

Is the G20 Framework for Strong, Sustainable and Balanced Growth Still Relevant?

The Future of International Governance and the G20

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Alok Sheel
Additional Chief Secretary
Government of Kerala, India

Introduction

- Rise of the G20 in the wake of the GFC
- Unprecedented co-ordinated macro-economic policy response by systemically important economies to prevent a second Great Depression at the first two summits.
- Greenshoots of recovery seen by the 3rd Summit at Pittsburgh. Attention turned to addressing long-term imbalances and vulnerabilities through the Framework of Strong, Sustainable and Balanced Growth.

The Framework

- **Triptych**

- Primary focus shifted over time from panel to panel
- Mostly trade-off between two panels at each Summit reflected in balance of words and phrases

- **Triumvirate**

- Trade-off driven by geopolitical compulsions emanating from three main protagonists: the US, the EU led by Germany and BRICS led by China.
- Each protagonist focused primarily on one panel based on domestic debates.
- US: external imbalances; Germany: sustainability; BRICS: Impact of external policies on growth.

Trade-offs

- **Sustainability (German ‘Charter’) and external balance** from the run up to Pittsburgh as green shoots sprouted.
 - Toronto: fiscal sustainability – targets for AEs
 - Seoul : External imbalances – 4% target ?
- **Growth and Sustainability** at Cannes and Los Cabos as global growth dips and the Eurozone crisis boils over.
- **Growth** at St Petersburg and Brisbane as fears of new crisis subside even as those of secular stagnation arise. Burden of stimulus shifts from fiscal to monetary policy (QE) – back loaded fiscal costs seen as free lunch?

Global Economy

- **Slowest** and most protracted recovery in post war period
- **Growth models** in both AEs and EMEs broken
- **Growth settling** in at pre-boom level?

Period	Global	AEs	EMDEs
1994-03	3.4	2.8	4.4
1980-07	3.5	2.8	4.4
2003-07	4.9	2.7	7.6
2011-15	3.5	1.7	4.9

Assessment of the Framework I

- *Brisbane Summit acknowledged that global growth was not sufficiently strong, balanced or sustainable.*
- **Growth**
 - output gap not recovered in several AEs
 - growth not back to 2003-07 levels
 - Growth in AEs not back to pre-boom levels
- **Balance**
 - external imbalances declined, but on account of lower aggregate demand
 - US still underinvested and over reliant on consumption; China still overinvested with low levels of consumption
 - Rebalancing from public demand to private still weak.
- **Sustainability**
 - repeated failure to agree on climate finance.
 - Root cause of crisis – leverage – not mitigated
 - Both fiscal and monetary exit are difficult.

Assessment of the Framework II

Mitigating factors

- **No implementation mechanism** as country commitments non-binding. Implementation contingent on domestic debates.
- **2003-07 growth rates unsustainable** as they were based on large external imbalances and leverage.
- **Helped bridge the trust deficit** between major advanced and emerging economies – now signing up on common policies and documents.
- **Not addressing simple (financial/business) cyclical problems** as structural headwinds to strong growth in AEs blowing prior to the crisis and now transmitted to EMEs
- **Belatedly focusing on difficult structural reforms**, but fiscal space to cushion them used up earlier. Track record of OECD's '*Going for Growth*' framework also does not inspire confidence.
- **Economic discipline** afflicted by self-doubt

Structural Headwinds to growth

- **Demographic**: slower growth and rising deficits in AEs
- **Disruptive technological change**: Growth becoming less employment intensive; services becoming more tradable; financial innovation sustaining demand through leverage.
- **Climate Change**: Business as usual unsustainable.
- **Globalization**: Growing domestic demand and employment asymmetry as jobs flow to areas with highest potential for productivity shifts.

Growth Opportunities in headwinds

- **Demographic**: Opportunities for younger countries with low per capita income to catch up
- **Climate change**: AEs have the technological edge to harness the opportunities as a new engine of growth.
- **Technological innovation**: can generate new engines of growth; cushion against declining living standards, growing inequality and stagnant wages.
- **Globalization**: Opportunities can only be harnessed through keeping factor markets open

Sustainability

- **Growth expectations** need moderation in view of demographic shifts: measurement should shift from aggregate to per capita to remove ‘optical illusions’ .
- **AEs have high levels of per capita consumption** and need to create space for low income countries to catch up.
- EMEs should rely more on domestic demand for growth. This would moderate their growth over the short run.
- **Global savings should be invested in real growth** with the financial sector intermediating and not cannibalizing savings for unsustainable demand growth.
- **Double jeopardy**: risks from both cumulative overhang of past policies and likely impact of their unwinding

Balance

- **Good and bad** external imbalances.
- **If EMEs rely more on domestic demand** external surpluses would decline
- **If AEs consume less** their external deficits would decline.
- **German and Japanese imbalances** generate savings for accelerating growth in low income countries.

Conclusions

- **Conceived to stabilize global growth** prospects over the long-term in the wake of the GFC
- **A triptych of three panels** whose focus kept shifting with changing circumstances, **driven by three protagonists** with differing priorities.
- **Current focus in the right direction** but severe constraints in implementation.
- **Need to focus** more on new growth opportunities.
- **Very limited measurable success** but still the most effective forum for exchange of views & co-ordination on the global economy. BWI come across as second best.
- **Coordination should improve over time** as trust between disparate countries will take time: G7 & OECD