



#### CAPITAL & ECONOMICS

## The G20'S Impact On Business: Trade And Sustainability

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### OVERVIEW

Founded in 1999 to promote international financial stability, the G20 comprises meetings of global leaders, businesses and think tanks from the world's major economies. The 20 countries represent comprise some 85 percent of global GDP, 80 percent of world trade, and 75 percent of the world's population. If the G20 decides to act, businesses leaders need to take note.

This September's meeting looks to be one of the G20's more consequential gatherings. Business leaders, entrepreneurs and investors will want to understand how trade rules might change, opportunities and challenges presented by new Asian multilateral institutions, and commitment to sustainable development goals which might prioritize renewable energy and sustainability efforts.

Alongside that, the G20 will likely address many issues pertaining to business stability. Russian sanctions, the US presidential election, territorial disputes in the South China Sea and rising concern about terrorism worldwide have the potential to interrupt business.

When the summit convenes in Hangzhou, China on 4-5 September 2016, the main theme

With themes of innovation and the interconnectedness of the world economy, this G20 summit will hold particular significance for global multinational organizations and business leaders throughout the globe.



## IN DEPTH

### **The Uncertain Future of Trade**

Some Western countries have increased their focus on international trade, and the upcoming U.S. Presidential elections have included discussions around a number of trade-related issues. Most of these issues require gradual, long-term solutions.

This September, the G20 will likely address two acute concerns: the U.K.'s decision to leave the EU, and that both U.S. Presidential candidates have moved the debate away from its traditional default optimism about ever greater trade openness.

The U.K.'s June decision to leave the European Union has been one of the most significant single moments of trade reset in recent history with Britain now seeking to negotiate new trade deals. In light of the Brexit vote, The U.K. has created a new Department for International Trade, and new trade deals are being discussed with a number of countries, including China and Australia. The U.K.'s trading status with the EU remains uncertain, however: if its trade with the European Union is to remain tariff-free, the U.K. will need to find a way to continue to participate in the EU's single market. Some British businesses have pulled back on investment, citing an uncertain trade outlook – though it is still too early to have reliable figures on the impact.

In the U.S., the momentum is seemingly with opponents of increasingly free trade. Candidate Donald Trump has proposed renegotiating the US' involvement with the North Atlantic Free Trade Agreement (NAFTA) and imposing a 45% tariff on goods from China. Candidate Hillary Clinton has voiced her opposition to both the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP), deals championed by the Obama administration.

China, meanwhile, is pushing ahead with plans to liberalize trade. For example, it's attempting to redevelop the old Silk Road trading route from East Asia to the Middle East, signing the Trans-Pacific Partnership, and pushing for a new Free Trade Area of the Asia-Pacific (FTAAP). China has already been Africa's biggest trading partner since 2000.

Businesses with operations in – or supply chains running through – Asia are likely to find growing opportunities in the region, even as the situation in the U.S. and Europe may become less open.

"Asia is home to 4.4 billion people, which is almost 60% of the world population," says Jane Drummond, Regional Head of Sales, Aon Risk Solutions. "This diverse population creates demand for basic essentials such as water, food, electricity, healthcare, infrastructure and connectivity. There is a growing middle class across Asia, especially in China, creating demand for an improved standard of living and quality products."

### **Discover more about the shifting trends in global trade:**

- Asia-Pacific Development: The U.S. Vs. China – The One Brief
- 4 Things Brexit Vote Could Mean For Business – The One Brief
- Brexit Briefing: The Cost of Trade Ambitions – The Financial Times
- Free Trade Takes A Beating In 2016 – USA Today
- How Big Business Copes With The Rise Of Protectionism – Australian Financial Review

### **Asia is Reshaping the World with New Multilateral Institutions**

China's renewed pursuit of growth means it is increasingly taking a leading role in the Asia-Pacific region. The G20 summit is an ideal showcase for the world's second largest economy to demonstrate its long-term vision. As such, one of the global trends bound to be on the G20's radar is the new wave of – mostly Asian-led – multilateral institutions.

Following the Second World War, the first wave saw the foundation of the United Nations, and the Bretton Woods institutions: the World Bank and International Monetary Fund. There have always been new multilateral institutions such as the G7 and the Basel Committee on Banking Supervision in 1975 and the Financial Action Task Force in 1989.

In recent years however, two trends have led to the development of a new wave of multilateral institutions.

The first is the fallout from multiple financial and economic crises. For example, the European debt crisis led to the creation of the European Stability Mechanism, the institution designed to issue debt to finance loans to help indebted euro area Member States.

The second is the rise of Asian-led institutions. As well as two sovereign international development banks, China founded the Asian Infrastructure Investment Bank in 2013, the New Development Bank, and thirteen regional funds. Asia needs \$8 trillion of infrastructure investment between 2015 and 2020 – much of which will fund electricity, roads, and telecommunications – and China's 'One Belt One Road' infrastructure project will drive a great deal of it.

For those in select industries, Asian infrastructure looks to be a lucrative source of demand in the coming years. "Most of the funding will go into power generation and infrastructure spending. In theory this should encourage employment and economic growth," says Drummond, "but only if these projects are developed and executed properly." Strategists will need to keep a close eye on the regulatory implications and approaches of emerging new multilateral institutions to ensure minimal disruption and maximum opportunity.

#### **Discover more about the rise of new multilateral institutions:**

- Urban Infrastructure: Keeping Economies And People Healthy – The One Brief
- Addressing The Political Challenges Of Asian Infrastructure – The One Brief
- Asia's New Normal: Making Multilateralism Work With Multipolarity – Global Policy Journal
- Asia's New Infrastructure Bank Is Out To Prove It's Not China's Pawn – Washington Post
- ASEAN And The European Union: From Strong Regional Integration To Closer External Links – Asia-Europe Institute, University of Malaya

#### **Sustainable Development and New Opportunities in Renewables**

One of the highest-profile issues on the G20 agenda is the formulation of an action plan for implementing the ambitious 2030 Agenda for Sustainable Development – seventeen distinct humanitarian goals on issues as diverse as global poverty, health, education, climate and battling inequality.

The Sustainable Development Goals – first agreed at the UN Sustainable Development Summit in September 2015 – are ambitious, but not more so than the Millennium Development Goals were in 2000.

The first goal is to end poverty by 2030. 700 million people still live on less than \$1.90 a day and struggle to access health care, education, water and sanitation – lifting them out of poverty would not only be a great humanitarian feat, but also greatly improve the growth potential of the world's poorest economies.

Another goal is to address climate change, including the implementation of the 2015 Paris Agreement to ensure that global warming stays "well below" 2 degrees celsius. This is part of an ambitious international goal to reduce global carbon emissions. One target is to raise \$100 billion every year by 2020 to help developing countries mitigate the effects of climate change.

"Climate change, resource scarcity, and energy efficiency among others – are more relevant than ever to business," says Greg Lowe, Global Head, Resilience and Sustainability, Aon. "Sustainability issues are risks that need to be managed – and innovation opportunities waiting to be harnessed." While there are likely to be significant regulatory changes that are likely to impact many businesses operating in G20 states as a result of this new emphasis on environmentally sustainable growth, this could also be a significant business opportunity. In 2015, global investment in renewable energy attracted \$286 billion, over double that attracted by fossil fuels. If the goals are met, demand for renewables and alternative, cleaner energy sources will only grow. "Risk has often been a driver for innovation," says Lowe, "with many of the world's great innovators simply wanting to improve daily life."

#### **Discover more about the rise of sustainable development:**

- Why Environmental Sustainability Is Becoming Big For Business – The One Brief
- A new sustainable development agenda – UN
- Climate Action – Why It Matters to Business – UN
- Putting in place sustainable development goals at the UN – South China Morning Post
- N. Adopts Ambitious Global Goals After Years of Negotiations – The New York Times

#### **Conclusion**

Business leaders, investors, and analysts will be watching what happens at Hangzhou in September to find out whether it will get easier or harder to trade across borders in the coming years, and whether new institutions and development plans will offer new opportunities in renewable energy, infrastructure, and traceable goods, particularly in the fast-growing Asian markets. They will also watch China's experiment in raising the profile of business input into the G20 via the B20 with interest. As global citizens, they will be looking for clues from the first China-hosted G20 for how China's rise will affect opportunities and trading conditions in the years and decades to come.

"The opportunity is significant," says Drummond: "Understanding the demographics, politics, market evolution – carefully measuring the risks – is critical to successful investment."

## **TALKING POINTS**

"The G20 Blueprint on Innovative Growth represents an ambitious agenda toward a new paradigm for growth based on knowledge and on new and cleaner technologies. Many countries have, since the global financial crisis of 2008/09, relied too heavily on monetary and fiscal easing." – Ueli Maurer, Finance Minister, Switzerland

"the G20 has a record of relative success in coordinating multilateral efforts, such as in its response to the 2008 global financial crisis. Moreover, the ingredients of successful development are very well known. They include constant technological improvement, which is critical for sustained growth and employment; a focus on maximizing human and physical capital; and infrastructure investments geared toward reducing transaction costs and increasing efficiency." – Justin Yifu Lin, former Chief Economist, World Bank, and Founding Director, China Center for Economic Research

"G20 members are taking actions to foster confidence and support growth. I welcome their determination to use all policy tools – monetary, fiscal and structural – individually and collectively to achieve strong, sustainable, balanced and inclusive growth. Structural reforms are particularly critical, as recent IMF work shows that well-designed structural reforms can lift both short- and long-term growth and make it more inclusive. Further trade liberalization is also crucial to bolster productivity and global growth, while taking steps to ensure the gains from trade are shared widely." – Christine Lagarde, Managing Director, International Monetary Fund

