The Hon Joe Hockey
Ambassador of Australia to the United States
T20 Conference Keynote Address
'Where we stand on the G20 Growth Agenda: An Australian Perspective'
Brookings Institution
Wednesday, 13 April 2016

Thank you Colin Bradford for that introduction and thank you, everyone — it's great to be here at the T20 Conference.

This is a true gathering of minds. Here today we have a cross-section of some of the world's finest think tanks.

You all bring something new to the policy table. You've got different perspectives and different values. But what you've got in common is that you know that good policy — particularly economic policy — isn't an end in itself.

It's a tool. It's how we do the right thing by people. And it's the means by which we can help improve their lives.

A landmark commitment
That's what I had in mind when, back in February 2014, I stood up in Sydney as Australia's Treasurer and announced the G20's landmark commitment to boost growth by an extra 2 per cent by 2018.

At the time, I inherited a group of finance ministers and central bank governors who had all but exhausted their economic levers in trying to manage the global financial crises and its aftermath.

They had almost used up their fiscal and monetary policy tools, and what was left was having marginal effect.

If the two most obvious available tools for growth were no longer available then how were nations going to stimulate growth? It was not enough to hope it would happen naturally. We had to earn growth through structural reform.

But, structural reform can be politically unpopular.

So, in Brisbane we set a growth ambition that had a meaningful target and would galvanise member nations. We called for them — and their best policy minds — to think big and to get innovative.

And they did. By the time of the Brisbane summit in November, G20 nations delivered growth strategies that totalled more than 1,000 structural reform commitments.

It was a roadmap to growth, to be judged and assessed over time. The commitments touched on investment, employment, competition and trade — concrete, tangible actions that would remove barriers and work to create jobs.

Keeping track

It gives me a great sense of pride to reflect on this achievement and to see it become a central part of Turkey's G20 Presidency last year and of China's G20 Presidency this year.

And while I may now occupy a new post, as Australia's Ambassador to the United States, I still take a keen interest in how the G20 is tracking with its ambition.

I said back in 2014 that our work was only beginning. G20 members would have to hold each other to account — to keep pushing, avoid complacency, and make sure plans are implemented.

That's what I want to delve into in my time with you now.

Last year G20 members stated that their top priority was to implement their growth strategies, in a timely and efficient way. So, how are we progressing on this front?

According to the IMF and OECD, around 50 per cent of the Brisbane growth strategy measures have been fully implemented.

This equates to being more than one-third of the way to our 2 per cent ambition.

However, while that is encouraging, we need to continue pushing ourselves.

Especially as the world is experiencing tough economic headwinds, that continue to buffet us.

Since Brisbane, global GDP has been revised downwards a number of times.

In October last year, the IMF said it expected global GDP to be 1.9 per cent lower in 2018 than what it was predicting two years earlier.

And more downward revisions are likely in the future.

This slowed growth has been accompanied by other trends that are consistent across the global economy. These include trade growth, which has dropped from an average of around 7 per cent a year between 1990 and 2008, to 3 per cent in the period since.

G20 member nations will need to accelerate their efforts — particularly in the areas of trade and competition reform, and infrastructure investment — if they're to get over the line by 2018.

And they should be flexible in how they go about this. Some countries will have more to do, and some less. We always said nations' structural reform commitments would need to be able to adapt to new and changing political and economic realities over time.

As a former Treasurer, and as someone who toiled for 20 years in the rough and tumble world of Australian politics, I know that political hurdles can arise from time to time.

So, too, economic hurdles — as I've already touched on.

Countries and policymakers need to be flexible and come up with alternative reforms — ones with equal or greater impact that will still get us to the 2 per cent growth ambition.

We've seen this already, at the G20 leaders' summit in Turkey last year. It was there that member states adjusted their strategies — reflecting the changes in outlook — while adding new measures.

China and the G20

And the signs are encouraging as we move through 2016 and China's G20 Presidency.

China has put growth at the centre of its agenda, and the theme is working towards an 'innovative, invigorated, interconnected and inclusive world economy'.

Like all G20 members, China is backing the 2 per cent growth ambition. As was the case last year in Turkey, China will ask members to update their strategies — identifying new reform measures to replace politically contentious measures, and demonstrating they are tackling global growth challenges.

Let me make some observations about the challenges I see moving forward, and how we might address them.

First, public confidence is low. When you look around the world, you see the lives of middle class people have been immensely disrupted, by political instability and rapid technological advancements. The question is: How do you take people on the journey of inevitable change, in a way that they can own, that makes it theirs?

The answer is, we need to better explain the benefits.

Australia believes trade and investment are vital to raise G20 output by an additional 2 per cent by 2018.

But as we look forward, it's entirely possible trade could grow even slower than world growth.

This is not only bad for growth — it's bad for globalisation, which the G20 was set up to protect and expand.

That's why Australia is pleased about China's decision to make trade and investment a key priority for its Presidency.

The comprehensive and coordinated approach that China is proposing aims to address the recent decline in trade growth. At this point, such a firm statement by the G20 on the benefits of global trade can't help but raise confidence.

In recent years, the emergence of global and regional supply chains has changed the way the world does business.

In 1990, 20 per cent of all goods and services exported from anywhere in the world ended up as intermediate goods, that is, inputs into other goods and services.

The OECD estimates that figure is now close to 75 per cent.

Goods and services today can cross borders four or five times before ending up a finished product.

This means that when you put up trade barriers, like tariffs, you are adding immensely to the cost to consumers.

That's why trade liberalisation is so important.

When you look around the world, you see how productivity improvements have affected certain economies. Take the United States – more than 3 million jobs were lost in manufacturing in the early 2000s. And in China it is estimated between 13 and 18 million manufacturing jobs were lost from 1995 to 2002.

Why? Because in addition to technology advances and improvements in productivity, other countries came on the scene and were able to make products better and more cheaply.

We need free trade to help build these supply chains. We need free trade to create jobs, we need free trade to stimulate innovation and build prosperity.

Another important theme is infrastructure investment. In Asia, we are facing a $10 trillion shortfall in infrastructure over the next 10 years. This is why Australia and a number of other countries supported the establishment of the Asia Infrastructure Investment Bank.

Infrastructure facilitates growth and job creation.

We need to channel the world's vast amounts of liquidity into infrastructure. The Global Infrastructure Hub, launched by the G20 and based in Australia, is working on a set of common documents and protocols to grow the pipeline of investable infrastructure projects. What this means is more consistent credit ratings for investors, so there will be little difference in the investment risks except the sovereign risk.

The Global Infrastructure Hub will also break down barriers by enabling the sharing of best practice approaches and information, so governments need not reinvent the wheel.

The last issue I want to pick up on is innovation — another strong focus for China as part of its G20 agenda.

I spoke earlier about how implementing structural reforms underpins the G20's growth ambition.

Well, innovation is another name for structural reform.

You can see why innovation is important to the G20: it goes hand-in-hand with growth.

Of course, this fits well with China's and Australia's policies of using innovation to boost productivity in a low-growth environment.
We know that, ultimately, innovation helps create jobs and maintain a high standard of living.

Now, while this focus on innovation — and its role as a driver of structural reform — will help us achieve more sustained growth, we also need to bear in mind how innovation is being picked up in GDP.

Let me give you some examples.

In less than three years, Airbnb has added more than 10,000 rooms to Sydney's holiday rental market.

That's without needing a single brick to be laid or planning permit approved!

And yet, while this has added accommodation capacity — as building any new hotel would — it has not been reflected in GDP as an increase in investment in hotels, or the jobs needed to run them.

Uber is another good example. Uber doesn't own a single car yet it has become a game changer in both productivity and service terms.

Then there's Wikipedia. As a free encyclopaedia, loved by the masses — including myself — it has all but replaced the Encyclopaedia Britannica. But Encyclopaedia Britannica was paid for — and, as such, was a net contributor to the data in GDP. Arguably Wikipedia is not.

Some might say this is a dry topic, but they'd be forgetting that we judge our ability to deliver higher living standards, and raise national wealth, with GDP as the benchmark.

For that reason, if we're not adequately aware of how these new and market disruptive technologies are influencing our measures of living standards, the task of selling structural reform as boosting future income becomes much harder.

Conclusion

The world has changed. Establishing the conditions for growth is no longer solely the domain of government. Consumers are playing a much bigger role; as is the mobility of capital, labour and innovation. The worst trap we could fall into is believing that only politicians have the answers.

There are no easy answers and we should not have unreasonable expectations about what the G20 can achieve.

However the G20 is on the right path and Australia's leadership followed by the leadership of Turkey and now China, will continue to provide a directional light for the growth agenda that can only come through difficult structural reform and an ongoing commitment to free and open trade.