Deutsches Institut für Entwicklungspolitik
German Development Institute
50 Years | 1964 – 2014

The G20 and infrastructure

By Peter Wolff,
German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE)

The Current Column
of 10 November 2014

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Bonn, 10 November 2014. When the G20 leaders meet next week in Brisbane, Australia, there are sure to be few issues that they will agree on. In view of the current geopolitical tensions and the difficult economic situation in which many of the G20 nations find themselves there is little enthusiasm for collective action that is not directly oriented towards the national requirements of the G20 members. The G20 appears to have lost the co-ordinating energy that it displayed with the effectively concerted policies employed to tackle the crisis of 2008-2010.

There will, however, be one subject upon which they can agree: infrastructure. The G20 is to announce a global infrastructure initiative, which has been under preparation by technocrats from the finance ministries and the World Bank for a number of years and is now ready for implementation. Infrastructure is primarily non-political, everyone needs it and no-one needs spend a great deal on the co-ordinated action. The principal introduction is to be a *Global Infrastructure Facility* (GIF), to be located at the World Bank. This will initially be bestowed with 200 million USD, but the capital is not the central issue. Key here is its co-ordinating function as a platform on which to bring together international banks, investors and, above all, the knowledge of how to plan and finance sustainable infrastructure investments in an effective and environmentally-friendly manner. Beyond this, agreement will also be reached on a number of financial market regulation reforms, which will enable the institutional investors – i.e. the insurance companies, pension funds as well as private and sovereign wealth funds with a total of 80 trillion USD – to invest in risk-carrying long-term infrastructure projects.

The initiative is significant for two reasons: firstly, something needs to be done to stimulate the global economy. Not only in Europe but also elsewhere, there is an urgent need to trigger demand through investment spending in order to promote growth. If the private sector does not provide sufficient investment, then the state needs to step into the breach.

Secondly, it is necessary to promote long-term global growth, for example via improvements to cross-border transport routes and digital networks. The long-term effects are consequently more important than the short-term boosting of demand: emerging countries in particular do not only require more concrete for roads, airports and new coal-fired and nuclear power plants, but rather intelligent mobility concepts, resource-saving water supplies, liveable mega cities and climate-friendly energy generation. All these require more than mere capital.

China and other emerging countries are initially focusing on more capital, which is increasingly also coming from the emerging nations, where for demographic reasons more savings are created than in the aging industrial societies. In China two new international infrastructure banks are being established: the *New Development Bank* (BRICS bank) in Shanghai and the *Asian Infrastructure Investment Bank* in Beijing, each equipped with an initial 50 billion USD of equity. With this move China is signalling its growing international commitment, but also its frustration with the fact that it still has to cede leadership roles in the multilateral financial institutions to the USA and Europeans.

If, then, infrastructure also involves politics and the balance of power, what role can the G20 play? It could remind itself of the joint declaration on *inclusive green growth* that it made at the Mexico G20 summit of 2012, in support of a global growth concept oriented towards social and environmental sustainability. If this is not to remain a mere non-binding statement of intent, then the G20 must make it clear prior to the key UN development and climate change conferences scheduled for next year that infrastructure for the 21st century means more than mobilising billions for roads and bridges.

There is a requirement for innovative infrastructure projects that can be realised via collective efforts, as dwindling natural resources render these just as relevant for the mega cities of Asia as they are for the rest of the world. Financing institutions are called for, but it is also important to agree on common rules and standards for private sector infrastructure investments and the financing banks. Knowledge of innovative concepts for mobility, urbanisation, energy, land use and water need to be regarded as a global good and consequently given multilateral support. This may take the form of assigning development banks, companies and think tanks with preparing the presentation of corresponding concepts at the next G20 summit in Turkey and subsequently deciding at the highest level how these can be implemented. It will be interesting to see how much of this will be mooted in the G20 closing statement this coming weekend.