

Interview with Amar Bhattacharya, Senior Fellow at the Global Economy and Development Program at the Brookings Institution



Quality of Infrastructure Will Be Enhanced with Better Globalization Under the G20

By Japan SPOTLIGHT

The needs of developing countries will have to be taken into account by the G20 nations not only for their own interests but also for global economic growth, as the major sources of world growth are now to be found in developing countries. Building infrastructure will be critical in meeting the basic needs for economic development in these countries. But infrastructure must also meet new demands such as those imposed by the environment, economic inclusiveness, digitalization and the aging of societies. Given the conditions of global governance at this moment, how can the G20 achieve this task of providing high-quality infrastructure around the world? Amar Bhattacharya, a senior fellow at the Brookings Institution, offered us his views.

(Interviewed on Feb. 15, 2019)

Introduction

JS: Could you please briefly introduce yourself, your academic background and your work at the Brookings Institution?

Bhattacharya: I am a senior fellow at the Global Economy and Development Program at the Brookings Institution. My field and main topics of research are global governance, development finance, climate, and sustainable infrastructure. I was previously director of the Group of 24, an intergovernmental group of developing country finance ministers and central bank governors, for seven years, and prior to that I was at the World Bank and served as senior advisor to the president of the bank on global governance.



Amar Bhattacharya

G20 also has a number of engagement groups. These are not official, but voluntary groups that are associated with both G20 countries and non-G20 participants. One of these is called the “B20” (B is for business), and the T20 comprising think-tanks (such as the Japan Economic Foundation) that organize around policy issues. Then there is a Women’s 20, a Youth 20, and many different engagement groups that all provide inputs and thoughts into the G20. In the T20 various task forces prepare policy papers which are provided as input, and not just limited to the current year’s agenda. We try to look to the future and identify issues that deserve attention, even if they are not on this year’s agenda. We are not bound by the political positions of our countries, and try to collaborate with people from all sets of

countries as the objective of the T20 is to foster understanding.

T20 Think-tanks

JS: Turning to global governance, could you explain about the T20 – the preparatory process for the G20 – and your assessment of it so far?

Bhattacharya: The work of the G20 is primarily done through what we call the finance ministers track – finance ministers and central bank governors – on economic and financial issues, and also under the “Sherpa track” which reports directly to world leaders. There are also ad hoc meetings among energy ministers or labor ministers. The

JS: Would the involvement of think-tanks be conducive to enriching and leading the discussions of the G20 towards more evidence-based and more theory-based outcomes?

Bhattacharya: This is particularly important now as we face challenges to multilateralism. There are also many global challenges that require collective global action and so the T20 can be objective and evidence-based, and suggest solutions to counter some of the negative effects of globalization and identify transitions that have to be managed. The T20 is a good place to have serious discussions

without politics being the mainstay.

Crucial Role of G20

JS: Looking at the world economy today, we see increasing weight on developing countries. To revitalize the global economy, it will be necessary to encourage the growth of developing countries. How do you see the role of the G20 in this regard?

Bhattacharya: Something like 70% of global growth comes from emerging markets and developing countries. They are the real engines of the global economy and will become even stronger. This is a positive development because in some advanced countries population growth is slowing and there is aging, so there is less investment. There is a disconnect between the pool of savings that a country like Japan has and the opportunities for investment and growth and other parts of the world especially in emerging markets and developing countries. From the perspective of growth, you need to be able to have these countries “in the tent” and to find better ways to support growth, through investments in infrastructure, for example. We are in a very interconnected world and instability can quickly spread across borders, so stability in emerging markets is very important. This means they have to be part of the system and the discussions around financial stability. The third aspect that is extremely important is the challenges to the global commons. Already, China’s greenhouse gas emissions are twice those of the United States – meaning you can’t tackle climate change without China or without India, so having these countries as part of the system is very important. Global challenges like oceans, climate change, biodiversity – all of these require working with the larger developing countries, and the G20 is the largest and most practical way of engaging with these emerging economies. The G20 provides a forum to come together in a pragmatic way to discuss these important issues.

JS: The G20 countries are not necessarily like-minded, and so presumably a process is required for achieving compromise in the consensus-making process?

Bhattacharya: Let me be somewhat provocative. I was Sherpa for the World Bank in its engagement with the G7 and G20 and have watched

both processes very closely. It was very popular to say that the G7 is like-minded, but today this is not true. There are differences between the G7 as there are in the G20 – fundamental differences. Political orientation in the G7 is similar in the sense they are mostly liberal democracies, but even in that aspect there is more and more tension, and even more so for policy issues where there are huge differences. There are some issues on which some G7 countries and some emerging markets are of one view and issues where other G7 and G20 countries are of another view.

For example, a big issue after the 2008 financial crisis was the approach on fiscal policy. After the crisis there was a huge fiscal stimulus led by the US and the United Kingdom, supported by emerging markets including China. The big fiscal stimulus came from Japan, the US and to a lesser extent from Europe. By 2009, several of the G7 countries did not want fiscal stimulus; Europe didn’t even want an expansionary monetary policy. Japan was pushing for both expansionary monetary policy and fiscal policy, the US was pushing for expansionary monetary and fiscal policy, while in Europe most countries were somewhat skeptical, and while many were supporting expansionary monetary policy (with the exception of Germany), on fiscal policy there was quite a lot of resistance from the UK, Germany and other countries. In the G20 countries it was not a question of the G20 vs G7 – we emerging markets were arguing for fiscal stimulus while European countries were not. Rather than thinking in terms of like-mindedness, one could say that the social capital in the G7 was such that it was possible to have good discussions and come up with common agreements. I would argue that we have reached the same level of social capital formation in the G20. There are differences but these have been in the G20 and the G7 – if you look at climate change, in the last two years it has been G6 minus one. In the G20 it was G19 minus one. The idea of like-mindedness – which I have heard over and over again – really doesn’t hold water in today’s world, and it is more the case that certain countries have commonalities and views, and the alliances are now shifting.

We live in world of variable geometry – people align on different issues depending on their positions. Surplus countries versus deficit countries, oil importers versus exporters, fiscal expansion countries versus anti-expansion countries, and so on. Views and interests are much more variable now, and so in the G20 we cannot identify a north-south divide as you might have expected.

If you look at the structures – G7, G20, BRICS – these are all variable geometry. There is more diversity among the BRICS than

there is in the G20; the BRICS are big countries with domestic-oriented agendas, but arguably they came together almost because they were excluded from the G7 despite being such important countries. Today, they have recognized that diversity is a good basis for dialogue, and for commonality of action. Whether it is the BRICS, the G7 or the G20, the main thing is to find common purpose, to commit to a better globalization, to aspire to support development in the poorest countries. As think-tanks, we need to bring the pressing global challenges to the attention of all these groups as well as provide ideas and suggestions for common solutions, and then hold countries to account.

Better Globalization

JS: We think of better globalization as the concept of pursuing consistency between globalization and domestic reform, including compensation for the possible losers in globalization. Would this be an accurate description?

Bhattacharya: When I was a student at Princeton, I met a professor named Kemal Derviş who wrote a book called *A Better Globalization* (2005). In that, he basically said that better globalization is first of all rooted in better governance. It must be truly multilateral and inclusive. The second pillar of better globalization is that it must take into account the interests of all, not just between countries but within countries. Globalization in the last 50 years has not done that, and in the US and Europe there are too many losers. Third, it must produce measurable outcomes, which is the evidence-based part. A lot of what we do is based on theory – trade is going to be good for all people, etc. – but we don't really evaluate whether it has produced those benefits, and what some of the true costs have been. Better globalization to me is rooted in better governance, inclusivity and measurable results, if we want the common person to support it.

Infrastructure Discussion in T20 Process

JS: You are a member of the infrastructure task force in the T20 process. Is enhancing global growth potential the main goal of infrastructure investment?

Bhattacharya: One way to look at infrastructure is that it makes all other forms of capital more productive. If you invest in infrastructure,

it increases the returns to other physical capital. It makes human capital more productive because of the access to education and health. It also makes social capital more productive, and natural capital productive. Infrastructure is a foundation not just for growth in the narrow sense, but for human development and environmental protection. It is particularly important now because the infrastructure of the past was not as sustainable as it could have been, in that it led to the destruction of a lot of natural capital such as ecosystems, biodiversity, etc. But it has also led to unsustainable additions of carbon. For example, 60% of carbon emissions come from the building and use of infrastructure. While infrastructure is critical for growth, if you have bad infrastructure it can leave you with bad debt, it does not produce good outcomes and it can destroy the environment. That is why Japan has been putting emphasis this year on quality infrastructure. Infrastructure investment must attain quality and sustainability if it is to produce positive outcomes and not leave a negative impact.

JS: As you already mentioned, under the G7/G20 process, quality of infrastructure has become a very important issue. Is it unusual for the G20 or G7 to highlight infrastructure?

Bhattacharya: There are two challenges in this respect: one is that we have huge needs for infrastructure in most countries. Even in the US we have huge needs for infrastructure, and we are not achieving those needs. On the other side, much of the infrastructure that we are building is not as good quality as it could be, so both of these challenges need to be addressed together. We have to be able to scale up investments, and ensure that the infrastructure investments are better than they were in the past. The good news is that actually today we have many more options to deliver on quality infrastructure because of technological improvements, and because of improvements in policies and institutions. We have launched a global partnership around quality and sustainable infrastructure and so the emphasis by Japan is very timely, and allows us to highlight what needs to be done and then to push on that agenda. There is now very good cooperation among the multilateral development banks, the OECD, the global infrastructure hub, and think-tanks – we are all working in defining this agenda. Before criticizing other nations such as China, each nation needs to look at itself and what it needs to do. American infrastructure is in many respects lacking in quality, so this is a worldwide challenge.

JS: Turning to the digital economy, with FinTech and the digitalization of financial services, would some infrastructure be necessary to achieve innovation and inclusiveness of economic growth?

Bhattacharya: The digitalization of the economy is raising many cross-cutting issues. At one level, it's the way in which we organize and it affects the future of work, because we are changing the nature of work. In the first wave of automation it was machines doing repetitive tasks and physical tasks, and the replacement in assembly lines by robots. Today we are in the second phase of machines replacing brains, and in some cases machines can do things better. An example of this is face recognition where machines have left humans far behind. The whole world of artificial intelligence (AI) and the digital economy has tremendous possibilities but also tremendous uncertainties. Because the changes are so fast, the G20 should remain very engaged in terms of both understanding the nature of the changes but also in terms of the rules of the game. Not just the G20, but also the United Nations; we are fast approaching a period of autonomous weaponry, which will open up all kinds of issues. Some of the reasons for pushing AI are very reasonable – in a country like Japan, machines might be able to provide a better quality of care for old people.

The digital economy is here to stay, and the challenge will be how to achieve the level of education and skills to be able to keep up with it. There are huge internal issues also. My country, India, is one of the leaders of the digital economy, but most people have no knowledge of it or access to it. We have the largest number of computer engineers, but also the largest number of people who are computer illiterate, so it can be inclusive and exclusive at the same time. These issues warrant tremendous attention, and it is why G20 countries are placing so much importance on the digital economy, both for the opportunities and the challenges it presents. We need to ensure the infrastructure to participate in the digital economy, and then to think about the application of the digital economy in various sectors, of which FinTech is only one example. In the case of FinTech, the digital economy is a disruptive source, but it also has many positive elements, such as improving access and reducing the cost of financial transactions. But it also poses challenges because it is taking finance out of its traditional domain. The most difficult challenge is to show that the digital economy does not really have major disruptions in terms of employment and inclusion in both advanced and developing countries.

JS: To achieve inclusiveness in the digital economy in particular, as there are aging populations all over the world, we need to avoid a digital divide. Perhaps education will be very important to achieve this goal. In that sense, infrastructure should include “software” for education.

Bhattacharya: Absolutely. When we think about infrastructure, we should not just think about physical infrastructure but also the softer aspects. In the digital realm, the educational aspect is essential. Everybody today in modern society needs to be digitally literate, and what I find very striking as someone from a poor country is the extent to which people become digitally savvy. There are farmers in India doing futures transactions on their cell phones, and people are able to use search algorithms. Younger people especially learn very quickly, but in an aging society many people are excluded from the digital world and will require a certain amount of education so that they can at least use computers. These are manageable sums, not huge amounts of money. If you can offer computer classes to people who are aging, you can even offer these online.

I don't think computers will replace movie script writers because there is too much creativity involved, but they will replace architects, for example. We will see a huge amount of changes, and these have to be monitored at the global and national levels, and responded to accordingly as there could be a major impact on jobs in the next 15-20 years.

JS: Big data could become one of the major infrastructures for developing countries to achieve robust economic growth. Currently, there do not seem to be any rules preventing the abusive use of data. There is a movement in certain nations to create new rules, and if national rules are created there may be a need for the international harmonization of these rules. Infrastructure discussion could be expanded to that kind of aspect of regulatory reform in the digital economy.

Bhattacharya: This debate is already underway, and will intensify. The big fight that is taking place is, does the data belong to the person who is generating the data? Does it belong to Google or is it my data? This discussion is currently happening in individual countries, and within the EU, but once there are some domestic laws in an individual

country then we can proceed to the next step – international harmonization of those laws.

Peer Pressure – Key to Better Globalization?

JS: In achieving such better globalization, international peer pressure will be very important. Exchanging information on infrastructure or regulations or educational issues will be very important in creating such pressure. Would you concur that the G20 would be a good starting point to create this kind of peer pressure?

Bhattacharya: In some cases it is important, but not only peer pressure, but also peer learning. Infrastructure is one of the more complex decision-making processes because we are building something for future generations that is decided by short-term policies and decision-making structures. Infrastructure produces positive and negative externalities which play out over the long term, and because of this, the financing of infrastructure is a big challenge. It makes decisions a very complex business, and we are trying hard to identify examples of best practice that we can learn from. Japan has a very good history of infrastructure, but some of the most recent innovations for management and digitalization are happening in the UK. In spatial planning, one of the leaders happens to be Spain – so we can all learn from each other, and it is one of our objectives to accelerate this process.

On another front, we need to use benchmarking as a way to ensure the quality of investments. I have no problem with the Belt and Road Initiative, but I want to be sure that the investments are of high quality. We need to be transparent about the investments we are making and to be able to assess value for money. China is making investments in Africa, and the US is making a lot of private-sector power projects; I don't know what the value for money of those projects is, I just know that the cost of delivered power is way too high, whether it is from the US or Chinese projects. When it comes to peer pressure, it has to be evidenced-based and benchmarked.

We are embarking on a project to try and understand the results of investment in Africa's energy. China has done major hydro power projects – what did they cost, what is the delivered cost of power? Peer pressure is part of it but it must be based on transparency and benchmarks, otherwise you are in the world of perception.

Achieving Better Financing for Infrastructure

JS: Financing is very important for infrastructure projects. What do you think would be the possible compromises among different financing institutions?

Bhattacharya: When it comes to financing for infrastructure, the major impediment is not finance but the funding of infrastructure. Where will the revenues for the project come from? Will it come from user charges, or government revenue? Will it come from spillover taxes?

Because infrastructure is very long-term, we need finance to be able to take these high upfront capital costs and have them paid over a long period of time. In emerging markets and developing countries, risks are quite high, especially early-stage risk, so we are looking to institutions to be arbiters and to do the risk mitigation. There is no competition between the Asian Development Bank and World Bank or the Asian Infrastructure Investment Bank – the scale of the financing needed is so large that we need all of these institutions and more. In fact, we don't need them only for finance, but also for the policy and institutional side, for scaling up projects and country platforms for project preparation. Suppose Indonesia wants an energy program for the next 10 years and wants much more money coming from the private sector – you could create a platform that asks the Indonesian government to specify its investment program, to set out standardization of documentation for international and domestic institutions. Then the multilateral development banks should support this not one by one, but as a system. We are now discussing this idea of country platforms in the G20 for these country platforms to scale up infrastructure and ensure that it is good quality.

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Written with the cooperation of Joel Challender, who is a translator, interpreter, researcher and writer specializing in Japanese disaster preparedness.