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# CONNECTIVITY MATTERS FOR THE G20[2]

The G20 leaders called for global action at the London summit (April 2009) by saying 'We face the greatest challenge to the world economy in modern times; a crisis which has deepened since we last met, which affects the lives of women, men, and children in every country, and which all countries must join together to resolve. A global crisis requires a global solution.' Since then I have been asking myself two questions: Are global solutions only required in times of global crisis? And, without a crisis agenda in the upcoming period, will the G20 become obsolete?

We cannot limit the role of the G20 to crisis management, considering the current imbalances and inequalities in the global economy. Moreover, enhanced globalisation and rising interdependencies require more effective policy coordination tools. So it is obvious that the G20 platform is needed in the long term. At the same time, the focus of the G20 – which has primarily been the global financial architecture – must be diverted to real sector improvements in the medium term.

[1] http://www.tepav.org.tr/en/ekibimiz/s/1034/Sarp+Kalkan

[2] This paper was originally published in the "Think 20 Papers 2014: Policy Recommendations for the Brisbane G20 Summit", Lowy Institute for International Policy, 2013, 142-147 http://www.lowyinstitute.org/publications/think20-papers-2014-G20

As the global trading structure is changing rapidly, the G20 needs to adapt to the changing landscape. Emerging markets and other developing countries have increased their shares in global trade. Global trade trends point to developing economies having an increasing share in global trade, and developed economies having a correspondingly declining share. Between 1980 and 2011, developing economies' share in world exports and imports rose from 34 per cent to 47 per cent and from 29 per cent to 42 percent, respectively.[3] However, trade routes have not evolved at the same pace, and fall short in meeting the demands of the emerging global economic structure. Connectivity among developing economies remains low, indicative that existing trade routes are not able to address the shift of economic power to emerging markets. Low connectivity among developing economies, resulting in a low degree of trade complementarity among these countries, also hampers the potential for global growth.

## Does connectivity really matter?

Increasing connectivity among G20 countries will be central to the future of the G20. 'Connectivity' here refers to expanding transportation networks/ routes, as well as energy routes and telecommunications infrastructure. Connectivity can enhance trade and growth in more than one way: above all, sufficient infrastructure provides efficient and cost-effective mobility of goods and services. It can also encourage supply chains to be built around connection routes, making not only trade, but also private direct investment flow, easier. According to a recent WEF study, improvements in connectivity are much more effective in reducing trade costs than the more 'fashionable' tariff removal.[4]

The study found that if every country were to improve just two connectivity barriers – namely, border administration and transport, and communications infrastructure and related services – even halfway to the world's best practice, global GDP would go up by US$2.6 trillion (4.7 per cent) and exports by US$1.6 trillion (14.5 per cent). By contrast, eliminating tariffs completely – the main focus of multilateral trade facilitation agreements – would increase global GDP by just US$0.4 trillion (0.7 per cent) and exports by US$1.1 trillion (10.1 per cent). Thus, connectivity is good for growth and jobs.

Second, improving connectivity is a tool for a more inclusive G20, as currently there are considerable connectivity disparities between G20 countries as well as between G20 countries and non-G20 countries. The table below shows different connectivity levels among G20 countries, using UNCTAD's Liner Shipping Connectivity Index (LSCI). The disparities between G20 countries are striking: China's connectivity level, for instance, is six times higher than that of Indonesia. Except for China, all countries that score high in maritime connectivity are industrialised G20 countries; however, developed countries such as Canada and Australia also have very low scores. Since improvements in connectivity will benefit the G20 countries which

[3] WT0, 'World Trade Report 2013', http:www.wto.org/english/res_e/publications_e/wtr13_e.htm

[4] WEF, 'The Global Enabling Trade Report 2012: reducing supply chain barriers', http:www3.weforum.org/docs/GETR/2012/GlobalEnablingTrade_Report.pdf

are least connected, increased connectivity would make the G20 more inclusive, serving as a rebalancing tool, especially for non-G7 members of the G20.

Figure 2: Liner Shipping Connectivity Index

| High Maritime Connectivity (>70) | | Moderate Maritime Connectivity (40-70) | | Low Maritime Connectivity (<40) | |
|---|---|---|---|---|---|
| China | 157.5 | Italy | 67.3 | Canada | 38.4 |
| South Korea | 100.4 | Japan | 65.7 | Russian Fed. | 38.2 |
| United States | 92.8 | Saudi Arabia | 59.7 | Brazil | 36.9 |
| Germany | 88.6 | Turkey | 52.1 | Argentina | 33.5 |
| United Kingdom | 87.7 | India | 44.4 | Australia | 29.9 |
| France | 74.9 | South Africa | 43.0 | Indonesia | 27.4 |
| | | Mexico | 41.8 | | |

Source: UNCTAD

G20 countries fare better than non-G20 countries in terms of connectivity. The average LSCI score for G20 countries is 62.1, much higher than the non-G20 countries' average of 15.7 (119 countries, excluding the EU). Thus, developing countries and least-developed countries (LDCs) are likely to benefit more than G20 countries if their connectivity is improved. Also, G20 countries (especially non-G7 ones) could become regional hubs connecting weaker developing countries to the global economy, which in turn would increase the credibility and legitimacy of the G20 as a global economic governance mechanism.

Third, connectivity not only holds the potential to improve the integration of different countries into the global economy, but can also improve the integration of small and medium enterprises (SMEs). In spite of their being an integral part of the national economy and an important provider of jobs, connectivity problems affect SMEs far more than large companies, which prevents them from participating in export markets and global/regional supply chains. Thus, removing barriers to connectivity increases the likelihood of SMEs operating internationally and being integrated into global markets.

Fourth, improvements in connectivity can enhance potential growth levels in the long run. In fact, long-term trade facilitation is a major advantage of connectivity over tariff reduction measures, which mainly change the allocation of resources. Improved connectivity eliminates the waste of resources, as well as improving the capability set of the host country, connecting it to global supply chains, and increasing its potential growth rates.

Lastly, connectivity improvements can be seen as a peace-building tool. Each road, route or pipeline that is built between two countries increases their interdependency and gives an economic reason to sustain stability. In other words, increased economic integration can work as an important conflict-resolution mechanism.

### What can be done to improve connectivity?

Increasing connectivity among countries is not an easy task. The process involves policy coordination and planning, as well as huge infrastructure investments. Moreover, the task is not only a hardware problem, but also a software problem. Institutional connectivity tools such as customs harmonisation, rationalisation of administrative procedures, transit agreements (the TIR convention, etc.) and the cutting of red tape must be engaged with intensively. Logistics management and service delivery mechanisms should also be developed, in order to operate the investments efficiently.

Transport infrastructure and new transport corridors are the major investments needed to improve connectivity. Maritime investments and the establishment of new routes seem to be the major issues. According to UNCTAD, among 157 countries investigated, only 17.7 per cent of the pairs (157 x 156 pairs) are served by direct liner shipping connections. Thus, there is much room for improvement. Second, land routes and railroads could be improved and integrated logistics solutions could be developed. Revitalisation of the ancient Silk Road (which connects China to Europe through Central Asia), and the building of new land routes and railroads in Southeast Asia (for example, the Singapore Kunming Rail Link) and South America (for example, the Initiative for the Integration of the Regional Infrastructure in South America – IIRSA) are among the regional initiatives started.

Building transport infrastructure, however, is not the only way to improve connectivity. Energy corridors, oil and gas pipelines, electricity transmission lines (such as DESERTEC) and even water pipelines are among the investment projects that increase regional economic integration.

### What can the G20 do to improve connectivity?

The G20 can and should deal with connectivity problems that require global policy coordination and collective action. First of all, the G20 can foster institutional connectivity by setting standards and urging compliance with these standards. Moreover, the G20 countries can play an important role in identifying major bottlenecks, given that the G20 countries are the major economies and thought leaders of their respective regions.

Second, the G20, along with international organisations, can play an important role in the development, evaluation and prioritisation of infrastructure projects. Objective technical feasibility assessments can play a critical role in obtaining private sector investments and financing. Also, a coordinated effort towards capacity development and sharing know-how can speed up the connectivity improvement process.

Third, the G20 can play a critical role in increasing the commitment of nation states, and supporting greater coordination among different government agencies. The G20 can also play a critical role in the establishment and coordination of regional development funds. Different regional initiatives should complement each other, and building private sector confidence and increasing its involvement should be key priorities for the G20.

Lastly, development of a new cross-border public–private partnerships (PPP) framework would help sovereign states to cope with financing problems. The G20 could lead this process and set the rules for effective multi-state PPP contracts. This would also create incentives for private investors (developers) to participate in these complex projects.