The growing importance of the G20 and the way forward

An Indian perspective

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Introduction

One of the world's premium trade forums, the Group of Twenty (G20) countries was established in 1999 to bring together industrialized and developing economies to discuss key issues in the global economy. The inaugural G20 summit took place in Berlin, December 1999, hosted by German and Canadian finance ministers. This year's meeting was held in Brisbane, Australia. The G20 is made up of the finance ministers and central bank governors of 19 countries: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom, the United States of America. The remaining seat is held by the European Union, which is represented by the rotating Council presidency and the European Central Bank.

The G20, which came into being to respond to the East Asian crisis in 1997-98, played a key role in responding to the global financial crisis of 2008-09. Its decisive and coordinated actions boosted consumer and business confidence and supported the first stages of economic recovery. The G20 continues to focus on measures to support global economic growth, with a strong emphasis on promoting job creation and open trade.

During 2008 to 2010, deliberations in G20 summits focused mainly on building consensus on measures required for stemming the Global Financial and Economic crisis of 2008. Since the Seoul Summit held in November, 2010, attention is being given to an agenda such as the framework for a strong, sustainable and balanced growth; stable international financial architecture;; clean energy, food security and climate change; employment creation and trade facilitation and many more.

During and after the global financial crisis of 2008, while advanced economies experienced dwindling growth, India was one of the countries that continued to grow. Also, India has not been a contributor to the global imbalances. By virtue of these, India has emerged as an important member of G20 to be able to influence and contribute towards reshaping of the world economic and financial order. Thus, it is of utmost importance that India must bring to the table its own assessment of the G20 agenda in the light of the global developments and offer considered views on global cooperation without compromising on its own interests. In the above backdrop, this piece has made an attempt to detail the major issues for discussion in the G20 and the role of India with a focus on the lessons learnt, missed opportunities and the way forward.

India in G-20– post -global crisis (2008)

Post 2008, while several nations of the G20 suffered from the consequences of two global economic meltdowns (popularly known as the subprime crisis and the eurozone crisis), India was rated highly. This was predominantly due to its fast recovery and sustaining high growth rate supported by a massive labour force and industrial potential. Five years later, the rupee depreciated steadily[1].

Also, India has amongst the world's highest trade and current account deficits. Its industrial potential seems to have eroded and domestically though the new government led by PM Modi has made an attempt to end the policy paralysis and give a boost to the economy by announcing several reform measures, including hiking FDI in many sectors such as defence, railway etc. and also initiating few reforms including labour sector reforms, land acquisition, e-governance etc. that are acting as hindrance to investment. India must continue to play a proactive role in the G20 and take up issues important to itself and to the group as a whole and play a key role in strengthening the economic order as G20 accounts for more than 80 per cent of world trade and two-thirds of the world population. Therefore, it is the main forum for global development.

Global imbalances and mechanisms

The post-crisis debate on global imbalances and the role of the G20 in mitigating its effects has three facets. The first is the role of exchange rates in global rebalancing. The second relates to capital flows into emerging markets. And the third facet is the framework for the adjustment process. Exchange rates – a prime lever for redressal of external imbalances – require currency markets to be more efficient and should represent economic fundamentals.

Global rebalancing will require deficit economies to save more and consume less, whereas surplus economies will need to mirror these efforts – save less and spend. The problem though is that while the adjustment by deficit and surplus economies has to be symmetric, the incentives they face are asymmetric.

Though India did not contribute to the generation or transmission of global imbalances, it believes it is important that the G20 keeps a watch on changes in composition, nature and distribution of global imbalances and their implications, and to steer work towards their underlying causes. India, along with other emerging economies, is agitated by two points – first, that in as much as volatile capital flows are a spillover from the quantitative easing of advanced economies, the burden of adjustment has to be shared. Second, the capital controls should be understood as legitimate and acceptable defence against speculative capital flows. There is a need to create an effective framework for the adjustment process, as emerging (deficit) economies are first to feel the pinch when global stability is threatened.

Protectionism

The idea that globalization is a mixed blessing is being increasingly challenged since the advent of the global financial crisis. G20 nations have, through the various summits post 2008, reiterated their commitment of not resorting to protectionism. However, there are concerns that even as 'open protectionism' has been resisted relatively well during the crisis, 'opaque protectionism' has been on the rise. Opaque protectionism takes the form of resorting to measures such as anti-dumping actions, safeguards, subsidies, preferential treatment of domestic firms in bailout packages, and discriminatory packages.

India has opposed protectionism in all its forms; at the same time it respects the WTO-consistent policy space available to the developing countries to pursue growth, stability and development. However, there is a need to strengthen multilateral trade discipline – the conclusion of the Doha Round. A successful and quick conclusion of the Doha Round agreement would be welcomed as a non-debt creating stimulus to the global economy.

Financial sector reforms

The broad contours of the international initiatives fronted by the G20 on financial sector reforms rest on four broad pillars – regulation, supervision, resolution and assessment of the implementation of new standards. India feels that the investment needs of the emerging markets and developing economies deserve special attention. It is important to ensure that financial intermediaries in emerging and developing economies are not disadvantaged in the new regulatory framework, as the opportunities and challenges in their systems are different. Moreover, financial regulatory reform has not focused on redirecting savings from investment in volatile financial assets to financing investment in the real economy, where the impact on growth and employment is more tangible.

There is a need to guard against the possibility of regulatory arbitrage. If comparable standards are not implemented in all jurisdictions simultaneously, financial activity is likely to migrate to less regulated jurisdictions as well as into shadow banking. These will create global imbalances and uncertainty, and would limit one of the core objectives of the G20 forum.

Global reserve currency

Concerns about the robustness of the international monetary system with the dollar as an international reserve currency has become a significant issue. The United States, by virtue of its status as the issuer of the global reserve currency, has the responsibility of ensuring every country has access to dollar liquidity, especially in times of stress. However, the financial crisis showed that having a single reserve currency poses many risks for the stability of the system.

According to the Reserve Bank of India, to address the problems arising from the use of a single reserve currency one has to have a menu of alternative reserve currencies. A possible solution is to expand the special drawing rights (SDR) basket by including the currencies of the countries that are increasingly important economically and politically in the composition of the global economy. Integrating emerging markets into the international monetary system would increase their incentive to manage their policy conduct towards contributing to the stability of the system. India's position on the global reserve currency is that

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the world would be better served by increasing the number of reserve currencies and to be able to employ suitable safety-nets to protect them against the vulnerabilities of the global currency system.

Lending constraints by Multilateral Development Banks

Development finance through MDBs has been one of the crucial policy interventions of the G20 summits. The fund base has been expanded significantly, including the IMF and World Bank. However there have been concerns regarding the fixing of constraints on lending by MDBs. The accumulation of all kinds of approvals and safeguard policies, the rising influence of lobbies, and staff constraints in the MDBs has resulted in the volume of lending being much below what is needed.

India stands to make a big contribution to global growth were its investments (especially in infrastructure) to be unaffected, or even accelerated, by the fixing of these constraints. India needs to take the lead in identifying policies and practices that impede growth in lending to productive sectors.

Reforming the global financial architecture

The global financial architecture has undergone fundamental changes in the past decade and a half, but these changes have not been reflected appropriately in the international financial architecture. While agreement has been reached in the G20 for effecting major reforms, the implementation so far has been disappointing. The agreement for IMF quota and governance reforms in 2010 has not yet been implemented, mainly due to lack of approval of US Senate.

India strongly feels that the G20 has played a crucial role in steering discussions on the quota formula in the past and it will be unfortunate if this aspect is diluted going forward. Global institutions can only be legitimate and credible if their vote share and governance structure reflects members' share in the world economy today, not on the basis of quota decided half a century back.

The G20 Brisbane Summit, 2014: outcome

The ninth summit of the G 20 group, which was held in Brisbane, took place at a time when the world is struggling to move past the economic crisis which began six years ago. The crash of 2008 had led to the under-performance and decelerated growth both in advanced and emerging markets, and has resulted in uncertainties and unresolved legacies. This has weakened demand, constrained supply and hampered job growth. Since the February 2014 G-20 meeting held in Sydney, the global economy has not shown any clear signs of revival.

Advanced economies, apart from the European Union, would be staring at just 2.35% growth in 2015 while the austerity –laden EU is expected to wobble at 1.76%[2]. Amongst the emerging economies, China, India and Indonesia are the only countries that will have a collective growth of 6.63% in 2015, while others are still lacking momentum because of unbalanced situations in their domestic economies.

The Brisbane summit was a morale booster showcasing a clear signal of the leaders' commitment to take decisive steps to uplift economies facing fragile growth and shortfall in demand. With an ambitious goal to lift the G-20s GDP by at least an additional 2% by 2018, the IMF-OECD analysis suggests that achieving this target will add up more than US$2 trillion to the global economy, which will give boost employment and create millions of jobs.

Focusing on the fundamentals ie. trade, tax issues, infrastructure, employment and banking, the G-20 under the presidency of Australia has proposed various initiatives to be taken to target these fundamentals, which are the key constraints to growth across the G-20, with inadequate infrastructure being one of the major hurdles. This meeting brought the proposal to launch the Global Infrastructure Initiative, paired with a new global infrastructure hub which will attract a large pool of potential private financing for infrastructure investment, which will create jobs in construction and allied heavy industries and provide an impetus to growth. The leaders also gave a commitment to bring more women into the workforce, and improve the quality of their jobs by targeting to reduce the gender gap by 25% by 2025, which will add 100 million women into the formal workforce.

Another significant issue which was discussed was corruption and the leaders adopted a two year plan to strengthen enforcement, enhance transparency and facilitate the recovery of the assets stolen by corrupt officials[3]. Concrete measures were also put forward to cut down the cost of remittances by 5% by increasing competition and expanding accessibility of money transfer services and enhancing financial inclusion. The G20 leaders also committed themselves to energy and climate change issues, where they endorsed a new set of principles and reaffirmed their commitment to rationalize and phase out inefficient fossil fuel subsidies. The G-20 also took significant steps forward strengthening bank capital and liquidity by reducing leverages and making the derivative markets more transparent and safe by addressing the systemic risks posed by shadow banking. With such a laundry list of initiatives in place, the wait is now for their speedy implementation so that G-20 economies are poised for an increased growth in 2015.

Take away for India

India's approach toward G-20 summit was influenced by its domestic agenda as the problems of the Indian economy are largely self-afflicted and unique. Narendra Modi made a strong pitch against black money. Modi called for close coordination on unaccounted money stashed abroad. He said unaccounted money was also linked to security challenges.

For India the communiqué specially welcomed the breakthrough between India and United States at the World Trade Organisation, and this paved the way for a pact that will help ease the process involved in global commerce, and move forward in addressing the concerns of developing countries on security. The communiqué also brought the commitment of the leaders to implement all elements of the Bali package and one of the major breakthroughs was achieved by India when US agreed to its proposal on food security issues at WTO, a development that will pave the way for ending a three month long stalemate on trade facilitation agreement at the multi-lateral trade body. As per the agreement with India, the US will support India's proposal at the WTO for an extension of the 'peace clause' which is crucial for uninterrupted implementation of India's food security programme. This will enable India to continue the procurement and stocking of food grain for distribution to the poor under its food security programme, even if it breaches the 10% subsidy cap as prescribed by the WTO.

Taxation was one of the areas where India had success as the number of key goals set by Modi were accepted in the Summit. The common reporting standard and the automatic exchange of tax information were successfully endorsed. The communiqué also committed to finalise the adoption of the Base Erosion and Profit Shifting (BEPS) system, designed to reduce the ability of multinationals to hide their profits from taxes, by 2015 and most importantly the black money issue. Other issues which New Delhi pursued vigorously and found echoed at the G-20 Summit included a reduction in the cost of remittances from abroad, of which India is the largest beneficiary at $70 billion annually, as the G-20 promised strong, practical measures to reduce the global average cost of transferring remittances to 5%.

Modi also extended India's backing for all the initiatives to facilitate exchange of information and mutual assistance in tax policy and administration. India pays among the highest global rates for natural gas because of the fragmented nature of the international gas market. It wanted the G20 to push for better energy markets to help reduce this discrepancy. There was an understanding reached on energy issues as well.

Undoubtedly, the Brisbane Summit managed to cover a wide gamut of issues. Given the success of the summit, it can be said that India's role was not only specific to a contributor but also a beneficiary.

Missed opportunities

Despite the progress in the fight against tax evasion and corruption made this year in the summit, G20 leaders stopped halfway down the road. They failed to deliver true transparency. On anonymous companies – a weapon of choice for the corrupt – leaders agreed to a set of high level principles – which is significant progress. But while these principles lay out the importance of governments having access to information about who owns companies and trusts, they fail to concede that the public should see this information. Developing countries without legal treaties with G20 countries would also be denied this information.

On a crucial point, the Australian G20 regressed: transparency of the extractive industries. Under the Russian presidency last year, the issue was profiled in the official communiqué, but this has simply disappeared this year and been relegated to the annex as an area which is at risk of corruption, among others. It hasn't completely fallen off the agenda but certainly isn't there upfront either. With the EU progressing to transposing a new directive into national laws, and Canada close to finalizing laws, the G20 missed an opportunity to give a boost to extractives transparency internationally.

On tax evasion, the G20 referred to helping developing countries improve tax collection. It is positive that the G20 agreed to take forward Automatic Exchange of Information. But for developing countries that don't have the systems in place, to reciprocate and provide information to large countries like the US or Germany would not be possible from the start. Similarly, companies will be required to disclose their financial details on a country-by-country basis to governments as part of a broader project on reforming international tax rules – a positive step – but again this is not available to the public or to countries without tax treaties with G20 countries.

Though so much emphasis is being given to infrastructure development, nothing concrete has been done to finance the enormous amount of required investment. For example, the Asia Pacific regions need almost $1 trillion every year till 2020 to sustain their present growth rate. All Bretton Woods organisations, along with the new BRICS, AIIB banks, are nowhere near or in a position to do it. On the contrary, there are for instance countries like Japan which are sitting on billions and trillions of dollars in form of pension funds and insurance, or in the form of other savings instruments.

Success of the Brisbane Summit and way forward

The Summit was successful as it covered wider areas and concluded with some of the major initiatives and promises. However, the success is dependent on cooperation, follow-through and the implementation of the commitments. The much debated growth target of 2 per cent over five years requires long-range commitments and the implementation of the policies which will require monitoring by IMF and OECD. On the infrastructure front, the countries need to go in for quality infrastructure and be judicious in selecting the 'right infrastructure' projects which will provide the highest net social benefit. To enhance global trade will require a rebuilding of the confidence in the multilateral trading system and WTO and most importantly rapid implementation of the Agreement on Trade facilitation.

For combating tax evasion, participation of non-OECD G-20 members (such as China, India, Brazil and South Africa) needs to be formalised beyond the current BEPS initiative. Moreover the IMF Quota and Governance arrangements need to be reformed and not be blocked by the US Congress again. Focus needs to be directed on developmental issues as well, as the G-20 development agenda has been criticised as being too diffuse and largely an 'add-on'. Therefore, the success of the summit will largely depend upon successful implementation of the policies which have been proposed in the Summit.

Conclusion

As a G20 nation India's growth also depends on how well India can create links with its African and Asian partners. India's lines of credit and large developmental assistance into Africa and to the least-developed countries in Asia can prove important in the future. Equally important is the role India can play in the global financial market. Since the modern day global financial market was created for the Western nations (Bretton Woods, eurobonds, etc.), from within the G20, India would be suited to lead the charge for a more 'South-South' system. Whether it is the setting up of the BRICS bank (New Development Bank) or an Indo-ASEAN cooperative system, India has to be able to execute its Look East Plan effectively. India while accessing alternative markets is also creating alternative trade routes (eg.Indo-Myanmar-Thailand Sea link). In all these issues of importance for India, the G20 could serve as a useful vehicle in forging partnerships and agreements with other countries to achieve its development goals. ■

1. Between May 2013 to August 2013 the Indian Rupee had fallen nearly 17%.
2. http://economictimes.indiatimes.com/news/economy/policy/g20-importance-of-the-summit-possible-takeaways-for-india/etvertical_articleshow/45160632.cms
3. http://www.whitehouse.gov/the-press-office/2014/11/16/fact-sheet-g-20-brisbane-summit