

Interview with Gabriela Ramos, OECD Chief of staff & Sherpa to the G20

The OECD — the Global “Do Tank” & Its Role in the G20 & G7

By Japan SPOTLIGHT

In a globalized world where there is increasing interdependence among nations' economic policies and multiple spillover effects, the role of international organizations and the global governance they support is crucial to keep the global economy on the right track through collective action and policy coordination. The G7 and the G20 are now apparently key fora for such global governance. In order to lead nations in the right direction, the G20 and the G7 need facts and evidence-based analysis. The Organisation for Economic Cooperation and Development (OECD), a global think and do tank, with high-quality expertise in economic, social and environmental policies, is one of the key players providing such analysis to enhance the quality of global governance. *Japan SPOTLIGHT* held an interview with Gabriela Ramos, OECD chief of staff and sherpa to the G20.

Role of the OECD's Sherpa to the G20

JS: How do you see the G20's relationship with the OECD and G7 at present?

Ramos: The OECD has become a very valued partner for the global governance groups. We were invited first to the G20 by President Barack Obama to participate in the Pittsburgh summit, an invitation not only to the secretary general to join the leaders' group but also to appoint a sherpa and help the preparation of the summit. I think this is one of the smartest innovations of the G20 that the G7 had in some ways, but not as an integral part. Leaders at the G20 decided to keep the G20 informal, and to be flexible on the topics they want to address. To support them, they rely on international organizations, their evidence and work, and this is a very interesting institutional innovation. They draw on the expertise of the OECD, the World Bank or the IMF to inform the related discussions and put evidence on the table. And because the OECD is a multi-disciplinary organization dealing with all policy areas, but also developing standards, with a broader mandate than the WTO or the ILO — on trade, investment, taxes, gender, social issues, anti-corruption and so on — it has given us a lot of space to contribute to the debate.

In terms of the G7, when the G20 emerged as the global forum for international economic cooperation, I remember that all the headlines were saying that the G7 was dead. I thought of course they



Gabriela Ramos, OECD Chief of staff & Sherpa to the G20

were exaggerating, because things do not die just because we declare it so; they die if they are no longer useful, and the G7 is still a very relevant group. It gathers together countries with advanced economies that are probably closer in terms of their mindset, and has proven in the recent years that it can raise the bar of ambition on certain topics. It happened for example with the anti-corruption issues in the UK summit, or the responsible business conduct agenda in Germany, and the previous summit in Japan was very useful in pushing implementation on the tax agenda. There is a role to be played by the G7 in setting the ambition high and leading by example.

Assessment of Recent G20 in Hangzhou

JS: How do you assess the recent outcomes of the G20, particularly the Hangzhou summit in September?

Ramos: Initially the G20 was very good in terms of putting together a very strong stimulus package to avoid the worst from the crisis, but eight years later it is finding it very difficult to steer a more complex economy and achieve better outcomes. We are in a “low growth trap environment” as our chief economist has put it, where global trade is behind GDP growth and investment is low, as well as demand. We are also documenting a retrenchment of global value chains for the first time in decades. We also have concerns about the

distortionary impact of low interest rates, particularly in bonds and yields and asset and housing prices, which is creating a great challenge to the sustainability of the pension systems. Finally, we also know that inequality of income and of opportunities is very high, and there is an emergence of protectionism and populism. This sense of vulnerability that people are experiencing with no prospect of better economic performance at hand is really creating a lack of trust in institutions, leaders, and processes. “Brexit” was just one proof of this lack of trust, and so was the recent referendum in Colombia.

So the context is complicated. In the last G20 summit, many leaders made reference to the fact that people feel vulnerable and they have fear: fear of the future, fear that their children will not be better off, fear that economic policy is not working. These require a stronger move by leaders to give answers. And in that sense, the G20 summit in China delivered on many dossiers, by trying to develop a strong agenda to boost growth. Particularly important was the emphasis on innovation, and to move G20 countries into a more structural agenda leveraging the benefits of the digital economy. Indeed, the main outcome of the summit, the blueprint for innovative growth, puts the emphasis on how economies can better prepare themselves to take advantage of the digital revolution, of the new production revolution, and of the innovative capacities of our economies — how to invest in those areas, upskill people to take advantage of it, upgrade the frameworks that we have to incentivize more take-up of digital by small and medium-sized enterprises; how to make sure that the digital economy is not creating just another divide between the “haves” and the “have nots”. It is emblematic that just today we are having the last ministerial meeting of China’s G20 presidency, which is dedicated exactly to these science and technology issues. And during the German presidency, we will continue working on this topic, because this is a very promising area where all the G20 countries have a stake in its future. The most advanced economies like Japan are at the leading edge in many technological innovations, but need to continue to expand their use; some of the rest of the membership may need to improve their infrastructure, improve access to broadband, or improve skills for the transformation of the economy. This is also an area where collective action is needed at the international level.

Another point is that the Chinese brought together the trade and investment agenda. We have been discussing these as separate issues but they are linked in the world economy. This time emphasis was put on looking at the two together, and also strengthening the will of countries to avoid protectionist measures. Continued weak trade growth, and the sharp slowdown in recent years, poses serious concerns, because trade has been a major engine for growth. We are very pleased to see that the agreement between the European Union and Canada was approved; that is a boost to confidence and to the frameworks. But we need to make them work for all. We have been

Photo: Ministry of Foreign Affairs of Japan



G20 summit held in Hangzhou, China, on Sept. 4-5, 2016

documenting protectionism pressures along with UNCTAD and the WTO, and the outlook is not great. Incidentally, we received this mandate even before we were seated at the G20 table thanks to the strong support of Yoichi Otabe, Japanese ambassador to the Permanent Mission of Japan to the United Nations and Other International Organizations in Geneva and a former G20 sherpa, who pushed very hard to get the OECD into helping with this monitoring. So this is something that the Chinese and the G20 framed in a useful way. One interesting outcome was the trade growth strategy, which looks at bottlenecks to increasing trade; this can include the trade facilitation agenda which countries still need to implement, or the opening of more markets, or the implementation of major trade agreements like the TTIP.

The tax agenda also continues to be very successful, while the anti-corruption agenda also yielded some interesting outcomes. President Obama once said the tax agenda of the G20 might not be capturing headlines all the time, or be understood by everyone in the world, but it is the G20 at its best. Why? Because you identify the rules or ways of operating that are not working, and you fix them. That is where the G20 is an incredible group, full of power, especially with the support of very well respected institutions like the OECD. The request to establish a global forum on steel over-capacity facilitated by the OECD was one outcome of the Chinese presidency that confirms this. This is a very difficult issue: steel industries are suffering from distortions in the market and over-capacity in parts of the world, and we need to be able to sit together and discuss these issues and to try to influence policies taken by certain G20 members that affect the rest of them. So all in all, very interesting outcomes in a difficult context; I think the focus should now be on implementation to make them count. There were also many other outcomes on employment (and employability) and in the development agenda, where SDG implementation took stage, and the commitment with Africa. Finally, the Chinese G20 took a leadership role on climate change issues that was helpful for the achievement of the Paris Agreement.

Photo: Ministry of Foreign Affairs of Japan



G7 Ise-Shima Summit in Japan on May 26-27, 2016

JS: The G20 meeting in China appeared to highlight a move towards more active fiscal policy, and away from monetary policy. Do you think that is a positive movement for helping the volatile world economy?

Ramos: Monetary policy has been playing a very important role in keeping the economy going, but again, it is creating risks that we need to take into account. The major message that has come from the G20 and the work of the OECD is that we need to rebalance the policy mix. One of the good outcomes of the summit is that some economies in the G20 are now moving away from the austerity principle. They are now considering how they can also use fiscal tools to re-ignite growth, and to try to influence global demand, one of the weakest parts of the economic chain. Global demand and global investment are very low, and therefore the thinking is about how we move to fiscal expansionary measures that might channel resources to investment, and impact the future output growth of our economies. At the OECD we will prove that, in the current context, and after several years of fiscal consolidation in many G20 countries, now is the moment to go “fiscal”. Putting the emphasis on infrastructure to boost growth is also the right approach that the G20 has taken, and this is not only in terms of roads and ports and connectivity, but also in the infrastructure of the digital world such as broadband access, skills, or the social safety nets that are so important.

But this also needs to be coupled with structural reforms. The OECD has been advising a trilogy of tools for some years: the monetary, which is now overburdened; the fiscal, which is very important in terms of advancing and promoting additional stimulus; but also the structural reform, for advancing the potential output of our economies to grow further. But even then it is not only about which tools, and how, and when. It is doing it collectively, together, with coherence among G20 members, that is going to bring a higher

degree of confidence and effectiveness. If some countries move one way and others move in another way it is not going to work. The OECD produced an analysis calculating that governments could undertake a half percentage point of GDP fiscal spending initiative for three to four years, which would boost growth in most large advanced economies by about 0.5% in the first year and significantly lift business investment, but the interesting point is that if all the countries go for this together in a coordinated way it would not raise debt-to-GDP ratios in the medium term — which is amazing, because in this current context of low or zero real interest rates, you will be gaining through the growth path, and then of course through the tax receipts, and then with the low interest rates debt would remain at a manageable level.

Now, of course, there are countries that cannot go expansionary, and Japan is one of them where public debt is projected to reach nearly 240% of GDP by 2018. The goal for Japan is to have a credible fiscal consolidation plan. But there are many other countries in the G20 that really need to move to a more balanced agenda, while Japan also has the same element to consider in terms of advancing on structural reform.

Role of OECD in World Undergoing Structural Reform

JS: Now that international economic policy discussion is moving from demand-side policies to supply-side policies, given that the latter are basically domestic policies, “peer pressure” would perhaps be very important. Could the OECD be expected to play a crucial role in that context?

Ramos: I do not think we are moving from demand-side to supply-side policies; both need to be brought together in a very different policy mix depending on the countries we are talking about. Demand is actually one of the flagging elements in the world economy. Probably the only policy area in which all countries need to advance is structural reform. The “Going for Growth” publication we produce every year tells us that countries are lagging behind on this part. But demand is weak, so we cannot move away from boosting demand and investment, and of course the supply side is important. But we need to get away from traditional economics and “think out of the box”. At the OECD, we have launched the “New Approaches to Economic Challenges” (NAEC), which I am also steering and helped to establish, to try to use the best understanding of economics, and define best policy options. And we claim that the issues should be addressed in an innovative way. For example, productivity growth is slowing down in advanced economies, and also in emerging economies from a lower base. If we couple that with the inequality story, we need to think in different ways about how to address the

productivity slowdown, which is not only about being more efficient, or producing more with less, or trying to introduce technological progress in certain parts of the economy. This is part of the story, but the fact is that you have 40% of populations in the OECD countries that have been left behind, both in terms of income inequality but also inequality of opportunities, because when you belong to a low-income group, your opportunities to have good education, good health or good jobs are lower. This is an economic agenda, because you are wasting the talent of the people, of the small and medium-sized enterprises, and the talent of regions to be more productive. That is why at the last ministerial meeting the OECD launched the “Productivity-Inclusiveness Nexus”, and a call to address the inequality and productivity stories together to produce better outcomes.

This is exactly what we are bringing to the table of the G20: ways to address the issues that are not traditional or standard. The challenges we are facing require new and intelligent approaches. We are an evidence-based organization, but we also recognize that all of us — countries, institutions, universities — have not done well in really understanding how the globally interconnected world operates. The complexity, the volatility, the uncertainty is part of the equation now, and we need to get used to it: nothing is certain, everything is moving, the world economy is complex. Therefore by trying to be evidence-based, and leveraging the work we have been doing in the NAEC, by using complexity systems thinking, behavioral thinking, sociology, history, and many other sciences, we might produce better answers.

But we also have the mechanisms to monitor and peer review, which are important. We are particularly proud that some institutions like Transparency International, an international NGO leading the fight against corruption, have always said that the OECD is the gold standard for international organizations in the anticorruption area, because we do not only get into certain policy discussions but also have monitoring systems and a peer-review process. The G20 has also borrowed that and asked the OECD to monitor outcomes, such as how well countries were delivering on the 2% growth rate Brisbane commitment, or the gender target, which is a very promising avenue for Japan. They have asked us to deliver systems such as the Global Forum on Tax Transparency, but also to create the IT systems to exchange information for tax purposes.

So what is very interesting is that the G20 has this mindset of not only producing good communiqués or good messages, but of ensuring that the infrastructure is in place, relying on institutions like the OECD to follow up and deliver. This is why they have also asked us to address the steel over-capacity issue, because they know that we will produce the best evidence and be objective, but also that we have this framework by which countries commit to exchange information, gather evidence, take decisions and follow up.

G-Zero World or G20 World

JS: Finally, what do you think about the idea of the “G-Zero” world described in a book by Ian Bremmer, in which no single country or bloc has the political or economic leverage, or the will, to drive a truly international agenda?

Ramos: I do not believe in a G-Zero world. I believe in a G20 world. I really think the G20 has the leverage to deliver on major economic agendas. It comprises 85% of the global economy, and has shown that if it acts collectively it can really arrive at very difficult but successful agreements in many areas, as it did on the tax agreements, on gender and on innovation. Around the table at a G20 summit you have the key to addressing the major concerns of the world: to solve the climate issue; to ensure that the Sustainable Development Goals are delivered; to boost the global economy and address the issues of inequality.

And this is not only about what happens in terms of the communiqués or the very important work of the sherpas. What is more important is that leaders come together there and create a deadline by which they need to deliver to the people and the world. You can see that for example in China’s move from being a country not convinced about having to do something on climate change to being the first presidency to issue a statement at the sherpas, encouraging everybody to agree and deliver on the climate agreement. It is a huge, huge change, but one that was possible because of the G20. The kind of interactions, understanding and dynamics of this leaders’ group is very promising. And that is why we need to take a hard look at what they agree, and then be merciless in terms of pushing them on the implementation. There I think we can really count on this amazing group to improve the state of the world, and of course they too can always count on the OECD to help them advance.

So no G-Zero world; rather a G20 world where every single presidency advances important agendas and solutions, and connects with what people are feeling. As I said at the beginning, the fact that leaders recognize that people have fear, and that the future looks uncertain and worrisome, gives them more energy to tackle the issues and to produce the solutions we need. **JS**

Written with the cooperation of Chaobang Ai, a Tokyo-based editor and blogger.