

## **A world economy in desperate need of innovation and invigoration - the G20 leaders turn to entrepreneurs**

Rishabh Kumar

*Department of Economics, University of Sheffield*

*International Media Centre – G20 Hangzhou Summit* – After some difficulty to reach agreement on the final communiqué, the 2016 Group of Twenty (G20) Summit ended on 5<sup>th</sup> of September. As part of this delay, the final communiqué was officially released a day after the summit and made a number of substantial promises, such as advancing monetary and fiscal coordination as well as calls for structural reforms. One stark differentiation of this summit was the need to find new and innovative growth strategies. There are many reasons for the urgency to establish more positive growth models especially with the rise of protectionism, volatility involved with Brexit, and the still volatile markets, reflected in the [crash](#) of Chinese stock market in early 2016. Amid these difficulties, the leaders were looking for a

strategy that would bolster growth, but would also be politically feasible given current international relations. The leaders, hence, turned towards entrepreneurs.

Global economic growth has been sluggish for almost a decade. It is telling of a need for reform, since the global financial crisis occurred eight years ago and yet there has not been a full recovery. Global growth rates are yet to touch the pre-crisis levels, whilst the [IMF](#) has recently dropped the world growth forecast from 3.4% to 3.1%. Furthermore, decline in the growth rate of economic heavyweights like China and other developed Western countries has furthered pessimistic growth forecasts. Many global institutions are warning world leaders that they need to kick-start economic growth as soon possible. Just

before the 2016 G20 Leaders' Summit, the [IMF's](#) Christine Lagarde said: 'global growth has been too low, for too long and has benefitted too few', implying a need for radical and forceful government intervention.

The situation is compounded by the fact that investments are not growing rapidly (and have not reached [pre-crisis levels](#)) despite record [low-interest rates](#). The main reason for this is the lack of profitable investment opportunities to invest in. This is certainly a challenge for global leaders, but also an opportunity for them to lead by creating better policies that can have long-term benefits versus only short-term stimulus. The inability of policies to reignite global growth has led to this year's G20 Summit to focus attention on innovative measures towards 'breaking a new path for growth.'

Following the onset of the 2008 financial crisis, the G20 has implemented various measures to kick-start growth to the pre-crisis level. Developed countries have adopted unconventional monetary policies, such as quantitative easing and

low-interest rates. These policies, to some extent, made sense in the beginning because of the urgency to prevent a deeper slump. However, recently they have lost their lustre and will not deliver long-term growth. In addition, these policies have largely failed, not only because they don't work as they were intended, but are also themselves causing distortions in the markets by developing economies through [excessive](#) volatile capital flows. Raghuram Rajan, the ex-governor of the Reserve Bank of India [emphasised](#) that the world seems to be in the state of competitive currency devaluation due to the aforementioned unconventional policies. This, according to Rajan and others, is not healthy for the global economy into the future.

Since the [2008 G20 Leaders' Summit](#), G20 nations have not placed much emphasis on entrepreneurship and SMEs to boost growth through innovation. [The London 2009](#) Summit was mostly focused on the financial crisis, resulting in a communique that did not even mention the possibility of entrepreneurship to boost growth. [The Pittsburg Summit](#) made reference to

entrepreneurship only once, with the aim of making the world more open to foster trade. It was not until the [Toronto Summit](#) in 2010, that the leaders mentioned the role of SMEs in growing economies. The leaders stated that: ‘adequately financed small and medium-sized businesses are vital to job creation and a growing economy, particularly in emerging economies’.

However, this still did not adequately realise the potential that start-ups could provide to revitalise growth. At the [Russian St Petersburg Summit](#), the leaders argued that small and medium-size enterprises played a key role for promoting growth and job creation, and focused their attention on providing access to finance for entrepreneurs. A new development at the Russian summit was the recognition for promoting youth entrepreneurship to activate growth. The following summits in Brisbane and Antalya, also focused on these issues in a similar way, yet did not provide a robust game-changing initiative to promote entrepreneurship or directly foster the growth of SMEs. It is in relation to this backdrop that this has seemingly

changed during the 2016 G20 Summit in Hangzhou, China.

The recommendation of the 2016 Youth 20 (Y20) group was clear, namely, give youth the opportunities and skills needed to start their own ventures and to take the lead. Furthermore, the Y20 Group focused the [communique](#) on this topic, dedicating a whole agenda point for “Entrepreneurship and Creative Thinking”.

The Y20 focused on entrepreneurship not only to solve the problems of unemployment and growth, but also emphasized how entrepreneurship could be used to empower minority groups as well as women. Their message clearly emphasized the need for entrepreneurship, but progressed further to assert that entrepreneurship is needed to empower and lift up marginalized groups so that they can chart out a better life.

Nevertheless, this assertion (though based on strong moral reasoning) seemingly conflicts with existing [research](#). This is because there is research suggesting that

‘minority business owners are stuck in highly competitive and precarious market niches that are under capitalised; work long hours, intensively utilising familial and co-ethnic labour, and are struggling to survive in hostile inner-city environments’, and that such policies do not contribute significantly the social and economic mobility of such communities. As a result, evidence suggests that entrepreneurship should not, in and of itself, be seen to secure the economic advancement of ethnic minority communities. This therefore emphasises that ‘a more balanced approach to social mobility is required’ to break these cycles. Consequently, the current focus on entrepreneurship looks like an over-valued panacea. As policy makers are seeing their current policies fail, they are pushing for a new policy in the hopes of finding some positive effect. Nevertheless, by doing so, and ignoring existing evidence, they might simply entrench existing cycles version provide innovative growth as desired.

The concern about whether these entrepreneurship policies are best placed for growth is further evidenced by the fact

that in the final [T20](#) (Think Tank 20) communiqué did not mention entrepreneurship or SMEs to boost growth. As a result, it would seem to be the case that the Youth 20 (Y20), Business 20 (B20), and the G20 have different ideas about boosting growth via entrepreneurship policies and that these were not fully shared by the research groups represented in the T20.

An addition area for growth discussed at the Hangzhou G20 involved reinvigorated notions of innovation. For example, in the [B20 opening speech](#), Chinese President Xi Jinping said that world economy needs to take a new innovative step to kick-start growth and investment. There was also a mention of how the world economy should embrace new ways of innovation through tapping into internet technology and by boosting e-commerce activities. One of the landmark policy suggestions that evolved from the summit was the creation of the electronic World Trade Platform (eWTP,). This platform has been created in order to formulate rules for e-commerce trade. The eWTP was developed after consultation with various trade and SME focused

associations. This was a clear demarcation from previous B20 summits, which had mostly ended up providing suggestions to be acted upon. The 2016 B20 offered suggestions, but also pushed for them to be accepted by the world leaders. This will not only give a boost to large companies, but will also allow access to global supply chains by SMEs. According to the [B20](#) group, if executed properly, eWTP would provide both a significant boost to early stage start-ups and lead to an increase in global trade.

After the strong suggestions made by the Y20 and B20 groups, the suggestions were indeed finally accepted during the summit, taking into consideration a few minor changes. It remains to be seen, however, whether the group can successfully execute these plans. Based on previous summits, the G20 has experience with focusing on start-ups, but much remains to be seen. That said, if we go by previous workings of the G20 group, we can see that actions are executed which seem 'right' at the time, which suggests that there is room for the G20 to make an impact in this area. For instance during the financial crisis, we

saw that the G20 nations acted in unison to [prevent a deeper recession](#). We also witnessed how the G20 leaders came together in accepting the BEPS system to limit tax havens. Therefore, it is highly plausible that the G20 would also act on their commitment to create the eWTP.

That said, it remains implausible that apart from eWTP, much else would be done to promote entrepreneurship and innovation. There are two understandable [reasons](#) for this. Firstly, growth cannot be kick started by new venture creation alone, largely because there is not sufficient infrastructure in place to boost startup and entrepreneurship growth. Secondly, the world is simply not ready to lift itself out of anemic growth through innovation. [Research](#) suggests that start-ups in developing countries tend to focus more on subsistence of the owner, rather than on generating value and contributing to national or global value chains. One of the reasons is that in developing countries there is a shortage of big companies who maximise profit through economies of scale. Although seemingly paradoxical, big companies are able to support smaller

companies by providing clientele or offering services at reasonable prices. In simple terms, it would be like imagining Facebook to rise without the presence of a fast and reliable internet service.

Boosting entrepreneurship and startups is a good thing, but not necessarily the best thing, as there is an urgent need for fiscal and monetary reform. So why are world leaders now putting so much focus on creating conditions to allow new start-ups to flourish? One reason could be the explosive growth of companies such as Uber, Air BnB, and others who have disrupted traditional markets. Along with this, another reason could be the G20 Summit host city, Hangzhou, which is the start-up hub in China, with companies like Alibaba having a strong footprint. This is likely to have led to the perception that start-ups could be used as the new engine of global growth (With Hangzhou as an example). Although this seems a logical proposition, it is important to take into consideration existing [research](#) before making firm policy decisions. Also, an examination of recent data from these big 'Unicorn' start-ups suggests they may have

[lost the shine](#) they once had. Therefore, this sudden push could be viewed as a knee jerk reaction from a generation of leaders desperate for politically expedient solutions to what are difficult, entrenched and unmapped global challenges.

Moreover, there is an urgent need for concrete actions on structural reforms, both fiscally and monetarily. In the end, the leaders made a number of pledges to boost growth, but who are seemingly reluctant to take the necessary actions (and impose deadlines). The world economy still requires bold actions to liberalise trade and investment, and boost productivity through education and reskilling. Most importantly however, the world leaders must demonstrate the necessary spirit of coordination and togetherness that will cultivate the necessary atmosphere of seriousness to preserve the legitimacy of the G20.

Having said all this, it is still positive to observe that the leaders from a diverse range of countries are trying to formulate policies that can be accepted by everyone on the table while still having real potential

to deliver growth. In the opening ceremony of the B20 summit in Hangzhou, President Xi, [spoke about](#) transforming the G20 'from a crisis management body to a group focused on long-term global economic governance'. To do so would require the G20 to reach a broader consensus in terms of policy development and one way to secure this consensus is to chose popular policies whether or not they provide the clear panacea they are assumed to deliver. In many ways through Chinese leadership, the G20 was able to chart a new direction, and to some extent, become a body of global governance. Yet,

in doing so the G20 also showed that sometimes an inadequate policy could be the best strategy to spark any movement, despite perhaps not also being the best strategy to get the job done.

*Rishabh Kumar is a Researcher in the Department of Economics at the University of Sheffield, United Kingdom.*