Caribbean Journal of International Relations & Diplomacy
Vol. 2, No. 3, September 2014: pp.111-123

FORUM

International Economic Summits: Are They Worth the Effort?

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Abstract: *The G20 process has become a large and expensive exercise. But in an increasingly integrated global economy, the world needs an effective forum to facilitate international economic cooperation. But the G20 has problems. The spirit of cooperation displayed during the height of the crisis has waned as the immediacy of the crisis has faded. The Brisbane G20 Summit needs to re-energise the G20. It can do so by producing some headline outcomes, such as demonstrating solid progress towards attaining the forum's growth target, renewed effort to promote multilateral trade liberalization, and a real attempt to modernise international taxation.*

Keywords: G20; Global Growth; International Trade; Taxation

The G20 has become a large and expensive process. Before being elevated to a leader's level forum in 2008, it consisted of an annual meeting of finance ministers and central bank governors. Officials met twice each year to prepare for these meetings. Things have changed.

The Australian G20 website lists 69 separate events in the lead-up to the Brisbane Summit which will be held on 15-16 November 2014. In addition to the leaders' summit, there are five meetings of finance ministers and many, many meetings of officials at venues all over the world. Given the vast number of preparatory meetings, the G20 could be described as a 'stairway to heaven' for international bureaucrats.

The meetings being held in preparation for the Brisbane Summit includes many organised by the 'alphabet 20' – business representatives (B20), civil society (C20), labour organisations (L20), youth representatives (Y20) and think tanks from G20 countries (T20). The Australian G20 presidency refers to these as the 'engagement partners'. These groupings have organised their own meetings and 'summits' and have finalised communiqués covering their recommendations as to what leaders should do at the Brisbane Summit.

The preparations for a summit, along with the organisation of the summit itself, are expensive. There was much publicity over the reported $1 billion plus cost of the Toronto G20 Summit in 2010. The Australian Government has budgeted for the Brisbane G20 Summit costing Australian taxpayers $400 million, but this cost is likely to rise and does not cover the cost of events hosted by the various engagement partners. A large part of the cost involves security. Summits cause significant disruption to the host city and are often marked by violent protests. However Brisbane believes it will receive a positive economic benefit associated with the increased recognition the city will receive with the visit of over 30 world leaders and heads of international organisations along with 3,000 international media representatives.

ARE G20 SUMMITS WORTH THE EFFORT AND EXPENSE?

The G20's response to the 2008 global economic and financial crisis did help save the world from an even more sever crisis. In particular, the London Summit in April 2009 helped to restore confidence.

As for recent G20 summits, the general narrative is that the best days of the G20 are behind it, and that was in its role as a crisis responder. It is easy to be critical, but the G20 has achieved much. It is a forum that better reflects the changing nature of the global economy, particularly the rise of emerging markets, and it has deepened a dialogue between countries that do not have a history of close cooperation on economic policy issues. The G20 has also driven a major strengthening in international financial regulation through the creation of the Financial Stability Board (FSB). However history will not praise everything that has come from the G20 summits to date.

The G20 also has problems. The spirit of cooperation has weakened as the immediacy of the crisis has faded. Its agenda had become long and unfocused. Too much was pre-cooked by officials ahead of Leader's Summit, often leading to bland, lowest common denominator resolutions and agreements. Most importantly, there was a danger that the G20 was losing its inherent strength, and that is the direct involvement of leaders in dealing with major global issues.

AN INTEGRATED GLOBAL ECONOMY

While the G20 process may have been encountering problems, the world does need international economic summits; although they have to be effective. They are needed because the global economy is becoming increasingly integrated. As noted by the IMF Managing Director, Christine Lagarde, 'The breakneck pattern of integration and interconnectedness defines our times'.[1]

In an integrated world, countries need to cooperate. While it is easy to say there is a need for greater international economic cooperation, it is hard to achieve. There is no natural constituency in support of international economic cooperation. National sovereignty is zealously guarded. It is also not clear what economic policies should be coordinated or harmonised globally. The division between clearly domestic policy matters and those that can have spillovers on other countries – both positive and negative – is not straightforward.

Moreover the economic fortunes of individual countries are primarily determined by their own domestic policies. No country will adopt policies that are not in their own domestic interest. Yet the dilemma is that countries do not always pursue policies that are economically appropriate for them. One reason may be because there is not agreement as to what is the right policy path. But the bigger problem is usually domestic politics. This begs the question: will attending international summits help solve domestic political problems?

Sometimes international pressure helps. Sometimes even powerful economies use global commitments to advance policies that may otherwise be difficult to pursue domestically. But a great deal of realism is required in terms of the degree of economic policy cooperation that can be achieved at international economic summits. Another feature of summits is exaggerated rhetoric, and this has to be discounted. Furthermore, even if agreements are reached at summits, the measures will have to be implemented, and this will require leaders winning their own domestic political battles.

However, while the economic fortunes of countries are primarily in their own hands, there are issues that no country can solve operating unilaterally.

ISSUES THAT NO COUNTRY CAN SOLVE ACTING UNILATERALLY

The financial crisis demonstrated the close interconnection between financial markets. Financial institutions increasingly operate globally. Cross-border bank claims have risen from $US6 trillion in 1990 to over $US30 trillion in 2008.[2] This is a rise of over 250 per cent as a share of global GDP. The rapid growth in international capital flows has brought many benefits, such as better international allocation of saving and investment. But such flows can be volatile and result in the faster international transmission of shocks. The global crisis demonstrated that greater attention has to be paid to the linkages among economies and the impact of one country's policy on others. In particular it has demonstrated the need for close cooperation to deal with globally operating financial firms.

Another expression of the integration of the global economy and the need for countries to cooperate is the rise of global value chains. A typical manufacturing company today relies on inputs from more than 35 different contractors from around the world; for some companies, such as car and airplane manufacturers, this number is significantly higher.[3] Global value chains have become the dominant feature of world trade. The growing fragmentation of production across national borders highlights the importance of open trade and investment regimes because protective and restrictive barriers impact not only on foreign suppliers, but also on domestic producers. With goods now effectively 'made in the world' rather than solely in one country, the approach to trade policy has to change. The mercantilist view that exports are good and imports are bad, and that market access concessions should only be granted in exchange for access to someone else's market, is out of date. Domestic firms depend on reliable access to imports of goods and services to improve their productivity, competitiveness and opportunity to export.

International tax laws also have to adapt to a changed global market place. In a world where firms are increasingly operating globally and production processes are widely dispersed, along with the increasing provision of goods and services through the internet, it is increasingly difficult for a jurisdiction to identify where its taxing rights exist, and very easy for corporations to ensure that profits are only declared in low tax jurisdictions.

The rise of global value chains has been facilitated by technological developments, particularly the digital age. The same forces have been driving financial innovation and the interconnectedness of financial markets, along with transforming the traditional approach to corporate taxation. Technological change will not stop. Financial innovation will not stop. More and more goods and services will be delivered over the internet. These developments will further increase integration between countries. Individual nation states will find it increasingly difficult to set laws covering globally operating businesses. There is also climate change. If ever there was a classic global public good, it is climate change.

In an integrated world, effective international cooperation is important. Forums such as the G20 are needed to help facilitate cooperation, particularly in areas such as international tax, trade, globally operating financial institutions and climate change.

AN INTEGRATED ECONOMY REQUIRES EFFECTIVE INTERNATIONAL INSTITUTIONS

An integrated global economy also requires effective multilateral economic institutions. The importance of international institutions to the pursuit of economic growth and financial stability was recognised with the establishment of the Bretton Woods Institutions in 1944 – the IMF and the World Bank. In the area of trade, the General Agreement on Tariffs and Trade (GATT) commenced in 1948, replaced by the World Trade Organisation (WTO) in 1985. To advance international efforts to promote strengthened financial markets, the G20 sponsored the establishment of the FSB in 2009. Comprehensive international institutions do not exist in the area of tax and energy, although the OECD has taken the lead in the former and the International Energy Agency (IEA) is the most prominent body in the area of energy governance.

The world has changed greatly from when most of these institutions were established. The institutions must change accordingly if they are to remain relevant and effective. However there is inevitable inertia when it comes to reforming global bodies.

Transitions and shifts in relative economic power may not be smooth. For some countries to have more power and influence, others have to have less. It is not surprising that changes in the governance arrangements in international institutions are protracted and contentious. Overcoming such political roadblocks is a major contribution that the G20 can, and has, provided.

There is a need for effective global forums such as the G20, and there is also a need for leaders' summits. Effective international cooperation often involves overcoming political roadblocks. Sometimes this can only be done at the highest political level: i.e. by leaders. The great strength of the G20 is that it brings together leaders from the major developed and emerging markets and provides the potential for them to make progress on some intractable global issues. Will this opportunity be seized at the Brisbane G20 Summit?

WILL THE BRISBANE G20 SUMMIT DELIVER?

Australia has indicated that it will pursue a focused agenda through the G20 in 2014, with the emphasis on achieving concrete actions rather than talk and the leaders' communiqué will be limited to three pages. While the emphasis is on a narrower agenda, the G20 is still pursuing 10 work streams in 2014: anti-corruption, development, employment, energy, financial regulation, growth strategies, investment and infrastructure, reforming global institutions (mainly the IMF), tax and trade. Australia has attempted to draw the links between the various agenda items, however if substantive progress is to be made, the leaders agenda will have to zero in on a few key areas. This is not to say that work should not continue within the G20 across many issues. But to get the most out of a leader's summit, and recognising that both leaders' time and political capital is limited, there should be a focus at the summit on making significant progress in a few areas.

Growth Will Be a Priority

A major focus of the Brisbane summit will be on the commitment by G20 members to bring forward growth strategies that will increase global growth by an extra 2 per cent over 5 years. This undertaking was given by G20 finance ministers at their meeting on 22-23 February 2014.[4] To achieve this increase in global growth, each G20 country will have to implement additional reforms, in particular structural reforms. These will be politically difficult reforms. The international institutions – IMF, OECD, and the World Bank – outlined some of the reforms required when they reported to G20 finance ministers in February that additional reforms could result in an additional two per cent increase in global growth. For example, the IMF says that the US has to increase public investment by at least 0.5 per cent of GDP for an extended period and reform its tax system.[5] For Australia the OECD has identified a need to lift the female participation rate, increase infrastructure investment but also to use infrastructure more efficiently with the application of user charges and congestion charges, along with shifting the tax mix towards increased reliance on indirect rather than direct taxes. For Germany, the recommendations were to lift public spending and to deregulate, particularly in services.

The first test will be to see whether the individual growth strategies leaders submit at the Brisbane Summit, and which will form the Brisbane Growth Action Plan, tackle the difficult domestic reforms needed to achieve additional growth. To be meaningful, the Brisbane Action Plan cannot be a repeat of the action plans released at previous summits, which mainly consisted of policy measures that countries were already being implemented or had been announced. In order to achieve additional growth, over and above that already forecast, reforms in addition to those already announced will be required. The international organisations should be asked by the G20 to provide an objective assessment whether the listed reforms will, if implemented, result in the targeted extra growth. This assessment should be made public.

The second test is to ensure that the reforms announced at the Brisbane Summit will be implemented in the coming years. The Brisbane G20 Summit will not be a success if a grand plan to lift growth is announced, but there is no follow-up in terms of implementation of the reforms. Strengthening the growth and resilience of the global economy is an ongoing project and will not be achieved at one summit. While leaders must commit to the implementation of the required reforms, in order to boost their credibility, they should also commit to the ongoing oversight by the international organisations of members' performance and their progress being reviewed at future finance ministers meetings and the next leader's summit.

Increasing Infrastructure Investment

Australia has signalled that increasing infrastructure investment will be a priority at the Brisbane Summit. Given that the steps necessary to increase infrastructure investment will depend on specific policy measures by each country, it is appropriate that the translation of any collective agreement by the G20 to increase infrastructure investment is contained in individual country growth strategies. The relative importance of the various factors impacting on the environment for infrastructure investment will vary across countries. Moreover increasing infrastructure investment is not the same priority for every country. For example, while China my need to improve the quality of its infrastructure investment, its overall challenge is to increase consumption expenditure relative to investment spending. Japan is another country where raising infrastructure spending in aggregate is not a priority. In contrast, the IMF has indicated that in order to achieve the collective G20 growth ambition, public investment, particularly on infrastructure, has to be increased by ½ per cent of baseline GDP in the US, Germany, Brazil, India and Indonesia.[6]

To attract greater private sector investment, countries will have to improve their investment environment, including ensuring a stable regulatory, tax, and legal systems along with macroeconomic stability. Selecting the 'right' infrastructure projects is the highest priority facing countries. The key requirement to improve infrastructure planning and project selection, along with management and operation, is transparency. In many respects, it does not matter who undertakes project assessments, provided all the factors taken into account in making a decision are fully disclosed and available for public scrutiny. The international community can make a positive contribution to advancing infrastructure investment if forums such as the G20 emphasised the importance of making the selection of infrastructure projects fully transparent, for this would help not only improve the quantity but also the quality of infrastructure investments.

Trade Liberalisation Must Be a G20 Priority

Trade liberalisation should be a priority for an international economic summit. The G20 is a global forum, so the focus cannot be on bilateral or regional arrangements, but rather the multilateral trading system. Trade liberalisation should be at the centre of the country growth strategies presented at the Brisbane Summit. Trade should not be considered as a separate agenda item and largely the domain of trade ministers. The G20 is not the place for detailed trade negotiations. But it is the place where leaders can provide strategic political direction on the future of the global trading system. And such direction is badly needed. The agreement by WTO ministers on a package of measures in Bali in September 2013 was considered a major step which restored faith in a multilateral approach to trade liberalisation negotiated in the WTO. However India's veto of the WTO making the technical change by 31 July 2014, a deadline set by WTO trade ministers, to advance the Bali agreement on trade facilitation has thrown doubt over the future of the multilateral trading system and the WTO. Notwithstanding India's position, which hopefully will be reversed, the G20 should press on in advancing trade liberalisation. Moreover If the G20 truly is the primary forum for international cooperation, it must restore confidence in the future of the multilateral trading system and the WTO.

G20 members should strengthen the standstill against introducing protectionist measures by committing to roll back measures that have been introduced, including non-tariff measures. The G20 should call on the WTO to monitor progress. The G20 chair should seek commitments from G20 members for the early implementation of the Bali trade facilitation agreement. G20 members should not wait on the formal ratification of the agreement and should include in their growth strategies the steps they will take for the rapid implementation of the measures contained in the Agreement on Trade Facilitation. G20 members should also commit to providing the necessary assistance to developing countries to implement the trade facilitation agreement.

Leaders should express their commitment to the multilateral trading system and the importance of the WTO and provide the political commitment for the WTO to develop a package of measures that would constitute the end of the Doh Round. The direction of the multilateral trading system in a post Doha world should be one that avoids ambitious and wide-ranging agendas with a single undertaking. Future negotiations should be targeted in specific areas, including plurilateral agreements which allow WTO members to opt into the agreement, such as the Information Technology Agreement, International Services Agreement and government procurement agreement. Leaders should also agree that the future of the WTO will be anchored around the governance of global value chains and their implications for international trade negotiations.

Financial Regulation

Australia has indicated that in 2014 the focus of the G20 will be on delivering the G20's core financial regulation reforms, the Basel III capital and liquidity requirements; dealing with 'too big to fail', making derivative markets safer and transforming the shadow banking sector. The areas identified are being pursued by the FSB and standards and reports will be finalised in 2014. While the design component of some of these reforms will be finalised, they will not be 'completed' in 2014. Implementation of the standards will run over many years and it is the actual implementation and consistency of implementation that is critical. Moreover the standards will have to continue to be reviewed and any unintended implications identified and corrected.

Given the ongoing task of improving international financial regulatory standards, along with the implementation of these standards, the G20 should be focusing on strengthening the governance and operations of the FSB. Towards that end, it is appropriate that the FSB is considering options to improve country representation. A key objective of the G20 should be to ensure that the governance and representation arrangements in the FSB build confidence and trust among not only all members, but also non-members.

In addition to improving the FSB's representation arrangements, the G20 should also focus on improving the way the FSB, along with the financial standard setting bodies, approach their work. For example, the B20 has proposed that high-level guiding principles should be adopted, including better approaches towards consultation on proposed new standards.[7] The B20 has suggested that these principles could be based around the need for: a clear mandate for a new or enhanced regulation; mandatory cost-benefit analysis of proposed regulation; an assessment of the difficulty of implementing regulation before it is introduced; and consideration of alternatives such as greater discretion for regulators. The B20 has also identified a need for improved arrangements to take into account the needs of emerging markets.[8] This is a pressing need. The regulatory response through the FSB primarily reflects the experience and views on Europe and North

America. As the B20 has noted 'It is important that international regulators properly consider financial systems that are at different stages of development or have fundamentally different characteristics when designing new global rules'.[9]

International Tax

Combatting tax evasion and avoidance is a G20 priority. A particular focus is dealing with base erosion and profit shifting (BEPS) – the capacity of globally operating firms to shift profits to low or no tax jurisdictions. In July 2013, at the request of the G20, the OECD released a fifteen-point action plan focussed on addressing BEPS. It also announced a timetable that provided for the completion of a number of the actions by September 2014, with the remainder of the plan to be finished by September 2015.

While the OECD's BEPS action plan is an important initiative, and the G20 has a critical role in maintaining political momentum on combatting tax avoidance, it is a complex and ongoing issue that essentially involves the challenge of ensuring that international tax laws keep up with a rapidly changing global environment. And this has resulted in the questioning of some basic international tax principles. This issue will not be 'solved' with the completion of the current timetable of OECD reports on BEPS. The BEPS project should be seen as a the start of a fundamental change in the governance arrangements for dealing with international tax issues and the G20 should be at the forefront of embracing and supporting this change.

While non-OECD G20 members are participating on an equal basis as OECD members on the BEPS project, developing countries have expressed concern that they are not directly involved in the negotiations. This is notwithstanding that, as reported by the IMF, developing countries are more adversely impacted by base erosion than the advanced economies. Moreover international tax issues cannot revert to being largely an OECD-centric issue when the current BEPS timetable of work is finished in September 2015. The G20 should begin a discussion around more permanent changes to the arrangements for dealing with international tax issues. This should include not only formalising the participation of non-OECD G20 members beyond the timetable for the current BEPS initiative, but also mechanisms to more actively and directly involve developing countries.

The G20 Will Have to Discuss Security Issues

Given rising geo-political tension – such as the situation in Ukraine, Gaza and Syria – security issues are likely to feature at the Brisbane G20 Summit. This is not a new development. The crisis in Syria dominated the St Petersburg Summit in 2013 and it was the issue discussed at the Leaders dinner. It has been suggested that leaders should bring their foreign ministers, national security advisors or relevant diplomats to Brisbane in case of a major crisis which would demand leaders' attention.[10] However there are already sufficient geopolitical tensions underway that warrant leaders' attention at the summit. Hence while the G20 has its origin as a forum focussed on economic issues in response to a financial crisis, the time has come when it should be explicitly acknowledged in the planning and setting of the summit agenda that leaders will discuss geo-political issues. Moreover dealing with escalating regional tensions is directly related to the performance of the global economy. As the Nobel Laureate in economics, Michael Spence, has noted 'at this moment in history, the main threats to prosperity – those that urgently need world leaders' attention and effective international cooperation – are the huge uncontained negative spillover effects of regional tensions, conflict, and competing claims to spheres of influence'.[11]

CONCLUSION

In an increasingly integrated global economy, the world needs international economic summits such as the G20 leaders meeting. Such summits have to be effective. This will require a focused and integrated agenda and a skilful chair. Importantly, leaders have to be directly involved. Such summits are expensive and can cause disruption for the host city. However the focus should not be on the monetary cost of hosting a G20 leader's summit. The biggest cost to worry about is that of lost opportunity. That is, not taking full advantage of a gathering of leaders from the largest advanced and emerging markets to tackle some difficult global issues. As chair of the G20 in 2014, Australia has the responsibility of ensuring that this opportunity is not lost at the Brisbane Summit.

NOTES ON CONTRIBUTOR

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