

## **T20 Policy Recommendations to the G20**

### **G20 think tank Policy Recommendations 2016,08,01**

2016 T20 Summit concluded on July 30. T20 Policy Recommendations to the G20 was announced at the same day. The following is the full text of the report.

1. We, the Institute of World Economics and Politics, Chinese Academy of Social Sciences (IWEP, CASS), Shanghai Institutes for International Studies (SIIS) and Chongyang Institute for Financial Studies, Renmin University of China (RDCY), as the coordinating think tanks of the T20 in 2016, have held ten meetings in China, the U.S., Peru, Germany, Switzerland and India successively since the launch of the T20 at the end of 2015, where experts from the G20, non-G20 countries and international organizations have conducted in-depth discussions on such topics as global economic governance mechanism, economic growth, innovation and structural reform, international finance, international trade and investment and development issues. They have put forward valuable suggestions and reached some consensus. We have also sent questionnaires to experts in various countries on relevant issues to pool their insights. On this basis, we have proposed the following T20 policy recommendations for the G20.

2. Experts have high expectations for the 2016 G20 Hangzhou Summit and believe that a sound and robust Chinese economy has positive effect on and will continue to make great contribution to global economic recovery. They hope that the G20, as the premier forum for international economic governance, continue to focus on major financial and economic issues. Based on the comprehensive analysis of the global economic outlook and major economic risks, they hope that the G20 will make substantive progress in enhancing the global economic growth potential, improving global financial governance, facilitating international trade and investment cooperation and promoting inclusive and sustainable development. They also expressed expectations for future G20 governance.

#### **I. Global Economic Outlook and Major Risks**

3. The world economy continues to recover, but unevenly. The new round of industrial revolution is gathering momentum and there is still room for further raising the global economic growth potential. The G20 members have seen growing consensus for and gradual effects of cooperation. In recent years, actions taken by the G20 effectively prevented further deterioration of the world economy and helped stabilize market expectations. The G20 has also made progress in securing the Paris Agreement, pushing the IMF quota and governance reform package of 2010 to take effect and approving the Base Erosion and Profit Shifting (BEPS) project.

4. Meanwhile, the world economic growth is still facing the risk of further slowing down. Potential growth rate continues to fall and structural issues have become the key factor holding back strong, sustainable and balanced growth of world economy. Risks in the global financial markets are further gathering. Global trade and investment growth remains sluggish. Policy space of most countries has gradually narrowed and economic policies are seriously divided. In addition, geo-political risks, refugee crisis, political cycles of major economies, terrorism and other issues are getting more prominent and thus casting a shadow on global economic recovery.

5. Total factor productivity of major economies is growing slowly. The role of technology progress in promoting world economic growth has gradually weakened. Total factor productivity growth is facing institutional constraints at both international and national levels.

6. The labor market is facing challenges. Some are structural problems such as less flexibility in the labor market, rising ratio of the elderly in population, and the replacement of human workers by machine automation. At the same time, the weakening of global growth momentum, economic transition and restructuring have resulted in the slowdown of employment growth, including rising number of non-full time workers and serious unemployment among the young people.

7. There is a big shortfall in global public and private investment. In the wake of the global financial crisis, investment growth has slowed down, particularly in the private sector, due to financing constraints, uncertainties in economic environment and investment barriers. This has negatively affected the short-term economic growth prospects and dragged down the long-term economic growth potential.

8. Financial market risks are on the rise. Monetary policy divergence among major economies has exacerbated fluctuations in international capital flow. Asset prices in some countries remain high, while foreign exchange and stock markets in individual economies become more volatile. Global debts continue to rise. The connection and contagion of financial risks among countries are increasing. Thus the global economic recovery faces increasing uncertainties.

9. The ability of the international community to handle macroeconomic instability and financial turmoil is still inadequate. Short-sighted macroeconomic policies become less sustained and there is still lack of sufficient coordination on monetary, fiscal, exchange rate, financial stability, as well as trade and investment policies among countries. Crisis prevention and management mechanisms at global and regional levels remain incomplete. This will affect the ability at national level to fend off risks and will also give rise to new risks.

10. Growth in global trade is slowing down and trade creation capacities are declining. Multilateral trade negotiations are progressing slowly and global trade cooperation has become more fragmented as a result of the growth of “mega-regional FTAs”. Global economic slowdown, rising trade protectionism and difficulties in trade financing have also held back global trade growth.

11. Implementation of the 2030 Agenda for Sustainable Development continues to face grave challenges. The 2030 Agenda is the guiding document for the development at both global and national levels in the next 15 years. But countries differ in implementation capacities and the international system of financing for development is not full-fledged. Therefore, it remains difficult for all countries to fulfill the SDGs.

## **II. Policy Recommendations**

### *Enhancing Global Economic Growth Potential*

12. Structural reforms should be at the core of long-term growth for all countries. Most experts agree that the G20 should reach a consensus on the principles of structural reforms, strengthen evaluations of the reform process, and promote international coordination. Some experts suggest that the G20 adopt a 2030 Action Plan on Long-term Growth with structural reform at its core, with the aim of building a long-term and sustainable growth framework and helping the G20 play a more important role in raising the global economic growth potential.

13. Innovation should be the key driver of sustained economic growth. Most experts suggest that the G20 should encourage countries to continue to increase R&D input and set quantitative growth targets on the ratio of R&D expenditure to GDP. It should also promote knowledge dissemination and technology transfer while protecting intellectual property rights, support open science and public access to research output, data and facilities financed by public funds, encourage opening and sharing of key research infrastructures. Multilateral technology innovation exchanges and cooperation among countries should be enhanced to coordinate innovation development strategies and share best practice.

14. More and higher quality jobs should be created. The G20 should call for inclusive education to gradually increase human capital accumulation and strengthen vocational skills training to raise re-employment capabilities. It should work hard to address gender inequality, raise labor participation rate for women, enhance integration between macroeconomic policies and social policies, promote labor market reforms and seek better balance between raising flexibility of the labor market and improving social security. Some experts suggest that the G20 should pay

particular attention to the dual effects of innovation, which may bring a by-product of rising unemployment while promoting job creation in some areas.

#### *Improving Global Financial Governance*

15. Macroeconomic policy coordination needs to be strengthened. Most experts suggest that the global systemically important economies should pay attention to the “spillover” and the “spillback” effect of their own policies and seek the best balance between domestic and international goals. The G20 should conduct further coordination on exchange rate and interest rate policies, strengthen prudent macroeconomic management, prevent drastic fluctuations of the foreign exchange market and stabilize global financial market. It should also give play to the role of fiscal policies of all countries and support them in their efforts to adopt proper fiscal policies such as adjusting government expenditure structure and improving taxation measures to effectively increase high quality investment in the public sector, while ensuring that public debts of all countries will not expand disproportionately.

16. Financial crisis prevention and management should be enhanced. Most experts emphasize that the G20 should take measures to further improve the global financial safety nets. The measures include further expanding the size of IMF quota, strengthening the cornerstone role of IMF, deepening coordination and cooperation between IMF and regional financial arrangements while enhancing the role of the latter, increasing transparency of currency swap agreements and providing general guidelines for coordination, exchanges and cooperation between currency swaps and other financial stability mechanisms. The G20 should pay more attention to surveillance and international coordination on international capital flow, enhance monitoring and management of global sovereign debts, continue to establish and improve quantitative indicators and improve the sovereign debt restructuring framework.

17. Financial regulation should continue to be improved. The G20 should continue to strengthen the role of the FSB in global financial regulation, enhance regulation over the G-SIFIs and push for improvement of the financial regulation framework. Regulatory bodies of all countries should be encouraged to step up cross-border cooperation, put all financial activities under regulation, closely monitor and promptly address new risks in the financial system.

18. The role of the SDR in the international monetary system should be upgraded. Some experts suggest that the G20 should support improving the SDR supply mechanism, expand the size of SDR allocation, issue SDR-denominated bonds, promote holding and use of SDR by private sectors and expand the role of SDR in pricing, transaction and store of value in global economy. Most experts look forward to the inclusion of RMB into the SDR basket in October 2016 as scheduled and believe that this will enhance the role of the SDR and promote international currency diversification.

19. The governance structure of the IMF and the World Bank should be further improved. Some experts suggest that the G20 should push for further transfer of quota and voting power of the IMF and the World Bank to emerging and developing economies to make the voting power structure better reflect the world economic reality. The G20 should push for reform of the Executive Board, the selection system of the Managing Director of the IMF and the President of the World Bank, while promoting background diversification of their senior management and staff.

20. Global taxation cooperation should be strengthened. Most experts regard that the G20 should promote implementation of the BEPS action plan and urge all countries to enforce new standards. At the same time, a more inclusive architecture should be set up to attract more non-G20 countries adopting the BEPS project and further expand the scope of its outcome.

### *Facilitating International Trade and Investment Cooperation*

21. Global trade needs to be invigorated. While opposing trade protectionism of various forms, the G20 should push for implementation of the Trade Facilitation Agreement as part of the Bali package agreement to cut global trade costs. The G20 should call for reducing the trade barriers of intermediate goods, promoting trade financing facilitation, improving the ability of all countries to participate into global value chains and promoting the development of the global value chains. Some experts call for the establishment of a G20 “digital trade taskforce” to set up a single and convenient international standard and regulatory system for cross-border e-commerce, and create a healthy and orderly development environment for companies engaged in digital trade. Some experts propose that the G20 should guide international institutions in improving trade statistics and monitoring for reflecting the features of new trade patterns.

22. The central role of the WTO in the global trade cooperation should be maintained. Most experts emphasize that the G20 should strengthen political support for the WTO, push for the conclusion of the “Post-Bali work program” to enhance the development of the multilateral trading system. The G20 should also support the WTO governance reform, provide guiding directions on new topics and promote reshaping of international trade rules. Some experts are of the view that the main factor behind the standstill of the WTO is the boycott of interest groups in various countries in fear of possible loss, and therefore the G20 members should take into consideration a compensation mechanism for the vulnerable groups.

23. Coordination on multilateral and regional trade rules should be strengthened. The G20 should commission the WTO to evaluate potential impacts of regional trade agreements, especially the impacts on developing countries excluded from such arrangements, study the relationship between RTAs and multilateral trading system and explore possible ways of coordination and integration. It should require that the WTO strengthen the implementation and supervision of the Transparency Mechanism for Regional Trade Agreements. Some experts hold that the G20 should help build a coordination and communication mechanism for various types of regional trade rules.

24. A unified international investment system should be put in place. Most experts propose that the G20 should push for the establishment of a unified multilateral investment system as an important agenda of the future global economic governance. In the current context of difficulties in launching multilateral investment treaty negotiations, the G20 should regard formulating guiding principles for international investment policy making and improving the international dispute settlement mechanism as its priorities. Greater openness of the markets should be promoted based on the “negative list” approach, so as to help attract foreign investment.

### *Promoting Inclusive and Sustainable Development*

25. Implementation of the 2030 Agenda for Sustainable Development should be strengthened. Some experts suggest that the goals about “Prosperity” and “Planet” in the Agenda should be listed by the G20 as priority goals. The G20 members should play a leading role in implementing the Agenda through formulating their national action plans and progress evaluation mechanisms. Some experts suggest that the G20 should establish a knowledge and experience sharing platform in order to help developing countries, low-income countries in particular, to be more effectively engaged. In addition, some experts suggest that the G20 should initiate a new economic indicators system by taking into account, among others, the concept of “inclusive wealth”, so as to equitably measure the progress of sustainable development.

26. The international system of development financing should be improved. The G20 should support upgrading the financing capacities, encourage innovation and diversification of development financing, continue to tap the financing potential of the PPP model and encourage private sector engagement. The G20 should also support a bigger role of MDBs by taking joint

actions and the establishment of a coordination mechanism for all levels of development financing institutions.

27. Infrastructure investment should be promoted. The G20 should strengthen coordination and synergy of all types of existing infrastructure connectivity initiatives for joint promotion of global infrastructure connectivity. It should enhance knowledge sharing, country experiences and policy information, give full play to the role of the Global Infrastructure Hub as a platform. Some experts suggest that the G20 should pay more attention to the mismatch of costs and benefits for countries along the routes of connectivity construction and establish a mechanism for balancing interests.

28. The green economy needs to be promoted. The G20 should continue to urge all countries to adopt strong policies on climate change mitigation, push for early entry into force of the Paris Agreement, encourage MDBs and international organizations to pool more resources for addressing climate change, promote green financial system, and strengthen PPP to attract more private capital into green finance. Some experts suggest that a global center for green economy development and exchanges be established under the Green Climate Fund.

29. Efforts should be made to help underdeveloped countries and regions develop on a sustainable basis. Some experts suggest that the G20 should strengthen cooperation with African countries on capacity building and promote African industrialization through increasing investment in infrastructure, improving business environment and stabilizing the financial market. Some experts suggest that the G20 members should enhance international industrial cooperation with underdeveloped countries to engage the latter into the global production network.

### **III. Expectations for the G20 Governance**

30. The consistency of the G20 core agenda should be upheld. The G20 should maintain its focus on such topics as long-term growth, macroeconomic policy coordination, international finance, international trade and investment as well as sustainable development, so as to ensure progress of global economic governance in key areas.

31. The G20 should be further institutionalized. Some experts support the establishment of a G20 Secretariat, while others still believe the idea is difficult to realize. Most of the experts believe that the G20 can realize better economic governance by strengthening the mechanisms of ministerial meetings and working groups in core areas.

32. The role of engagement groups should be enhanced. Representatives of B20, Y20, C20, T20, L20 and W20 should be further engaged in the G20 official process to improve their supportive roles for the G20. Some experts suggest that the cooperation among these engagement groups themselves should also be facilitated.

33. The T20 should strengthen its own capacity building. Some experts suggest that the T20 should initiate a more institutionalized think tank alliance to provide more systematic and issue-oriented intellectual support for the G20. Others suggest that the G20 should even establish a G20 Institute funded by the G20 members and composed of relevant experts of the G20 members.

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