Policy Note

Australia 2014

Growth and development

"G20 countries have a responsibility to ensure that all people have an opportunity to gain from strong, sustainable and balanced growth. We endorse the St Petersburg Development Outlook to focus our efforts on concrete steps to improve food security, financial inclusion, infrastructure, human resource development and domestic resource mobilization."

G20 Leaders' Declaration, Saint Petersburg, September 2013

GROWTH FOR ALL

Growth in G20 economies, which constitute 85 per cent of global GDP, is essential to growth and development around the world.

The G20 is committed to delivering strong, sustainable and balanced growth for all. The G20 works to promote a global environment that is conducive to inclusive growth and sustainable development.

Economic growth is central to reducing poverty and boosting the prospects of the people with the lowest income. Emerging market and developing economies are essential to economic growth and job creation, given they account for around two-thirds of global growth and will continue to do so for the foreseeable future. More than half of the world's poor live in G20 countries.

In 2014, the G20 is strengthening the links between its work on growth, resilience and development. Members are focused on overcoming barriers to investment in infrastructure, improving the global tax system (combating tax evasion and avoidance) and growing tax revenue, facilitating remittance flows and broadening access to financial services. The group is also working on food security and human resource development.

By working with developing countries to help them strengthen their policies in these areas, the G20 is helping people and governments to mobilise the resources needed to finance development.

GROWTH AND DEVELOPING COUNTRIES

Emerging and developing economies account for more than

$ 2/3's

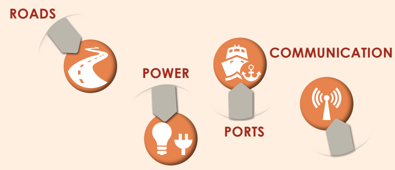
of global growth.

In 2013, global tax revenues in developing countries totalled US$7.7 trillion, inward foreign direct investment was US$697 billion and inward remittance flows were US$404 billion, all far exceeding official development assistance of US$134 billion.

Sources: IMF, World Bank

EVERY COUNTRY IS STRUGGLING TO FINANCE THE INFRASTRUCTURE IT NEEDS

Emerging markets and developing countries require up to US$1.5 trillion a year to finance infrastructure projects essential for driving development, such as roads, ports, power stations and telecommunications.



Source: World Bank

The G20 is also looking at the links between trade and development, and discussing how members can work together to improve access to modern energy services.

BOOSTING INVESTMENT IN INFRASTRUCTURE

Infrastructure is a key driver of economic growth, job creation, poverty reduction and sustainable development. As

TRADE AS AN ENGINE OF GROWTH

Enabling trade to flow freely across the globe benefits the global economy by generating jobs, deepening global value chains and improving the competitive environment.

The OECD estimates that reducing global trade costs by just 1 per cent could result in a worldwide income increase of US$40 billion, with 65per cent of the benefits going to developing countries.

INVESTMENT IN INFRASTRUCTURE SUPPORTS ECONOMIC ACTIVITY

Investment in infrastructure is crucial to accelerating growth, job creation and productivity gains that create benefits now and into the future.

Both developed and developing countries need new and better maintained infrastructure, and almost every country is struggling to finance the infrastructure it needs.

A key challenge is to reduce impediments in the investment environment so more of the infrastructure projects that are needed can be connected with sources of funding.

THE G20 IS SHIFTING THE DIAL ON ECONOMIC GROWTH

Strengthening national economies will result in a marked impact on global growth and prosperity.

Putting in place the right economic policy settings is the best way to support global economic growth and narrow the development gap.

ENERGY SUSTAINABILITY IN A CHANGING GLOBAL LANDSCAPE

All countries recognise that an affordable and reliable supply of energy is vital to their economic development. Yet over 1.3 billion people are without access to electricity.

Investing in energy efficiency creates jobs, fosters economic growth and improves energy security for countries that lack domestic fossil fuel resources.

PROMOTING MORE AND BETTER JOBS IS A TOP PRIORITY

Boosting jobs growth and closing the global employment gap will contribute to lifting living standards and sustainable economic growth.

The International Labour Organisation (ILO) estimates over 200 million people are still unemployed globally, with sustained high unemployment affecting developed and developing countries.

THE DIGITAL ECONOMY IS CHANGING THE TAX ENVIRONMENT

A robust and efficient international tax system is important for global economic resilience.

Governments in developed and developing countries alike rely on revenue from tax to fund infrastructure, provide services to their communities, and respond to economic challenges and shocks.

A DYNAMIC AND PROSPEROUS GLOBAL ECONOMY UNDERPINS GROWTH IN LIVING STANDARDS

Sustaining growth in living standards requires ongoing structural reforms focused on competitive markets and improving productivity.

Supporting people in developing countries to gain access to banking and financial services is important to help small and medium enterprises invest and grow the global economy.

FIGHTING CORRUPTION

Reducing corruption will lower uncertainty and increase profitability and transparency – leading to stronger investment environments and more open trade, ultimately increasing economic growth.

Corruption impedes economic growth in both developed and developing countries. Consuming more than three per cent of global GDP every year, corruption increases the cost of doing business, impedes cross-border investment and trade, and distorts resource allocation and incentives.

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urbanisation accelerates, developing countries will require increased spending on water, power, transport and communication infrastructure.

Through its work to lift the quantity and quality of infrastructure projects ready for public and private sector investment, the G20 is helping developing countries to identify and address obstacles to investment. These actions will alleviate growth constraints and meet crucial development goals by ensuring more effective project preparation and better understanding of investment risk and return.

The G20 continues to encourage multilateral development banks to optimise their balance sheets and work with the private sector to facilitate investment in quality infrastructure in emerging markets, developing and low-income economies. There is support in the G20 for the World Bank's new Global Infrastructure Facility (GIF) and other similar initiatives designed to help developing countries prepare quality investment projects.

Building on 2013 analysis in Africa, this year the G20 surveyed low- to middle-income countries across Asia to identify ways to strengthen project preparation. As a result, the G20 has agreed to actions to strengthen developing countries' capacity for identifying infrastructure priorities, increase transparency of the cost of quality project preparation and improve efforts to make better use of the private sector in infrastructure design, funding, delivery and long-term operation.

STRENGTHENING TAX COOPERATION

The G20 is working with developing and low-income countries to strengthen their tax administration and policy development capacity, and to support them to participate in and benefit from the work on base erosion and profit shifting (BEPS) and the automatic exchange of information (AEOI). The OECD has highlighted the importance of involving developing countries in the BEPS work. This will help to secure tax revenues to finance essential services in developing countries. The G20's work will also enhance transparency and improve investment conditions.

In 2014, the G20 explored, in partnership with international organisations, the opportunities and challenges of the G20 tax agenda with developing countries. The G20 raised awareness and gathered a broad range of perspectives on the G20 tax agenda, for example through the G20-led International Tax Symposium in Tokyo in May. The OECD also worked with regional tax administration forums to consult with developing countries in February and March. At these meetings, developing countries asked the G20 - and the G20 agreed - to work on the efficient and effective use of tax incentives for investment and the availability of quality transfer pricing comparability data.

COUNTRIES RELY ON TAX REVENUE

On average, tax represents 17 per cent of GDP in developing countries.

By contrast, the average OECD member tax-to-GDP ratio is about 34 per cent.

A robust and efficient international tax system is important for global economic resilience. Governments in developed and developing economies alike rely on revenue from tax to fund infrastructure, provide services to their communities, and respond to economic challenges and shocks.

A fairer tax system could make a significant difference for development – particularly for non-G20 and low-income countries – by enabling governments to secure their tax bases and finance much-needed services and investment in infrastructure.

Finance Ministers in September asked the OECD, IMF, UN and World Bank Group to develop a new structured dialogue process by the Brisbane Summit for developing countries to have direct input on the G20-OECD BEPS work. This was part of the G20's response to reports prepared by the OECD and the Global Forum on Transparency and Exchange of Information for Tax Purposes, which were based on consultations with developing countries.

MANY PEOPLE LACK ACCESS TO FINANCIAL SERVICES

The G20 accounts for almost 80 per cent - US$320 billion - of global remittance flows.

Within the G20, 1.4 billion people are not connected to basic financial services, such as accounts, loans and insurance.

The World Bank estimates that only 20 per cent of women from low-income countries have an account at a formal financial institution, compared to 87 per cent of women in high-income countries.

Half of working-age adults around the world – 2.5 billion people – do not have access to formal financial services. This means they can't save for their future, take out insurance against unexpected events or secure a loan. It also means that the global financial system is significantly weaker than it could be.

Supporting people in developing countries to gain access to banking and financial services is important to help small and medium enterprises invest and grow the global economy. G20 leaders created the Global Partnership for Financial Inclusion in 2010 to help change this situation.

Sources: OECD, World Bank

FOOD SECURITY IS A RESPONSIBILITY FOR THE G20

About 805 million people are estimated to be chronically undernourished in 2012–14.

According to the World Bank, the G20 represents almost 60 per cent of the world's agricultural land.

To feed a growing world, food production will need to increase 70 per cent by 2050, with around half of this to be produced in developing countries.

Food and nutrition insecurity has significant economic, political and social implications for G20 members and non-members alike.

To help fight global hunger, the G20 is focused on getting the economic policy settings right and has developed a framework to guide future G20 food security and nutrition actions that also support economic growth and job creation.

Sources: FAO, World Bank

G20 FOOD SECURITY AND NUTRITION

G20 members are developing a long-term approach to overcoming global risks to food and nutrition security.

G20 action to date includes:

- sponsoring new development financing mechanisms to overcome market failure for poor smallholder farmers
- establishing the Global Agriculture and Food Security Program to drive investment in agriculture
- seeking to avoid excessive food price volatility and improve food crisis response through the establishment of transparency mechanisms such as the G20's Agriculture Market Information System
- promoting best practice in agricultural productivity.

In March, Australia hosted a workshop that brought together key agriculture officials from G20 countries, business, civil society, think tanks and academia to discuss how the G20 can address food security and nutrition issues through its focus on economic growth and job creation. The workshop provided an opportunity to draw on the experiences and views of participants to help inform future G20 actions.

In September, G20 members received a report by the OECD and the FAO as part of the G20's Food Security and Nutrition Review. The report was informed by consultations with developing countries, international organisations and G20 engagement groups.

According to the OECD and the FAO, the G20 can use its coordinating and mobilising power over international organisations and financial institutions to improve global food security. In particular, the G20 can help build rural infrastructure and facilitate the movement between rural and urban labour markets.

This work has informed the development of a framework to guide future G20 food security and nutrition actions that also support economic growth and job creation.

FACILITATING FINANCIAL INCLUSION AND REMITTANCE FLOWS

Around half of the world's working-age population – 2.5 billion people – lack access to the formal financial system. The G20's work on financial inclusion aims to help these people, and to address the US$2 trillion credit gap facing micro, small and medium enterprises in emerging and developing economies. It will also help to increase the number of women in developing countries who have bank accounts.

In 2014 the Global Partnership for Financial Inclusion reached out to stakeholders including banks, financial regulators and industry associations to highlight the opportunities to be had from digitising payments and giving more people access to the global financial system.

The Business 20 engagement group has suggested that improved financial inclusion could boost cross-border trade by up to US$16 trillion by 2017.

Remittances are an important source of private finance for developing countries, accounting for nearly six per cent of GDP in low-income countries compared with two per cent of GDP for middle-income countries. Importantly, the G20 accounts for almost 80 per cent of global remittance flows.

The G20 is working to reduce the cost of transferring remittances. Remittances are an important source of income for millions of households globally and provide a sustainable path out of poverty for poor and vulnerable people in developing countries. G20 members are working with their regulators and financial services providers to tailor country-specific approaches that enable people to send money to their families in a cost-effective way. The G20 is also working to understand better the impact that regulations to address money laundering and the financing of terrorism have on remittance flows.

ENHANCING FOOD SECURITY AND NUTRITION FOR GROWTH

The G20 is important to the global food system as the group represents the dominant food producers, consumers and traders and accounts for almost 60 per cent of all agricultural land. Progress on economic reforms that enhance food security and nutrition outcomes, including in low-income countries, could have a major impact on poverty reduction.

To improve global food security, the G20 is focused on getting the economic policy settings right and has developed a framework to guide future G20 food security actions. The G20 is progressing commitments made in the St Petersburg Development Outlook by focusing on investment in food systems, raising productivity and expanding food supply.

In 2014, the G20 – together with the United Nations Food and Agriculture Organisation (FAO) and the OECD – reviewed the links between job creation, economic growth, food security and nutrition, with a focus on low-income countries. G20 members consulted extensively with non-member low-income countries and small island developing states. Australia organised a consultation in Rome with low-income countries and other non-G20 representatives, farmers' organisations, NGOs, international organisations and G20 engagement groups. These consultations informed the final framework and the actions that take place within it.

BENEFITTING FROM TRADE

The OECD estimates that reducing global trade costs by just 1 per cent could result in a worldwide income increase of US$40 billion, with 65 per cent of the benefits going to developing countries.

The most typical path for small and medium enterprises (SMEs) to enter global value chains (GVCs) is to sell their goods and services to larger, multinational firms. The involvement of SMEs in GVCs is especially important in the developing world, where these firms represent 80-90 per cent of total employment.

The OECD has reported that there could be significant reductions in trade costs if all the trade facilitation measures in the WTO Trade Facilitation Agreement are fully implemented. These trade cost reductions could add up to almost 15 per cent for low-income countries, 16 per cent for lower-middle-income countries, 13 per cent for upper-middle-income countries, and 10 per cent for high-income countries.

Developing countries are increasingly involved in international production networks, including through services exports. More than half of their total exports in value-added terms are now related to GVCs.

GVC linkages between developing countries are becoming more important with the share of GVC-based trade quadrupling over the past 25 years.

Sources: OECD, WTO

ACCESS TO ENERGY SERVICES

Over 1.3 billion people are without access to electricity and 2.6 billion people lack clean cooking facilities. Most of these people are in sub-Saharan Africa and Asia, with 84 per cent living in rural areas.

Non-OECD countries are predicted to account for more than 90 per cent of growth in energy consumption by 2030. In August, a G20 workshop on energy access brought together key stakeholders from the public and private sectors, international organisations and academia to discuss the role the G20 could play in improving energy access.

Sources: IEA, OECD

HUMAN RESOURCE DEVELOPMENT

Getting people into better jobs by developing human resources is fundamental to sustainable development and to addressing inequality.

In 2014, the G20 is helping developing countries match education and training with future job markets.

HOW IT HAPPENS

The Development Working Group (DWG) was established in 2010 in recognition of the G20's role to support narrowing the global development gap and reducing poverty.

The Australian presidency is consulting with developing countries to ensure the G20 development agenda is informed by a broad range of perspectives, including the G20 engagement groups and regional and international organisations.

The development agenda is integrated across the G20's growth and resilience agenda, as such the DWG works closely with other G20 work streams – including on anti-corruption, employment, energy, infrastructure, tax and trade.

Through the Energy Sustainability Working Group, G20 members are discussing how they can work together to improve access to modern energy services, including for people in emerging and developing countries.

The G20 is also seeking to lift women's workforce participation and address youth unemployment, challenges that face both developed and developing economies.

TRADE AND DEVELOPMENT

As the world economy has become more globalised, international trading patterns have become more complex. Goods are no longer made in one country and sold in another, but rather "made in the world". Goods and components cross national borders many times before ending up in the hands of the final consumer, a production process also called 'global value chains' (GVCs).

GVCs have changed the traditional understanding of trade. Countries must now be competitive importers as well as competitive exporters. Countries with greater GVC participation have experienced higher growth rates. G20 members have identified how they can adjust their trade and economic policies to benefit more from GVCs, including by strengthening customs procedures.

Infrastructure development is important to enable developing countries to participate in GVCs. Improving logistics services in particular is essential to effective participation.

Trade facilitation helps countries participate in GVCs by cutting costs, avoiding unnecessary delays and reducing uncertainty. To facilitate trade, measures that countries can take at home include reducing red tape at borders and regulatory burdens on business, streamlining customs procedures and removing barriers to trade in services. This makes it easier for businesses, especially small and medium enterprises, to access the global marketplace.

A strong, effective WTO at the centre of the global trading system is essential. The G20 is working to ensure that the wider system is as strong as possible to deliver growth. This includes implementing the Bali package and progressing the WTO's forward work plan. To ensure all countries are able to benefit from the Trade Facilitation Agreement, G20 donor countries will continue to provide aid for trade, to help countries that need assistance make the necessary reforms.

RESILIENT ENERGY MARKETS

Countries recognise that an affordable and reliable supply of energy is vital to their economic growth and development.

In 2014 the G20 is supporting international efforts to improve the operation of global energy markets and enhance collaboration between emerging and advanced economies. G20 members are discussing how they can contribute to efforts to ensure that international energy institutions keep up with the rapidly changing energy market and how they can work together to improve access to modern energy services.

Further information

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