



GLOBAL INSIGHT

INSTITUTE FOR GLOBAL DIALOGUE

Issue 134/September 2019

a focus on current issues

Japan's G20 presidency: affirming the Asian century's positive role for global economic governance

Faith Mabera

Ms. Faith Mabera is a Senior Researcher at the Institute for Global Dialogue (IGD) associated with UNISA

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Introduction

In its role as president of the Group of 20 (G20) in 2019, Japan embraced an opportunity to provide strategic leadership in the premier forum for global economic governance. Japan's presidency comes at a time when multilateralism is in crisis, as is evident in the intensification of trade and geopolitical tensions, the stalled World Trade Organisation (WTO) reform process, the growing backlash over the failure of globalisation to realise equitable distributional benefits, as well as increasing inequality, rising protectionism and widespread populism across countries. At Osaka, the G20 agenda revolved around Japan's theme of promoting a free, open, inclusive and sustainable human-centred future society. The focus of Japan's priorities included free trade and innovation as engines for shared growth that reduces disparities, global standards for Data Free Flow with Trust (DFFT), development through quality infrastructure and the Sustainable Development Goals (SDGs), universal health coverage, action against climate change and marine plastic litter, institutions for the digital economy, as well as the presence of an aging society that is affecting financial and social policies and inclusion. Other issues include safeguards for shared growth involving debt sustainability and transparency in low-income countries, global imbalances and market fragmentation in financial regulation and supervision. Technological innovation that embraces international tax, financial innovation (including crypto-assets) and development implications is also a significant focal area. In the aftermath of the 2019 G20 Osaka Summit, this policy brief reviews the priorities of the summit, the main takeaways from Japan's G20 presidency and implications for the evolution of the G20 economic governance agenda.

Priorities of Japan's G20 presidency: the road from Buenos Aires to Osaka

The priorities of the G20 Osaka Summit centred on three thematic issues: (i) G20 efforts to promote strong, sustainable and balanced growth in the global economy; (ii) the pursuit of innovative, collective solutions to address global challenges; and (iii) harnessing the potential of technological innovation in the digital age.¹ As part of promoting sustainable and balanced growth, Japan continued with the G20's push to promote free trade and an open, rules-based international order, premised on free, fair and mutually beneficial trade and investment.

(i) Promoting sustainable growth in the global economy

In the context of strengthening the international order for free and fair trade, the reform of the WTO remained a priority for the Osaka Summit, building on consensus from the 2018 Buenos Aires Communiqué in which leaders agreed to review progress at the subsequent summit.² Notably, following the 2019 G20 Ministerial Meeting on Trade and the Digital Economy, the issue of WTO reform was included in the G20 Ministerial Statement for the first time, explicitly noting the G20's commitment to 'undertake necessary WTO reform with a sense of urgency in the lead-up to the 12th WTO Ministerial Conference'.³ Furthermore, G20 trade ministers also reiterated the commitment to fulfil notification obligations while emphasising the importance of transparency in WTO members' trade-related policies.⁴

Although this specific mention of WTO reform by Japan's G20 presidency was laudable, a critical omission from the Ministerial Statement was the removal, on the insistence of the USA, of language that mentioned 'a pressing need to resolve trade tensions'. Viewed against the background of escalating US–China trade tensions, the deletion points to a desire by Washington to 'avoid encumbrances' as it aims to raise tariffs on \$200 billion of Chinese goods by up to 25%. In spite of widespread acknowledgement of and mounting concern about the trade war and its detrimental effect on the international trading system, G20 finance ministers only went as far as flagging the risks of trade tensions for global economic growth and indicating their readiness to 'take further action'.⁵

A second major priority for Japan, with a view to promoting economic growth, was the continued focus on infrastructure development. Building on previous G20 initiatives, such as the G20 Principles for Quality Infrastructure Investment, Japan aimed to underscore the importance of infrastructure as a driver of economic growth by promoting the concept of quality infrastructure investment characterised by economic efficiency in view of the life-cycle costs of integrating environmental and social considerations, job creation and women's

economic empowerment, resilience against natural disasters and other risks, and strengthening infrastructure governance.⁶

(ii) Harnessing the potential of innovation in science and technology

In his speech at the 2019 World Economic Forum in Davos, the prime minister of Japan, Shinzo Abe, asserted his intention to use Japan's G20 presidency to frame the country as a global leader in harnessing the potential of technological innovation to solve global issues and enhance sustainable development. In this regard, Japan has championed the notion of 'Society 5.0' or a super smart society where various social challenges are addressed by incorporating elements of the fourth industrial revolution (such as the Internet of Things, artificial intelligence [AI] and robotics) to improve the quality of life for individuals and reduce the gap between the rich and the poor. Moreover, Prime Minister Abe called for the creation of a DFFT, a data governance regime that ensures the protection of personal and intellectual property data while promoting the borderless flow of non-personal, anonymous data.⁷

Prime Minister Abe also highlighted the way disruptive innovations could be used to tackle climate change in order to realise the goals set by the Intergovernmental Panel on Climate Change (IPCC) in its '1.5-degree report'. Embracing disruptive innovation alongside regulation for climate action would include, for example, prioritising green finance, building smart cities utilising innovative energy storage and digital systems, and promoting research and development for efficient technologies in carbon recycling such as artificial photosynthesis and methanation.⁸

Regarding the enhanced provision of global public goods, Japan has urged the G20 to strive for universal health coverage as a key contributor to human capital development and sustainable development, thus affirming the G20 Shared Understanding on the Importance of UHC Financing in Developing Countries. Similarly, natural disaster reduction is a priority item on the agenda, drawing on Japan's hosting of the 2015 UN World Conference on Disaster Risk Reduction and its promotion of the Sendai Framework for Disaster Risk Reduction. Japan also views the G20 forum as an important platform for catalysing action on ocean waste management, including action on marine plastic litter. The Osaka environmental priority emphasises the importance of global action to reduce plastics flowing into the oceans while also calling for the protection of marine biodiversity.⁹

(iii) Digital economy

The 2019 G20 Ministerial Statement on Trade and Digital Economy was also monumental for digital taxation, as finance ministers affirmed their commitment to compiling new rules for imposing corporate tax on tech giants such as Amazon, Facebook and Google. Noting the

loopholes in the existing digital tax framework that have enabled tax avoidance by some giant tech companies and multinational corporations, G20 finance ministers welcomed proposals on digital tax reform that would lead to 'a consensus-based solution with a final report by 2020'.¹⁰ One proposal is a two-pillar approach that would allow for taxing companies based on where their goods and services are sold rather than basing rights to tax on the location of companies. The second pillar entails enforcing an agreed global minimum tax rate. In spite of differences over approaches to digital taxation between France and the UK on one hand, and China and the US on the other, there is increasing pressure from the public for tax solutions to the problem of tax evasion by digital multinationals.¹¹

The G20 endorsement for rule-making in the digital age also extended to crypto-assets, paying attention to the risks related to consumer and investor protection, anti-money laundering and countering the financing of terrorism. In this regard, G20 finance ministers noted the Financial Action Task Force interpretive note and guidance on crypto-assets and asked the Financial Stability Board 'to monitor risks and consider work on additional multilateral responses as needed'.¹² Additionally, echoing Prime Minister Abe's call for Japan's foregrounding of the 'Osaka Track' framework for data governance, the G20 trade ministers adopted guiding principles for the appropriate use of AI, specifically endorsing a human-centred approach to AI guided by the G20 AI principles of inclusive growth, sustainable development and well-being; human-centred values and fairness; transparency and explainability; robustness; security and safety; and accountability. The G20 AI principles are also based on the growing recognition of the potential of AI to contribute to innovation and investment, promoting digital entrepreneurship, and maximising and sharing the benefits of AI while building public confidence and trust.¹³

(iv) Aging populations and their impact on society

In an unprecedented move, the G20 finance ministers also addressed demographic changes, particularly the challenges posed by population aging and its impact on society and the economy. Spearheading the G20's endorsement of the Fukuoka Policy Priorities on Aging and Financial Inclusion, Japan's push for inclusion of population aging as an emerging issue on the G20's agenda is informed by the pressing need to strike a balance between the growing needs of age-related public expenditure (pensions, public healthcare systems) and safeguarding growth, development priorities and fiscal sustainability.¹⁴ In response to demographic changes, the G20 urged countries to adopt economic policies that would promote the financial inclusion of both women and the elderly, create social safety nets attuned to intra- and inter-generational equity, and incorporate better analysis of the implications of aging for monetary policies and tax systems, among other recommendations.¹⁵

Japan G20 priorities relevant for Africa

Regarding the G20 partnership with Africa, fiscal and debt sustainability, industrial development, infrastructure development and the Compact with Africa remain key priorities for the G20 under Japan's presidency. Low domestic savings rates coupled with the infrastructure-financing gap have led to increased levels of public debt among Sub-Saharan African countries. In this regard, enhanced debt transparency from both creditors and borrowers is particularly relevant for Africa.¹⁶ Equally important is quality infrastructure investment, underpinned by G20 infrastructure initiatives such as the Compact with Africa and the Global Infrastructure Initiative, to boost private and public investment in quality infrastructure and develop infrastructure as an asset class.¹⁷

In addition to the G20, Japan's focus on Africa extended to the 7th Tokyo International Conference on Africa's Development (TICAD7), hosted in Japan on 28–30 August 2019. Inputs from the G20 presidency dovetailed with TICAD7 on issues such as structural economic transformation, especially the development of small and medium enterprises (SMEs), resilient health systems, social stabilisation for shared prosperity and promoting the implementation of the SDGs, including the prioritisation of women, health and education as the foundation of a human-centred future society.¹⁸

Conclusion

Japan's G20 presidency has proved to be a commendable feat of strategic global leadership during uncertain times for global economic governance and mounting challenges for the multilateral, rules-based international order. By overseeing the successful conclusion of the Japan–EU Economic Partnership Agreement and the Comprehensive and Progressive Partnership Agreement for the Trans-Pacific Partnership (TPP II), Japan has displayed its leadership credentials and a strong affirmation of multilateralism. Furthermore, the timely addition of population aging, global data governance and Society 5.0 to the G20 agenda demonstrates Japan's adeptness at seeking out innovative, future-oriented solutions to pressing local and global challenges.

Policy implications

- (i) For Japan: navigating the great power competition and trade tensions will mean that it has to work with like-minded countries in ensuring the G20's resolve to promote a free, open and rules-based international order while endorsing trade and innovation as engines for shared growth.

- (ii) Given the close alignment between Japan's G20 priorities and its TICAD7 agenda, a deepening of the Japan–Africa development partnership should be premised on a mix of both diplomacy-led and development-led engagement, based on the sharing of key lessons and experiences for enhanced cooperation.
- (iii) For Africa (South Africa as the sole African G20 member, AU stakeholders participating as observers): ensure Africa's dynamic development priorities are addressed in the established initiatives under the G20 partnership with Africa, while identifying opportunities for improved, strategic engagement with G20 stakeholders and partners.

Endnotes

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Acknowledgements

The Institute for Global Dialogue associated with UNISA would like to thank the Friedrich-Ebert Stiftung (FES) for its generous support to publish this Global Insight.





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3rd Floor Robert Sobukwe Building
263 Nana Sita Street
Pretoria South Africa

PO Box 14349
The Tramshed,
0126
Pretoria South Africa

+27123376082
+27862129442
info@igd.org.za
www.igd.org.za

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