access regional and global markets. Some countries have already taken significant actions, but there is room for countries to do more domestically to get trade moving.

Building on this, Ministers agreed the need to implement the outcomes from the WTO Bali ministerial conference last December. They especially noted the importance of implementing the Trade Facilitation Agreement, including assisting developing nations implement the agreement so that they can benefit from the reforms.

In the G20, we are looking at the role of bilateral, regional and plurilateral trade agreements to growth. Trade Ministers discussed the need for these agreements to work together in the global trading system and the need for us to ensure we get outcomes from our FTA negotiations that help businesses worldwide to trade.

Opening up trade can have important spill-over effects on many development issues. By opening trade and shaping the international environment so that it is conducive to growth and development, the G20 can help address issues like food security.

Taking action to ease trade barriers and delays at borders promotes more efficient supply chains, which reduces waste and reduces costs for consumers. Greater access to international markets can also help food producers and manufacturers find the best prices for their produce and products. As history has shown time and again, being open to trade – even through unilateral action – pays off in the long run.

Employment

Creating jobs and lifting workforce participation is an issue that all nations, advanced and developing, need to address. With many economies confronting the dilemma of ageing populations, declining workforces, and high youth unemployment there is a growing need to better use our people's potential to contribute to the economy and to society. This means addressing underemployment, informal employment and workplace safety – ensuring workforces are appropriately protected is a priority for developed and developing countries alike.

One area the G20 is focused on is youth unemployment. G20 members recognise the key role their young people play in society and as a cornerstone of sustainable economic prosperity– key focus of Y20 Summit in Sydney last week.

Providing young people with skills and job opportunities is vital not only to their short term economic prospects – but also to the future prosperity of the societies in which they live. We know that growing global economic interdependence will influence the mobility of labour and capital – and we need to ensure our workforces are as best prepared as they can be.

Without a concerted response, the world risks creating what the International Labour Organisation refers to as a "lost generation", where prolonged unemployment early in a person's career may delay the acquisition of valuable on-the-job skills, permanently reduce future earnings and diminish job prospects.

Another priority is increasing women's participation in the workforce. Building the size of the global labour market can boost economic growth and development across the G20. Reducing the gender participation gap can also help ensure the benefits of growth are widely spread.

But the problem is not merely a matter of the number of women employed. Narrowing gender wage gaps and ensuring women are not confined to part-time employment – and to the most low-paid, low productivity and vulnerable jobs – can ensure women are able to make a meaningful contribution to and benefit from economic growth.

Investment in Infrastructure

G20 members are working to address the estimated 2030 global infrastructure gap of US$70 trillion, including through individual and collective actions. The best way to achieve this is through removing the impediments to private sector investment, and making better use of multilateral development bank resources.

Better directing investment funds into long-term infrastructure can make a significant boost to the global economy, but it is not easy. As another 'big' country, Australia shares South Africa's difficulties in establishing twenty-first century infrastructure across large distances. One of the G20's priorities is looking at the financing of infrastructure for developing countries. Done properly, this can benefit both local and foreign investors, while creating structural gains in domestic economies. To achieve this, the G20 needs to support low-income countries to establish conditions to attract private investment.

Tax

As to the second major theme on resilience (slide 5), just as it needs to help the money come in, the G20 also needs to ensure that the money is shared around – including through domestic taxation.

As I mentioned earlier, with the significant changes in the global environment over the past 20 years and the growth of the digital economy, the international tax system - designed for circumstances more than 80 years ago - is increasingly coming under pressure. Governments in developed and developing economies alike rely on taxation to fund the infrastructure and services their communities need.

It is an essential principle that profits should be taxed where economic activities deriving the profits are performed and where value is created.

This means ensuring that the international tax system enables countries to reap the benefits of private sector investment by improving transparency, fighting tax avoidance and protecting the integrity of tax systems. Towards this goal, in February 2014, G20 Finance Ministers endorsed a new standard on the automatic exchange of information that will increase the information shared between tax authorities.

Helping developing countries build up their taxation capacity not only shores up their budgets, but it helps 'plug the holes' in the international system that allows base erosion and profit shifting to occur – the practice by which some multinational companies avoid paying tax in the country where profits are made. This is a classic example of where G20 members and non-members working together can have far greater positive effects for all countries than individual action ever could.

A similar concept is behind the G20's work on remittances. Just as the tax agenda aims to ensure that a share of the profits of investment stay where they were earned, the work on remittances aims to reduce the costs of moving money to where it is needed – especially important given the magnitude of global remittances, expected to reach US$700 billion by 2016. The average cost of sending remittances to and from G20 countries remains above 8 per cent, with the cost of sending money to Sub-Saharan Africa the most expensive in the world, at over 11.5 per cent. The World Bank notes remittance flows in 2012 ($400 billion) we 3 times the value of ODA.

Financial resilience

First born out of the Asian Financial Crisis, and then elevated to leader-level following the global financial crisis, the G20 has always had a core interest in the stability of the global financial system because stability is essential to sustaining the growth we are trying to achieve.

G20 members are making good progress on the primary financial regulatory reforms intended to prevent another crisis – building resilient financial institutions, ending the existence of 'too-big-to-fail' institutions, addressing risks associated with the shadow banking sector, and making derivatives markets safer.

While many of the causes of the global financial crisis were located in advanced economies, the financial regulation agenda is not an advanced country-only concern. When a crisis happens, the poor get hit hardest – regardless of national borders.
This is important work for the G20, not only because all countries are ultimately affected by its outcome, but also because emerging financial markets will benefit from a well-regulated financial system.

Energy

The stability of the financial system is not achieved purely through financial markets. The G20 also believes that energy security depends on well-functioning, well-governed, stable global energy markets. The changes taking place in the world economy are having a profound effect on energy markets, challenging the assumptions behind the existing energy institutions.
There is a growing need for all players in the energy market to be involved in discussions about its structure. A strong energy system can help reduce the prevalence of energy poverty and strengthen global economic resilience.

Engagement groups
Clearly there are many aspects to the work of the G20. But G20 member governments cannot and ought not to do it alone.

The G20 Leaders Fifth Anniversary Vision Statement highlighted the need for a strong relationship with the G20's official engagement groups.

At the recent meetings in Melbourne, representatives of the Business 20, Civil Society 20, Labour 20, Think 20 and Youth 20 discussed the key issues for their constituencies with sherpas and finance deputies. I was very happy to hear that we have shared priorities to achieve growth.

One important aspect of the comments from those groups was growing concern about inequality, and the need to ensure that the G20's efforts to promote growth flow through into benefits for all. The message was clear: growth needs to be inclusive.

Another priority was the need to engage the private sector – both business and labour – particularly on trade, infrastructure and employment policies.

To this end, the Business 20 held a very successful summit in Sydney last week where it delivered 20 recommendations on these key areas, as well as finance and anti-corruption.

They also include a range of measures that would help business to drive growth towards our two per cent ambition, including a strong call to implement the WTO Trade Facilitation Agreement.

These recommendations speak very clearly to the G20's priorities this year.

The G20 must put a good deal of weight on private sector perspectives if it is to meet its goals, and I encourage you all to consider the B20 recommendations. Australian B20 sherpa Robert Milliner will expand on these with us shortly.

The Think 20 too has repeatedly advocated for trade to be at the centre of the agenda, and I know youth unemployment is a key issue for the Youth 20, as they outlined in Sydney at their summit a week ago. G20 members will hear from the Labour 20 after their summit in November.

The recommendations of these groups are invaluable to G20 members. We will be looking for their support to help each G20 member commit to ambitious domestic reforms.

Conclusion

With less than four months to go, we are at a critical point of opportunity and challenge.
The groundwork has been laid for strong outcomes at the Brisbane Summit that can translate into real improvements in the lives of citizens around the world. But those outcomes will only happen if we maintain, and even lift, the tempo of our activity between now and November.

Much of the G20's effectiveness depends on reforms happening in individual countries. These structural reforms are often politically difficult, but the greater the political support from constituents, the greater will be leaders' ability to aim high and make reforms happen.

The challenge for the G20 is ongoing – building a durable international economic order that can underpin global prosperity into the twenty first century will require the membership to remain adaptive and agile.
Now is the time for all of us to concentrate our efforts on creating sustainable economic growth and implementing an agenda that will deliver on those objectives, and drive prosperity for all.

Thank you.

1. Dr Heather Smith presentation

Australia's vision for the g20 in 2014
AN Update on the Agenda from the Australian Presidency
July 2014

ABOUT THE INSTITUTE FOR GLOBAL DIALOGUE ASSOCIATED WITH UNISA

The Institute for Global Dialogue associated with UNISA is an independent foreign policy think tank dedicated to the analysis of and dialogue on the evolving international political and economic environment, and the role of Africa and South Africa. It advances a balanced, relevant and policy-oriented analysis, debate and documentation of South Africa's role in international relations and diplomacy.

The IGD, UNISA strives for a prosperous and peaceful Africa in a progressive global order through cutting edge policy research and analysis, catalytic dialogue and stakeholder interface on global dynamics that have an impact on South Africa and Africa.

3rd Floor r Robert Sobukwe Building
263 Nana Sita Street
Pretoria
South Africa

PO Box 14349
The Tramshed, 0126
Pretoria
South Africa

+27123376082
+27862129442
info@igd.org.za
www.igd.org.za