



Buenos Aires Brings Some Refreshing Air

December 2018

Findings from the G20 Summit

In our view, the G20 Summit in Buenos Aires ended on Saturday without major drama and with some good news.

After the divisive summits of the G7 in June and of last year's G20 in Hamburg, the Buenos Aires gathering was held under a more constructive tone in global economic cooperation. A final declaration was unanimously adopted.

Trade - US/China

Most attention, particularly by markets, was focused on a sideline event: the highly-anticipated dinner between the Chinese and US leaders, where trade was the most pressing issue on the agenda. From what we understand, the two parties have agreed on a 90-day period in which:

- The US will refrain from the planned rise of tariffs from 10% to 25% on US\$200bn of Chinese imports;
- China will increase US imports, including industrial, energy and agricultural products; and
- China will reconsider the Qualcomm-NXP deal, for which the Chinese anti-trust authorisation had been denied due to the trade war between the two countries.¹

In these 90 days, we believe the US and China will sit down to make progress and possibly reach a more comprehensive trade agreement, which should include intellectual property and cybersecurity.

In market terms, in our view, this is good news given the drag which higher tariffs would have had on the world economy. It is only an intermediate step. Many see this dispute as part of a secular rivalry between the two largest economies, which is likely to stay with us for decades to come, and in which trade is only the most visible part.

However, in our view, everything which is done to de-escalate confrontation is positive, and the Buenos Aires dinner has made good inroads in that direction.

1. <https://www.ft.com/content/812104b6-f5b3-11e8-af46-2022a0b02a6c>



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Fabrizio joined Muzinich in June 2018. Prior to that he was in the public sector where he has held a number of roles including most recently Head of the Office of Italy's Minister of Finance, responsible for developing policies targeting macroeconomics, tax, finance and banking. Before that he served as G20 Sherpa and Senior Economic Counsellor to the Italian prime minister. Previously, during his time at the OECD in Paris, he also held the role of Chief of the Sherpa Office and Special Counsellor to the Secretary General in Paris, responsible for coordinating the OECD's contributions to the G20 and G8 during and after the financial crisis. He holds a degree in International Affairs from the Scuola S. Anna in Pisa and a Masters in International and European Law from the European University Institute.

More on Trade

The gathering in Buenos Aires was the occasion for signing the so-called “New Nafta” or “USMCA” (US-Mexico-Canada Agreement).² The reaching of this agreement and its signature by Trump, in a well-publicised press moment, has been positively flagged by many observers as the ability of the US administration to take a pragmatic approach on trade. An approach, in our view, which markets would like to see replicated with other key trading partners, starting with the EU and China.

On the multilateral aspects of trade, the G20 found a constructive, and somehow unexpected, unanimity in supporting “the necessary reform of the World Trade Organisation (WTO) to improve its functioning”.³

We believe this is an important step towards the reform of the WTO, the framework of which should be agreed upon at the next G20 Summit to be held under a Japanese Presidency in June 2019.

The traditional, well-established language on the need for a collective fight against protectionism was removed during the negotiations of the text.

Global Economy

In our opinion, the G20 has given a positive signal. World leaders still believe in the current strong global economic growth, although it is less synchronized globally. However, in meetings between Finance Ministers, the Organisation for Economic and Cooperation and Development (OECD) and International Monetary Fund (IMF) senior officials, the discussion has focused on the level of global debt - private, public and in emerging markets - which is seen as a growing vulnerability.

This discussion resonates with the Financial Stability Report published by the US Federal Reserve on 28th November, which underlines that borrowing by US businesses is at historic highs.⁴

With reference to high-debt sovereigns, particularly in the eurozone countries, the G20 recommends a fiscal policy which rebuilds buffers to ensure public debt is on a sustainable path.⁵

Climate Change

The Summit’s outcome on climate change is not likely to move markets, but is potentially relevant over the medium term for Environmental, Social and Governance (ESG) strategies.

All G20 countries reiterated their commitment to climate change “adaptation strategies” and “noted” the recent IPCC Special Report on the Impacts of Global Warming of 1.5 degrees centigrade. The reference to this text was not a given, due to its policy implications.⁶

With the exception of the US, the other G20 countries reaffirmed “that the Paris Agreement is irreversible” and committed to its full implementation. While the United States reiterated “its decision to withdraw from the Paris Agreement” and affirmed “its strong commitment to economic growth and energy access and security, utilizing all energy sources and technologies, while protecting the environment”.⁷

Financial System

The G20 financial reform agenda is probably a less pressing matter than it was when it was launched 10 years ago during the aftermath of the financial crisis. Much has been achieved in the areas of banking regulation, market infrastructure and anti-money laundering, in our opinion. Today, the agenda continues through the working groups of the G20 Finance Track with assistance from the various international organizations involved.

The G20 is devoting increasing attention to small-to-medium-sized-enterprise (SME) financing, and also in Buenos Aires the leaders stressed the need for achieving resilient non-bank financial intermediation.⁸ We believe this is an element that is important for the further development of private debt tools and strategies.

Other Global Issues

Other topics related to global issues were also addressed in Buenos Aires, particularly on jobs, taxation, energy, infrastructure, food security and development. These are more long-term workstreams, some of which address secular trends. For example, the Argentinian Presidency focused on the impact of technology, particularly robotics and Artificial Intelligence, on jobs and society, something potentially very disruptive for the idea of labour itself.⁹

Finally, the Argentina G20 bought up a new topic: the integrity of State-Owned Enterprises (SOEs), which constitutes an interesting opening from emerging countries who have so far been reluctant to cooperate on this type of issue.¹⁰

From a personal perspective, I have participated, on behalf of the OECD and as Italy’s Sherpa, in many G20 Summits, including those at the heart of the financial crisis. My view is that the Buenos Aires summit has been a good one. Given the circumstances.

2. <https://www.ft.com/content/e84a6ec2-f4a3-11e8-ae55-df4bf40f9d0d>

3. https://g20.org/sites/default/files/buenos_aires_leaders_declaration.pdf

4. <https://www.federalreserve.gov/publications/files/financial-stability-report-201811.pdf>

5. https://g20.org/sites/default/files/buenos_aires_leaders_declaration.pdf

6. Ibid.

7. Ibid.

8. Ibid.

9. Ibid.

10. Ibid.

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