



G20 China

A world of strong economies



Michael Izza, Chief Executive, ICAEW.

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Foreword by Michael Izza

Working at the heart of the public policy challenges faced by the G20, chartered accountants are well placed to help governments and business to address the complex issues affecting the global economy.

In 2016, G20 leaders once again meet in economically challenging times. The IMF has cut its global growth forecast for 2016 to 3.2% and political and financial developments in Europe, including the UK's decision to leave the European Union, have increased global uncertainty. Now more than ever, there is a need for increased cooperation between G20 countries to rise to the challenges that lie ahead and escape the 'low growth trap'. Strategic leadership at the G20 must be matched by effective collaboration between nations, the business community and international institutions if we are to restore the path towards sustainable growth.

If the G20 is to achieve its objective of boosting global GDP by a further 2% by 2018, it must shift from simply reacting to events towards shaping our economic destiny. To reignite global growth and achieve a world of strong economies, G20 leaders should focus on the following three activities.

1

Bridging the infrastructure gap

From the roads that transport our goods to the broadband that keeps us connected, world-class infrastructure provides a strong foundation for businesses to deliver jobs, growth and prosperity for all.

2

Implementing international tax reform

In an increasingly interconnected global economy, it is critical that the international tax system reflects the changing nature of business while maintaining the trust of the public. The international community's ability to agree on the consistent implementation of the BEPS package is essential to deliver a tax system which is fit for the 21st century.

3

Entrepreneurship and SME growth are pillars of inclusiveness

Small and medium-sized businesses are the backbone of national economies. They account for two thirds of all jobs in G20 countries and form the bedrock of dynamic and innovative economies. The World SME Forum was a promising development at last year's summit; this year the G20 should renew its commitment to fostering a world of entrepreneurship.

China is well placed to drive this ambitious agenda for the G20 and support economies in both the developed and developing world. The Hangzhou Summit, held under the overarching theme of 'an innovative, invigorated, interconnected and inclusive world economy' is a golden opportunity to agree a set of actions and principles that will steady the ship and lay the path for sustainable growth in the years ahead.

The chartered accountancy profession works to advance economic stability, strengthen financial systems, and promote accountability and long-term sustainable growth. As an international professional body which supports over 145,000 chartered accountants worldwide, ICAEW stands ready to work with the G20 to help tackle the complex challenges faced by the global economy and achieve the vision of a world of strong economies.

Infrastructure



Bridging the infrastructure gap

In a period in which economic performance has so consistently undershot official forecasts, infrastructure investment is one of the few remaining economic levers left to reignite growth. However, throughout G20 nations there is a significant backlog in infrastructure projects. While the reasons for the global infrastructure gap are varied and complex, the G20 has an important role to play in making recommendations on best practice approaches to delivering and financing infrastructure projects. Solving the global infrastructure problem is a shared challenge for the public and private sector and is key to reigniting global growth. With an insight into both the public and private sector, chartered accountants are well placed to facilitate public-private partnerships and begin to bridge the infrastructure gap.



Strengthen the environment for cooperation and public-private partnerships

G20 countries should invest in skills, create better private and public financial flows and provide more comprehensive information on the opportunities for infrastructure investment.

ICAEW has identified three 'gaps' when it comes to infrastructure investment: a skills gap, a funding gap and an information gap. The sheer size and complexity of major investment projects makes the involvement of many stakeholders essential. For example, China's 'One Belt One Road' initiative will need to rely on innovative cooperation models such as joint partnership, technology transfer, investment funding and Public-Private Partnerships (PPP) in order to become a success story. By beginning to close these three gaps, G20 countries can create an enabling environment that will lead to sustained infrastructure investment in the years ahead.



Give a long-term commitment to infrastructure investment

The Global Infrastructure Hub should have its mandate extended from its current four-year remit to a much longer time frame.

The Hub's priority should be to facilitate a better understanding and supply of quality government infrastructure projects to the private sector. It can achieve this by becoming a global platform for best practice while also being flexible enough to cater for the differences between countries. By extending the Hub's mandate, the G20 would give a clear long-term commitment to bridging the infrastructure gap and exploring diversified financing approaches and fostering private financing.



Promote and support sustainable infrastructure

The G20 should rise to the challenge of 'building resilient infrastructure, promoting sustainable industrialisation and fostering innovation' as articulated in Goal 9 of the UN Sustainable Development Goals (SDGs). In this pivotal year for implementation of sustainable development measures, it is crucial that the infrastructure being built is able to deal with the challenges of a rapidly changing world. G20 countries should consider sustainable infrastructure as an investment, not only to promote immediate income generation but for sustained increases in living standards and economic growth for future generations.

International tax



Implementing international tax reform

In an increasingly interconnected global economy, it is critical that the international tax system reflects the changing nature of business while maintaining the trust of the public. ICAEW has supported the BEPS project from its inception and has led the efforts to articulate how a strong and qualified global accountancy profession can help to make BEPS a success story. The work is far from over and effective implementation of the different outputs by all nations will be critical to cement the progress to date. In this first year since the BEPS outcomes were finalised, G20 nations should continue to drive the global tax reform agenda by implementing the BEPS recommendations into domestic legislation.



Success of the BEPS project will depend on global cooperation

ICAEW supports the OECD's new inclusive framework for implementing the BEPS package. This will allow all interested countries and jurisdictions to work on an equal footing to tackle tax avoidance, improve the coherence of international tax rules, and to ensure a more transparent tax environment. The OECD has done well to make the BEPS negotiations an inclusive process, by extending its reach beyond its membership and bringing over 80 developing and non-OECD countries into the frame of the discussions. Throughout this implementation stage – in 2016 and beyond – the international community's ability to cooperate on the consistent implementation of the package will ensure we arrive at a tax framework which is fit for the 21st century.



Effective mechanism needed to resolve disputes

ICAEW thinks that a strong and robust dispute resolution mechanism is crucial to minimise confusion and disputes between countries as a result of the changes to the international tax regime. A key concern for business is that international tax is likely to become more 'subject to interpretation' which may create more disputes between business and tax administrations and between tax administrations themselves. The post-BEPS international tax system must be one which encourages business and economic growth by providing an efficient dispute resolution mechanism.



Strong public financial management supports tax revenue

Building capacity in tax administrations so that all countries, and in particular developing countries, can benefit from the changes in the international tax landscape. Better financial management in the public sector and effective tax administrations will help to achieve the objectives related to both the 2030 Agenda for Sustainable Development and the G20 tax agenda. ICAEW supports the OECD platform of collaboration on tax which links up with the work of the IMF, UN and World Bank.

Entrepreneurship



Entrepreneurship and SME growth are pillars of inclusiveness

Small businesses are the backbone of national economies. They account for two thirds of all jobs in G20 countries and form the bedrock of thriving and dynamic economies. The G20 should prioritise entrepreneurship and small business support as an inclusive policy to enable small businesses to play their important role in society and economic development.



Financial inclusion is fundamental for enterprise growth

Financial inclusion is a crucial way to encourage the next generation of entrepreneurs. Close to a third of the world's population are still unbanked and not able to take advantage of the financial services which enable access to the wider marketplace. The World Bank estimates that there are still 2bn people around the world who are financially excluded from the global economy as they do not have access to basic financial services like a bank account.



Skills are central to encouraging entrepreneurship

G20 nations must maintain their commitment to reduce youth unemployment by acting to ensure young people are in education, training or employment. Business and financial skills lie at the heart of a healthy ecosystem for entrepreneurship. Countries that are able to empower their young people with the commercial skills needed to grow a successful business are better able to compete in the global race.



Reignite international trade to boost business growth

The G20 should provide a fresh push to reignite international trade; not least because of the potential benefits for small businesses. According to the World Trade Organisation, over the last few years international trade has slowed to 2.4%, less than half the rate seen before the financial crisis. Chartered accountants have first-hand insight at a grass-roots level on how trading internationally can help a small business grow and prosper. ICAEW is eager to see the newly opened G20 World SME Forum encourage businesses to explore markets beyond their own borders.

The G20's work in 2016 is taking place against a backdrop of significant changes and shifts in the global economy. The policies shaping and being shaped by those changes will have a lasting impact on people and businesses all over the world. If the G20 is to achieve its objective of boosting global GDP by a further 2% by 2018, it is crucial that world leaders have the vision to see beyond the immediate horizon and carve out a path towards sustained and long-term growth and prosperity.





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