Looking to Germany’s G20

Stemming protectionism and austerity

Phyllis Papadavid and Vicky Pryce* 8 September 2016

Key messages

• This week’s G20 summit forged the ‘Hangzhou consensus’: a package of policies and actions aimed at strong, sustainable, balanced and inclusive growth.

• Rising protectionism, global financial instability and an unwillingness to use fiscal flexibility to promote growth will continue to make for a difficult global economic outlook.

• During its leadership of the G20, Germany should prioritise promoting freer trade and more flexible fiscal policy, to support global growth and development.

Institutional and economic uncertainty rising

This week’s G20 summit forged the ‘Hangzhou consensus’: a package of policies and actions aimed at strong, sustainable, balanced and inclusive growth amid multiple downside risks.1 As Germany takes over the G20 presidency, it should prioritise promoting freer trade and more flexible fiscal policy, to support global growth and development. The time is opportune: as the euro area’s largest economy, it will lead the G20 at a time of pronounced regional economic uncertainty.

There is an eventful year ahead: this autumn alone will see Italy’s constitutional referendum and Greece’s debt renegotiations, which could spur renewed ‘Grexit’ concerns. Both come as the UK prepares to start negotiating its exit from the EU. Beyond this, 2017 will see the French presidential elections in May and Germany’s general election in September.

Global growth is now expected to stagnate in 2016 relative to 2015; and yet world trade is expected to drive a 2017 recovery, with a near 4% annual rise forecast by the IMF2 and 3.6% growth forecast by the WTO.3 However, forecasts often prove wrong. There is every reason to think that these will too, unless the G20 revives political impetus to reverse the recent increase in protectionism.

Reduce protectionism and financial instability

Low growth encourages protectionism. Equally, the goods facing trade restrictions have accounted for a large portion of the decline in world trade.4 Between October 2015 and May 2016, protectionist measures increased at the fastest pace since the 2008 financial crisis.5 The G20’s communiqué continued to state that the G20 will ‘resist all forms of protectionism’.6 And yet the WTO report on G20 trade restrictions finds that 70% of restrictive measures were instigated by G20 economies. The pronouncements of the US presidential candidates are not reassuring either.
It is not just protectionism on goods that is a problem. Deleveraging and risk aversion are limiting cross-border investment. Among other things, higher liquidity ratios in the Basel III regulatory framework have led, in part, to a ‘nationalism’ in banking: many global banks now focus more on their internal markets. Supply and demand for European bank loans continued to recover in June after protracted weakness from 2007 to mid-2014. But this seems to be mainly because of the European Central Bank’s expansionary monetary policy, including quantitative easing, which Germany’s policy-makers have endorsed only reluctantly.

Priorities for building inclusive growth

Freer trade and investment is good for global growth and development. Indications that the G20 aims to scale back protectionist measures and institute groundbreaking multilateral investment guidelines would help reverse the downturn in trade. Renewed political impetus behind trade facilitation, and using regional trade agreements to bolster the multilateral trading system, would also help. In this sense, the TTIP could be a key focus. Common rules covering 800 million EU and US consumers could, among other things, provide predictability for exporters and investors and boost trade, with the proviso that attention is paid to its distributional effects for developing economies. During the G20 there were also concerns, most notably by Japan, regarding the future functioning of Europe’s single market.

German policy-makers need to soften their long-standing preoccupation with fiscal austerity. Germany has traditionally been wary of supporting other countries’ fiscal flexibility and therefore cautious when backing measures to help with euro area growth that involve risk-sharing across the single market. Part of the reason behind this is the pain it endured through years of low growth during reunification. Despite pressure from the IMF, the European Commission and the OECD on countries with fiscal room to relax their spending to assist growth, Germany has done the opposite. Its current account surplus now amounts to some 7% of GDP. Its role as a ‘locomotive’ for Europe is thus questionable with its current stance. It is to be hoped that the realisation may be dawning that, without concerted and coordinated expansionary fiscal action, we may be stuck in a low-growth environment for a long time, unable to stem increasing protectionism.

* Guest co-author Vicky Pryce is a Board Member of the Centre for Economics and Business Research, former Joint Head of the UK Government Economic Service and co-author with Ross and Urwin of ‘It’s the Economy, Stupid’ (Biteback 2015)

1. [http://www.g20.org/English/Dynamic/201609/t20160906_3396.html](http://www.g20.org/English/Dynamic/201609/t20160906_3396.html)

ODI is the UK’s leading independent think tank on international development and humanitarian issues. Readers are encouraged to reproduce material from ODI Reports for their own publications, as long as they are not being sold commercially. As copyright holder, ODI requests due acknowledgement and a copy of the publication. For online use, we ask readers to link to the original resource on the ODI website. The views presented in this paper are those of the author(s) and do not necessarily represent the views of ODI.

© Overseas Development Institute 2016. This work is licensed under a Creative Commons Attribution-Non Commercial Licence (CC BY-NC 4.0).