



## A MORE INCLUSIVE G20 ECONOMIC POLICY COORDINATION MECHANISM IS POSSIBLE<sup>2</sup>

As the global economy continues to recover from the worst and most widespread economic crisis in recent decades, governments around the world face numerous challenges, of the most significant of which is unemployment. According to the World Bank's *World Development Report 2013*<sup>3</sup> 22 million jobs have been lost globally since the beginning of the crisis. The same report notes that 600 million jobs need to be created over the next fifteen years to sustain current employment rates.

These developments have coincided with major structural transformations in the global economy, including a shift in the centre of economic gravity to the East or 'the South'. Today, emerging markets and other developing countries constitute over half of global output and export trade. The rise of the markets of the South has been driven by their increased interconnectedness with the global economy vis-à-vis the emergence of global value chains (GVCs) operated by multinational companies of G7 countries. In this context, jobs and growth will remain at the centre of national policy debates for years to come, while intensified interdependency in global production relationships inevitably implies greater mutual policy dependency. Thus, international policy coordination within the G20 framework is of utmost importance in setting the direction of national policy debates and managing global interdependencies.

<sup>1</sup> [http://www.tepav.org.tr/en/ekibimiz/s/1027/Guven+Sak\\_+PhD](http://www.tepav.org.tr/en/ekibimiz/s/1027/Guven+Sak_+PhD)

<sup>2</sup> This paper was originally published in the "Think 20 Papers 2014: Policy Recommendations for the Brisbane G20 Summit", Lowy Institute for International Policy, 2013, 58-62 <http://www.lowyinstitute.org/publications/think20-papers-2014-G20>

<sup>3</sup> World Bank, 'World Development Report 2013: Jobs', 2013.

Previously, austerity measures were considered to be the main policy tool for coping with crises. Rewinding a few years, the 1997 Asian and 2001 Turkish crises were dealt with through policies involving massive structural transformation and austerity measures, on the premise that countries deemed safe and sound by investors would be able to attract financial flows. Thus, the growth model adopted by many emerging economies was based on reforming internally and receiving financial capital flows in turn. The global financial crisis has reignited the debate about austerity economics, and whether it is always the best policy option. For instance, the US response to the crisis, involving extraordinary amounts of quantitative easing, has proven to be largely successful, with most indicators pointing to a decent recovery.

Elsewhere, painful austerity measures, often disproportionately shouldered by lower- and middle-income groups in economically troubled countries, have led to a loss of confidence of voters on the national level, posing a serious threat if democracy is to be secured in conjunction with the globalisation process. Dani Rodrik drew attention to a so-called political trilemma of the global economy, whereby the nation state system, democratic politics and full economic integration are mutually incompatible.<sup>4</sup> Conforming to Rodrik's thesis are developments in Greece and elsewhere in Europe, including political fragmentation and the rise of the radical right-wing parties in response to tight austerity measures.

In order to avoid the rising risk of protectionism – often resulting from policy debates on the national level that overshadow global economic imperatives – the G20 platform needs to outline an agenda for a more inclusive growth. In this respect, empowering small to medium sized actors, whose participation in the globalisation process has so far been limited, is an important step. While data suggests that small and medium enterprises (SMEs) generate more than 60 per cent of the global workforce, limited attention has been paid to these institutions with respect to inclusive growth and global supply chains.

Furthermore, the exclusion of these actors from the global policy discourse increases the risk of them assuming a larger role in national debates that are often protectionist. The G20 forum is an important opportunity to promote inclusion of national actors into the globalization process vis-à-vis empowering SMEs. Lastly, today ICT technology and the internet provide a unique opportunity for SMEs to operate internationally. SME internationalisation is important for a more inclusive jobs and growth agenda.

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<sup>4</sup> Dani Rodrik, 'The Inescapable trilemma of the world economy', 27 June 2007, see [http://rodrik.typepad.com/dani\\_rodriks\\_weblog/2007/06/theinescapable.html](http://rodrik.typepad.com/dani_rodriks_weblog/2007/06/theinescapable.html)

## The G20 and the Mutual Assessment Process

Since 2008, the G20 has emerged as the key multilateral forum. The Pittsburgh summit in September 2009 was marked by the G20 leaders' declaration that henceforth the G20 would serve as the primary forum for international economic co-operation. The G20 leaders agreed on various macroeconomic and structural objectives under a new Framework for Strong, Sustainable and Balanced Growth to ensure sustainable and strong recovery from the 2008 financial crisis and medium-term growth. To measure the consistency of policies in individual countries with the objectives of the Framework, the leaders launched the Mutual Assessment Process (MAP).

Emphasising common objectives and global interdependencies, the MAP is an attempt to bring structure to the consultative process in a complex and integrated global economy. The process aims to measure to what degree policies of individual countries are collectively consistent with the objectives of the G20 Framework; to determine the type of action that will improve progress towards these objectives; and to assess how evenly benefits of collective policy action are distributed among G20 countries. The MAP also intends to address some of the issues that hindered the efficacy of the IMF surveillance mechanism, including by improving the clarity of objectives and gaining a deeper understanding of global interdependencies and their impacts.

An important departure from the IMF's 'multilateral consultation' process is that the MAP is a peer review process, rather than surveillance. As a country-led peer review mechanism, the MAP attempts to tackle the previous credibility and accountability issues associated with processes such as the IMF's 'multilateral consultation' in various ways.

The G20 MAP covers over 90 per cent of global gross domestic product (GDP), 80 per cent of international trade, and two-thirds of the world's population. It also encompasses a wide range of policies: fiscal, monetary, structural and trade. Moreover, while encouraging countries to pursue policies that are in the interest of the global economy, the MAP is designed to enhance country ownership of the consultation process, in an effort to make it more outcome-oriented. The MAP is also an attempt to reduce the IMF's role as the main driver of global economic and financial policy. In the case of the MAP, the IMF provides the forum with technical expertise and support, upon the request of the G20. For instance, IMF staff have been called on to assist member countries in developing indicative guidelines to be used in the identification and evaluation of imbalances among members every two years. Furthermore, inputs of the IMF are published in a transparent fashion. Similarly, the outputs of G20 discussion are made available to the public, albeit discussions being held in private.

**What has been done? What is the MAP capable of? What needs to be done?**

The MAP is essentially an attempt to strengthen the G20 system and thereby democratise global economic governance. With its membership reaching beyond the traditional G7, the G20 has a cross-regional reach, which makes it a more effective and inclusive economic policy forum. The forum is recognition of the need to govern the global economy in new ways that reflect the rise of emerging markets as major players and the shift towards a multipolar world.

More specifically, the MAP, which is driven by the G20 leaders themselves, has the potential to be an effective governance framework given impetus by transparent information exchange and with accountability resting at the highest level. The current MAP framework is in its infancy and needs to be further developed. In addition to monitoring progress, the work of the forum should be extended to include policy dialogue and formulation mechanisms.

Furthermore, a wider array of actors should be invited to participate in discussions, including members of international labour advocacy groups, business advocacy groups (SME advocacy groups, in particular), women's rights groups, and so forth, to ensure that policy debate extends beyond specific national concerns and that the interests and concerns of these groups are integrated into global policy discourse.