Perspectives of Asia and the Pacific on the Antalya Summit of the G20

This year’s G20 summit will take place on 15-16 November 2015 in Antalya, Turkey. The Turkish presidency of the G20 laid out three priorities: strengthening the global recovery, enhancing resilience, and buttressing sustainability. To ensure inclusive and robust growth through collective action, the Turkish presidency suggested focusing on three I’s: inclusiveness, implementation, and investment for growth.¹

The Antalya Summit of the G20 takes place in a year when the members of the United Nations will adopt a transformative post-2015 development agenda. The three I’s of the Turkish presidency provide a useful strategic view on ways to support this process by strengthening growth and development in the G20 economies. This policy brief offers perspectives on this agenda and discusses its relevance for Asia and the Pacific.

Inclusiveness

The Turkish presidency of the G20 noted that inclusiveness has both domestic and global dimensions. At the domestic level, the goal is for the benefits of growth and prosperity to be shared by all segments of society by emphasizing issues pertaining to the small and medium-sized enterprises (SMEs), strengthening gender equality in employment, and addressing youth unemployment. At the international level, the challenges facing the low income developing countries need to be addressed.²

The Turkish presidency’s focus on inclusiveness is consistent with ESCAP’s ongoing policy research and analysis. In particular, the 2015 issue of the Economic and Social Survey for Asia and the Pacific introduced an index to measure how inclusive growth has been in the region.³ The analysis reveals that although growth has been inclusive since the 1990s at the country-wide level, significant divergences in achievements exist within countries along gender, rural-urban and geographical boundaries. For instance, despite progress in achieving universal access to primary education, more than half the children of secondary school age are not enrolled in school in several countries.

The analysis of the Survey also highlights a trend of rising income inequality that has taken place particularly in major developing countries of the region such as China, India and Indonesia. This trend is worrying because the better off tend to benefit more from public services, such as health care and education, thus improving their employment prospects and contributing to a further widening of income inequalities.

One of the reasons put forward by the Survey to explain the widening of income inequalities is that in many countries real wage growth has lagged productivity growth, leading to a declining share of labour income in output. In addition, vulnerable employment remains widespread, representing more than half the number of persons employed in most countries of the region.

To address this situation, the Survey recommends broadening access to education and health services, as well as strengthening social safety nets, with the aim of both enhancing human capital and promoting equality of opportunities. Additional policies include supporting the development of SMEs and strengthening rural development.

Implementation

The Turkish presidency of the G20 has placed a high priority on implementing the Brisbane Action Plan agreed in November 2014, which includes about 1,000 commitments that could add more than $2 trillion to world gross product and generate millions of additional jobs by 2018.⁴ The full implementation of the Brisbane Action Plan will be very welcome in Asia and the Pacific because of its beneficial spillovers to the region through trade, investment and finance channels.
The implementation of G20 cooperative frameworks to boost financial stability is another key concern for Asia-Pacific countries. Improved financial stability in the G20 countries is needed to reduce the likelihood of future global financial shocks and provide a stable basis for growth in the region. In this context, it will be important that G20 countries improve their macro policy coordination. A particular risk in this area in 2015 and 2016 will be the G20’s ability to help coordinate an orderly response as the United States normalizes its monetary policy by raising its interest rate from the zero-bound. Effective action by the G20 will reduce the likelihood of highly volatile capital flows and currency movements in the region.

An area where the implementation of G20 commitments has experienced significant delays is with regard to the 2010 pledge to reform the governance and quota structure of the International Monetary Fund. As a result of this delay, the members of BRICS, three of which are from the Asia-Pacific region, have established a Contingent Reserve Arrangement in July 2014. This $100 billion emergency reserve fund will be available for the BRICS countries to address short-term liquidity needs, complementing existing international arrangements.

The G20/OECD Base Erosion and Profit Shifting (BEPS) Action Plan endorsed by the St. Petersburg Summit of the G20 in September 2013 has called for increased coordination between governments to avoid inconsistencies between national tax systems and to create transparent, efficient, predictable and stable tax regimes that incentivize long-term investment, job creation and economic growth. Because of the large revenue losses of developing countries in the region due to tax evasion by multinational companies, the implementation of the G20’s commitment to establish a globally fair and modern international tax system is highly relevant for Asia and the Pacific. To support efforts at the global level in this area, participants at the Asia-Pacific High-Level Consultation on Financing for Development, organized on 29-30 April 2015 in Jakarta by ESCAP and the Ministry of Finance of Indonesia, have recommended the establishment of an Asia-Pacific tax forum, as recommended by the Economic and Social Survey for Asia and the Pacific 2014.

Investment

The Turkish presidency of the G20 has put a firm emphasis on investment to strengthen the global recovery process. In Asia and the Pacific, infrastructure investment is particularly necessary for enhancing transport, ICT and energy connectivity across the region. A large boost to infrastructure investment in the region has the potential to unlock growth and spread the benefits of development more widely, including to least developed countries (LDCs), landlocked developing countries (LLDCs) and small-island developing States (SIDS).

The G20 priorities in this area include improving investment climate and unlocking private sector investments both for infrastructure and SMEs. In this context, the World SME Forum, which opened in Istanbul in May 2015, is expected to act as a conduit to voice the expectations and concerns of the SME world to the Business-20 and the governments of the G20. Other priorities include enhancing the preparation and prioritization of projects, developing more efficient models of public-private partnerships, and enhancing financial intermediation.

In the Asia-Pacific region, a critical means to enhance investment is through the mobilization of existing financial resources. The region’s needs are very large: $800-$900 billion per year for investment in infrastructure only and $2.1-2.5 trillion if one also includes necessary investments in the social sector and to address environmental challenges. Yet the region is also home to large pools of financial resources that can be potentially tapped. Private savings in 2013 amounted to $6 trillion, and the region’s wealthy helped financial assets worth $35 trillion. In this context, it is important to encourage institutional investors to deploy their liquidity towards the development of domestic capital markets. In addition, the region could consider adopting harmonized regulations and institutions for domestic capital markets to facilitate the trading of securities across countries and to lay the groundwork for the development of a regional capital market at a later stage.

Additional sources of funding for the region’s infrastructure investment needs include new multilateral development banks, such as the New Development Bank and Asian Infrastructure Investment Bank, and the additional mobilization of public resources. For the latter, it is important to note that the Asia-Pacific economies have the potential to raise tax-to-GDP ratios by broadening tax bases, removing exemptions and loopholes, improving administrative efficiency and collection, enhancing the effectiveness and efficiency in the allocation of public expenditures, and reducing wasteful and unproductive expenditures.

Official Development Assistance (ODA) has an important role to play to support LDCs, LLDCs and SIDS in improving their infrastructure. For that purpose ODA needs to be more strategically deployed by contributing (i) to build capacities in areas such as domestic public finance and the development of capital markets and (ii) to leverage other sources of funding, for instance, by helping countries in the preparation of bankable projects or contracts for public-private partnerships.

The MPDD Policy Briefs aim at generating a forward-looking discussion among policymakers, researchers and other stakeholders to help forge political will and build a regional consensus on needed policy actions and pressing reforms. Policy Briefs are issued without formal editing. This issue is prepared by Shuvotti Banerjee, Sudip Ranjan Basu, Alberto Iagut and Oliver Paddington. For further information on this issue, please contact Aynul Hasan, Director, Macroeconomic Policy and Development Division, ESCAP (escap-mpdd@un.org).