

# **THE BRISBANE SUMMIT OF THE G20: PERSPECTIVES FROM ASIA AND THE PACIFIC**

**BACKGROUND PAPER<sup>\*</sup>**

**The Fifth High-level Consultation on the G20 Summit  
Bangkok, 6 August 2014**

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## I. Introduction and overview of the agenda

1. The Fifth High-level Consultation on the G20 Summit is organized as a special event of the 70<sup>th</sup> ESCAP session. The purpose of the Asia-Pacific consultation is to provide a platform for all countries including non-G20 members and least developed countries to share perspectives on the issues addressed by the G20 and to identify areas of common interest for ESCAP and the G20. This year's G20 summit will take place on 15-16 November 2014 in Brisbane, Australia.
2. This is the fifth annual consultation since 2010, when the process was initiated by the Republic of Korea, then G20 chair. This year's consultation takes on added significance as the previous, current and next chairs of the G20 – namely, Russian Federation, Australia and Turkey – are all ESCAP members.
3. The consultations are part of ESCAP's broader effort to effectively integrate the region's development priorities at the global level and to develop a strong and coordinated regional voice in major global fora – the need for which was stressed by the Commission in light of the 2008-2009 global financial crisis.
4. The priorities for the G20 laid out by the Australian presidency are, first, to promote strong economic growth and employment outcomes and, second, to make the global economy more resilient to future shocks.
5. In February 2014, the G20 members committed to develop policies to lift their collective GDP by more than 2 per cent above the trajectory implied by current policies over the coming 5 years.<sup>1</sup> This policy package will include both country-specific and common actions in the areas of investment and infrastructure, trade, employment, financial inclusion and remittances.
6. The closely related resilience agenda addresses financial regulatory reforms, international tax cooperation and anti-corruption measures, and energy markets. Reform of international institutions such as the IMF also falls under this category.
7. It is useful to view the G20 process from a broader perspective, as one among major processes shaping the global and regional agendas today. This broader view allows for the identification of synergies.
8. Therefore, in addition to elaborating on the above G20 agenda items, this background note tries to highlight the relationship to policy debates in the Asia-Pacific region, as supported by the work of ESCAP. The note also makes references to ongoing discussions on the post-2015 development agenda wherever relevant.

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<sup>1</sup> This is measured as 2 per cent above the IMF's October 2013 *World Economic Outlook* baseline projection for 2018

## II. Infrastructure and investment

### *G20 initiatives*

9. The need to support global demand and increase productivity through investment, particularly in infrastructure, gained wider acceptance in the aftermath of the global financial crisis. The G20 has been highlighting this for several years.

10. This year Australia has placed infrastructure and investment at the forefront of the G20 growth agenda. The emphasis is on increasing the availability of private savings for long-term investment by improving the investment climate and strengthening institutions and regulatory frameworks for financial intermediation.

11. In February, the G20 members agreed on the need to:

- Remove constraints to private investment by establishing sound and predictable policy and regulatory frameworks and by emphasising the role of market incentives and disciplines;
- Maximise the impact of public sector capital expenditure; and
- Enhance the catalytic role of multilateral development banks (MDBs).<sup>2</sup>

12. In April, they further agreed on the need to:

- Improve the quality and accessibility of investment information; and
- Strengthen the capacity of financial markets to channel more long-term finance.<sup>3</sup>

13. At the Brisbane Summit, the G20 members are expected to adopt a set of “Leading Practices” to help identify, prioritise, plan and deliver quality investment and PPPs. There is also a discussion to set up a global database of investment-ready projects, to help reduce the costs of searching for investment opportunities.

14. Infrastructure and investment is identified as one of the areas in which G20 efforts will also benefit non-G20 developing countries, through actions such as improving the coordination of infrastructure project preparation requirements across donors and MDBs and supporting capital market development in those countries.

### *Asia-Pacific perspectives*

15. Infrastructure and investment are of critical importance for the Asia-Pacific region, home to two-thirds of the world’s population and where economic development and urbanization are progressing at a rapid pace. From a regional perspective, enhancing

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<sup>2</sup> Para 7, Communique of G20 Finance Ministers and Central Bank Governors, Sydney, 22-23 February 2014.

<sup>3</sup> Para 4, Communique of G20 Finance Ministers and Central Bank Governors, Washington D.C., 10-11 April 2014.

connectivity in transport, ICT and energy also has the potential to unlock growth and spread the benefits of growth more widely, as analysed in detail in recent ESCAP reports.<sup>4</sup>

16. Infrastructure financing was one of the main issues discussed in the Asia-Pacific Outreach Meeting on Sustainable Development Financing jointly organized by UNESCAP and the Ministry of Finance of Indonesia in Jakarta in June 2014. The meeting, which was attended by more than 150 participants from 30 countries, including finance ministers, central bank governors, and business leaders and representatives of civil society, contributed views from the region to global discussions coordinated by the UN Intergovernmental Committee of Experts on Sustainable Development Financing. What follows is partly based on deliberations during that meeting.<sup>5</sup>

17. The region's financing requirements are huge. The ADB estimated in 2009 that the region would need \$750 billion per year to close its infrastructure gaps in the areas of energy, transport, telecommunications and water & sanitation by 2020.<sup>6</sup> This estimate, however, does not include necessary investments in maintenance of roads and railways. A recent ESCAP publication estimated that the region needs \$160 billion per year for land transport maintenance.<sup>7</sup>

18. The above estimates do not consider the need for investments to contribute to sustainable development. In this respect, enhancing energy efficiency and reducing the carbon intensity of the energy mix are critical. A new ADB study which includes such additional expenses estimates that total energy investment needs for the region between 2010 and 2035 at about \$19.9 trillion, or \$765 billion per year.<sup>8</sup> Although the different estimates mentioned in this and the previous paragraph are based on somewhat different country groupings and base years, adding them gives a preliminary estimate of the region's total infrastructure investment requirements of \$1.3 trillion per year.

19. While the region's financial requirements are huge, its financial resources are also very large. Its gross national saving amounted to \$8.4 trillion in 2012, representing more than half of the world's total savings. The region also holds the largest share of the world's foreign exchange reserves, \$7.3 trillion in 2012. And according to PricewaterhouseCoopers (PwC), the region's high net worth individuals had \$12.7 trillion in assets in 2012, while the

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<sup>4</sup> ESCAP, *Growing Together: Economic Integration for an Inclusive and Sustainable Asia-Pacific Century* (Bangkok, 2012) and *Economic and Social Survey of Asia and the Pacific 2014: Regional Connectivity for Shared Prosperity* (Bangkok, 2014).

<sup>5</sup> See background paper and additional materials from this meeting at <http://www.unescap.org/events/asia-pacific-outreach-meeting-sustainable-development-financing>.

<sup>6</sup> ADB and Asian Development Bank Institute, *Infrastructure for a Seamless Asia*, Tokyo, 2009, available from [www.adbi.org/files/2009.08.31.book.infrastructure.seamless.asia.pdf](http://www.adbi.org/files/2009.08.31.book.infrastructure.seamless.asia.pdf). The total investment needs are expressed in US dollars of 2008 and include investment in water and sanitation. See Table 5.1 in p. 167.

<sup>7</sup> ESCAP, *Review of developments in transport in Asia and the Pacific, 2013: Transport as a key to sustainable development and regional integration*, Chapter 3.

<sup>8</sup> ADB, *Energy outlook for Asia and the Pacific*, Manila, October 2013.

region's mass affluent had \$20.5 trillion in assets.<sup>9</sup> PwC estimated that these values will increase, respectively, to \$22.6 trillion and \$43.3 trillion by 2020.<sup>1011</sup>

20. The key challenge, however, is to mobilize resources by improving the efficiency of financial intermediation. In this regard, a three-pronged strategy consisting of public finance, private flows, and regional financial cooperation could be considered.

21. Public finance has been the primary source for infrastructure financing in the region. It also provides vital guarantees and seed investments in PPPs. Thus, strengthening domestic resources mobilization and unlocking fiscal space could contribute directly to public infrastructure investment and also leverage private resources. Countries like India have also actively used private equity infrastructure funds.

22. Private investment in infrastructure in the region's developing countries grew rapidly, from merely \$2 billion in 1990 to \$120 billion in 2010, and the latest estimate is \$150 billion. Yet there is still much room to expand. A major challenge is the absence of mature capital markets and financing vehicles, which has resulted in a heavy reliance on bank loans.

23. Given the Asia-Pacific region's income and demographic diversity, regional financial cooperation has great potential to mobilize surplus savings for productive investments. With a growing number of institutional investors such as pension funds in the region, the time is ripe to deepen and broaden regional capital markets. In fact, ESCAP was an early proponent of creating a large-scale regional infrastructure investment facility.<sup>12</sup> In line with this, China is now leading the establishment of the Asian Infrastructure Investment Bank.

24. Apart from financing, project capacity is a key constraint. Most developing countries in the region have difficulties in generating a pipeline of investment-ready projects and in designing and effectively negotiating complex contractual terms. Thus their capability to engage a wider range of potential investors and private partners is limited. Weak project governance skills also lead to implementation delays and quality concerns.

25. Technical assistance from development partners is important. But as highlighted in a 2012 ESCAP ministerial conference on infrastructure PPP, different organizations should improve their coordination and standardize their processes so as to reduce the overhead costs countries need to burden in developing and implementing PPP projects with them.

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<sup>9</sup> High net worth individuals own \$1 million or more in assets; mass affluent individuals own between \$100,000 and \$1 million in assets.

<sup>10</sup> PwC, *Asset management 2020: a brave new world* (PricewaterhouseCoopers International, 2014). Available from [www.pwc.com/gx/en/asset-management/publications/pdfs/pwc-asset-management-2020-a-brave-new-world-final.pdf](http://www.pwc.com/gx/en/asset-management/publications/pdfs/pwc-asset-management-2020-a-brave-new-world-final.pdf).

<sup>11</sup> According to Wealth-X and UBS, the region's ultra-high net worth individuals (UHNWIs), those with a net worth of \$30 million or more, held \$7.5 trillion of net wealth in 2012-2013.

<sup>12</sup> See ESCAP, *Theme Study of the Sixty-second Commission Session: Enhancing Regional Cooperation in Infrastructure Development Including that Related to Disaster Management*, 2006, available from <http://www.unescap.org/resources/theme-study-sixty-second-commission-session-enhancing-regional-cooperation-infrastructure>.

26. ESCAP's work highlights that the financing and capacity challenges vary significantly across countries in the region. Greater technical assistance is needed in least developed countries, landlocked developing countries, and small island developing States – of which there are 31 in the Asia-Pacific region. For the proposed G20 initiatives to have a wider development impact, it is critical that the special needs of these countries are adequately considered. Otherwise, there is a danger that well-intended initiatives could further widen the gap by leaving behind smaller and poorer countries in the competition for financing.

27. ESCAP's work also highlights the importance of cross-border infrastructure projects, such as the Asian Highway and Railway networks, in boosting trade and investment and people-to-people connectivity. However, these projects are challenging to coordinate and the G20 initiatives could consider these aspects. In 2013, ESCAP ministers agreed to set up expert working groups to prepare concrete action proposals to deepen regional cooperation and integration in connectivity and finance. Greater synergy of cooperation in these two areas may further unleash the potential of the complementary nature of countries in the region.

#### *Post-2015 development agenda*

28. At the 2012 UN Conference on Sustainable Development (Rio+20), world leaders agreed that the next phase of global development must ensure a better balance between the three pillars of sustainability: economic growth, social equity, and environmental stewardship.

29. The result of this agreement is a growing global consensus that the post-2015 development agenda must extend beyond poverty reduction and the MDGs alone to incorporate issues such as infrastructure development and climate response. For instance, the UN high-level panel, co-chaired by the leaders of Indonesia, Liberia and UK, in its 2012 report, called for universal access to modern infrastructure, including for women, and highlighted the need to catalyse long-term finance for this purpose.<sup>13</sup>

30. The latest draft of the proposed sustainable development goals for post-2015 also calls for the development of “quality, reliable, safe, sustainable and resilient infrastructure for energy, water, waste management, transport, ports and ICT, with a focus on affordable access for all”.<sup>14</sup> The draft lays emphasis on the adoption of green technologies and on investment in rural infrastructure.

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<sup>13</sup> See “A New Global Partnership: Eradicate Poverty and Transform Economies through Sustainable Development”, available from <http://www.post2015hlp.org/wp-content/uploads/2013/05/UN-Report.pdf>

<sup>14</sup> See “Outcome Document - Open Working Group on Sustainable Development Goals”, available from <http://sustainabledevelopment.un.org/focussdgs.html>

### III. Trade

#### *G20 discussions*

31. Trade has been on the G20 agenda for several years, although it has made relatively little progress. At their July 2014 meeting, the trade ministers of the G20 reaffirmed their commitment to standstill and roll back protectionist measures introduced since the global financial crisis. However, a WTO report showed that the G20 members had put in place 112 new trade-restrictive measures since their last summit in November 2013, and it noted that the vast majority of trade-restrictive measures taken since the onset of the crisis remained in place.<sup>15</sup>

32. The G20 members recognized the contribution of bilateral, regional and plurilateral trade agreements to economic growth by encouraging domestic structural change and that they can complement multilateral liberalization. They noted the growing importance of global supply chains and the need to address barriers to trade in services through domestic reform and international cooperation.

33. The G20 members expressed support for a timely implementation of the WTO Trade Facilitation Agreement concluded in Bali in December 2013 and the successful conclusion of the Doha round of multilateral trade negotiations. They reaffirmed the importance of aid-for-trade as a means of poverty reduction in developing countries.

#### *Asia-Pacific perspectives*

34. All countries in the Asia-Pacific region and the members of the G20 recognize the importance of trade as an engine of economic growth. As is clear from this region's experience, trade can play a key developmental role, a fact that is also emphasized in the post-2015 development agenda.

35. Trade restrictive measures globally and regionally since the global financial crisis have had severe impacts on the region's exports. For instance, ESCAP estimates a loss of merchandise export opportunity worth \$255 billion (1.6 percent of the region's output) during the period 2009-2013, associated with measures introduced by major developed economies outside the region.

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