Building a Bridge to Nowhere: Why the G20 have got it wrong on infrastructure

TOM WYMER

The University of Sheffield

Executive Summary

As underinvestment in infrastructure continues and the threat of climate change becomes increasingly pressing, the 2018 G20 summit correctly identified infrastructure investment as an issue that required its focus. However, its proposals to encourage private investment – through the development of infrastructure as an asset class – fall into the same trap as previous G20 summits. Indeed, this policy brief argues that the G20 member states should have used this summit as an opportunity to take action to promote state investment.

Background

It is widely recognised by policymakers that infrastructure is core to the success of any economy. Whether it is President Trump, the International Financial Institutions, or the leaders of the rapidly emerging BRICs (Brazil, Russia, India and China), everyone can agree that infrastructure investment is essential. In spite of this, underinvestment has been a persistent and serious problem afflicting the global economy. Indeed, research by McKinsey and Company shows that an extra US$3.7 trillion of investment is required every year between now and 2035 to meet the world's infrastructure needs.

Addressing this investment gap and ensuring the building of quality Infrastructure can help to unlock the potential of low-income economies and transform the lives of those living there. For example, a report by the World Bank explores what impact an extensive programme of infrastructure investment could have on sub-Saharan Africa. It finds that the density of roads and rail in the region have declined over the last 20 years, while only 35 per cent of the population have access to electricity and 23 per cent do not have access to safe drinking water. As well as improving health, well-being and productivity, solving these infrastructure problems could lead to GDP per capita growth being as much as 2.6 per cent higher per year.

However, while the infrastructure gap in Africa and other lower-income regions is enormous, it would be wrong to characterise this as simply being an issue for the Global South. That is especially true when it comes to climate change mitigation. Indeed, the recent Special Report by the Intergovernmental Panel on Climate Change (IPCC) highlights the need for "rapid and far-reaching transitions" to our energy systems, transport systems and buildings if we are to limit global temperature rises to within 1.5°C of pre-industrial levels. As a result, low-income economies will need to ensure that any new infrastructure is environmentally sustainable, as well as investing in measures to adapt to some of the inevitable impacts of climate change. However, those with higher incomes contribute a disproportionate amount towards the world's carbon emissions, meaning that the transition towards environmentally sustainable infrastructure is most pressing in these nations.

Infrastructure at the G20

In light of this, it is pleasing that infrastructure investment has consistently featured on the G20's agenda since its inception as a leaders' summit in 2008. In particular, the Seoul and Brisbane Summits of 2010 and 2014 were notable for their ambitious plans on the issue.

As part of its Multi-Year Action Plan on Development, the Seoul Summit set various actions to be taken on infrastructure. These included requesting that the World Bank and regional development banks improve the investment climate, transparency and sustainability, as well as the establishment of a High-Level Panel for Infrastructure Investment with a remit to review existing infrastructure policy and make recommendations to the 2011 G20 Summit in France. However, the 2011 and 2012 summits in France and Mexico provided little substantive follow up to the progress made in Seoul.

The issue of infrastructure again featured prominently at the Brisbane Summit in 2014, as part of its aim to lift growth in the global economy by 2 per cent by 2018. A Global Infrastructure Initiative was agreed, which included measures to improve knowledge-sharing, the development of a database on infrastructure projects, and the establishment of a Global Infrastructure Hub to implement the measures agreed.

It is therefore clear that the G20 realises the importance of infrastructure policy and see it as something that requires attention. However, its past work on this issue has been problematic. Perhaps with the exception of Seoul, the G20 has been overly focussed on the private sector, ignoring the real problem of mobilising state investment in infrastructure. While there have often been passing mentions of the public sector, the G20 members have been reluctant to make real funding commitments or take the action necessary to ease the fiscal position of lower income countries. Instead, they have consistently tasked the World Bank and multilateral development banks with making recommendations to improve the investment environment for the private sector, primarily through deregulation or public-private partnerships where the state takes on the risk. The role of state investment has thus been something of a sideshow.

This can be seen as part of the wider anti-statist, pro-market and neoliberal doctrine that has come to dominate the G20. As Tony Payne argues, there were fleeting signs of a Keynesian resurgence in the global economy and at G20 summits following the 2008 financial crisis, but from the June 2010 Toronto Summit onwards "the neoliberal old guard, in both Europe and the United States, began to strike back". On infrastructure policy, this has manifested itself in the form of a rejection of the state and a belief in the power of the private sector to provide infrastructure projects.

So why is this unwillingness to support the public sector so problematic? The most important reason is that projects are often not commercially viable for the private sector because of the high risk and low returns. Indeed, vital infrastructure – such as sewage networks, electricity grids and roads – are incredibly timely, costly and often unprofitable to build. Furthermore, developing countries – where infrastructure investment is most needed – are likely to be riskier and less attractive destinations for private investment, meaning they do not get the funding they need. As a result, infrastructure is often a public good where the societal benefits are high, but the monetary return is low. Therefore, where the private sector is unable, unwilling or ineffective at providing the funds for infrastructure projects then states must step in. The G20 can and should play a central role in supporting this.

Buenos Aires 2018

In 2018, the rejection of the state was perhaps even clearer than at previous summits. The communique reaffirmed the G20's "commitment to attract more private capital to infrastructure investment" and endorsed the Finance Track's Roadmap to Infrastructure as an Asset Class. The aim of the Roadmap is to establish better conditions for private infrastructure investment. It includes some relatively uncontroversial initiatives, such as establishing standardised contracts and documentation for infrastructure projects. However, it also details measures to encourage the private sector by reducing the risk to investors. In reality this means that the risk would simply be reallocated from the private sector to the state and, as a result, when infrastructure projects are unprofitable, as they often are, the state will be forced to bail them out. One of the main benefits of private investment is supposed to be that the cost to the state is minimal, but that would not be the case with these proposals.

Furthermore, the Roadmap also seeks to reduce the regulation of infrastructure investments and projects. This raises questions about whether these proposals can be reconciled with the G20's commitments on climate change, as well as the need to promote high quality infrastructure. Indeed, it appears that in an attempt to catalyse private investment the G20's proposals sacrifice quality and environmental sustainability.

Fundamentally though, the plans announced at the 2018 G20 fail to recognise that, no matter what measures are taken, vast swaths of infrastructure projects will always be unattractive investment opportunities for the private sector.

Conclusion

The Buenos Aires G20 therefore represents a missed opportunity on infrastructure, overlooking the real issue of increasing public investment. The G20 could have taken the global action needed to close the tax loopholes that deprive governments of the revenues they need; they could have written off the debt of low income countries to provide them with the fiscal capacity for extensive programmes of investment; and, perhaps most importantly, they could have made a commitment to fund the US$100 billion of annual climate finance pledged in the 2015 Paris Agreement. Yet they did not. Instead, we were given some misguided proposals that will do little to close the investment gap or support the building of environmentally sustainable infrastructure. Maybe this was largely inevitable: in spite of the 2008 financial crisis neoliberal ideas remain dominant, while President Macri's ideological outlook always meant he was likely to chair the summit from a pro-private finance perspective.

However, there is reason to suggest that the ground may be shifting. Payne argues that the neoliberalism that has dominated the global economy since the 1980s is being challenged, in part by the rising economic power of the BRICs and the impending planetary crisis presented by climate change. The G20 will be no exception in facing the impact of these changes. In 2000, emerging economies made up just 25 per cent of the G20's collective GDP. However, within a few years, they will have a greater share than their developed counterparts. The growing political power of the BRICs and the other emerging economies could lead to an intellectual shift away from the pro-market, neoliberal model of the US and, to a lesser extent, Europe, towards the more statist model advocated by the likes of Brazil and China. Meanwhile, as the leaders of the world finally wake up to the scale of the threat posed by climate change, they will increasingly recognise the need to use the full power of the state to transform their economies, particularly by creating environmentally sustainable infrastructure. Indeed, as Meadowcroft argues, the financial and organisational resources of states means that they will be "central to any serious attempt to come to terms with environmental pressures".

Overall, the 2018 G20 failed to develop a "fair and sustainable" set of proposals on infrastructure policy. More so than ever before their approach ignored the action needed to catalyse state investment in infrastructure. However, the emerging trends of the contemporary global economy are likely to lead to a greater role for the state in the future, not least on the issue of infrastructure.

***Tom Wymer** is a final-year BA Politics student at the University of Sheffield.*