India's G20 challenge

SUMAN BERY

INDIA will occupy the rotating presidency of the Group of 20 (G20) in 2023. Planning for this mega-event will move into high gear in 2022 as India formally becomes part of the 'troika' of nations by which the G20 manages its affairs: regular meetings between the outgoing presidency (2021 Italy); the current presidency (2022 Indonesia); and the forthcoming presidency (2023 India).

As one of the world's largest economies, India has an abiding interest in a global environment that supports its economic transformation. Since 2009 the G20's leaders have repeatedly committed themselves to using their influence to restore and maintain strong, balanced, sustainable and inclusive global economic growth.

Despite this aspiration, the G20's performance in the Covid crisis, its biggest test since its creation, has been underwhelming, particularly in the inclusiveness of its outcomes. Quite apart from the much-remarked inequity in vaccine access, the prospects for return to pre-pandemic income levels are much less encouraging for poor countries, while schemes to provide debt service relief for the poorest countries have been frustrated by tensions between major western official creditors (operating as the Paris Club) and China, and resistance by private creditors to participate in debt relief.[1] While it therefore might be tempting to dismiss the G20 as full of sound and fury, signifying nothing, the G20 presidency remains a valuable instrument in defining a global economic agenda. If well handled, India's 2023 presidency can therefore be important for both India and for the world economy.

In this essay we first examine the effectiveness of the G20 over the long haul, since the first meeting of the G20 Leaders in Washington in late 2008, and more recently in dealing with the current pandemic. We focus primarily on issues handled by the G20's 'finance track', although in the present crisis health

1. S. Bery and P. Weil, 'Strong, Balanced, Sustainable and Inclusive Growth? The G20 and the Pandemic', Bruegel Blogpost, 29 October 2021, Brussels. Last referenced at https://www.bruegel.org/2021/10/strong-balanced-sustainable-and-inclusive-growth-the-g20-and-the-pandemic/

issues have loomed equally large. We examine the international environment for economic growth currently facing India and other emerging markets (with China increasingly *sui generis* within this group); the much remarked on changes in the global international order; and the degree to which these changes materially affect the future growth of poorer countries, including India. The paper concludes with some suggestions on possible priorities for India's 2023 G20 presidency and suggests a process of discussion and debate to give support and specificity to this agenda in sufficient time to prepare for India's G20 moment.

A review of the thirteen years since the G20 Leaders first gathered in Washington helps to identify both how much has changed and what might lie ahead.[2] Two major convulsions in the global economy provide bookends for the period under review: the global financial crisis of 2008-09 and the Covid 19 pandemic still raging. Each of these crises has tested the political premises of economic globalization as well as the institutional structure for global economic policy coordination.

The G20 as a curated group of economically significant nations was an initiative of the US and Canada under the auspices of the Group of 7 (G7) industrial democracies. It was first convened in 1999 at the level of Finance Ministers (and Central Bank governors) in the aftermath of the Asian financial crisis. In 2008 G20 participation was elevated to the head of government (Leaders) level, bringing the political dimension of global economic management to centre stage.

The procedures and protocols of the G20 have evolved in the thirteen years since the first Leaders' Summit. The G20 presidency rotates among members based on groupings of the nineteen member nations.[3] At the request of a candidate country, presidency years[4] can be swapped. India has twice availed of this flexibility, swapping first with Italy and then with Indonesia to defer its presidency from 2021 to 2023.

Each G20 presidency establishes its own priorities. Having rejected the idea of a permanent secretariat, the G20 aims for coordination across presidencies through the mechanism of the 'troika' referred to above, where current, past and future presidencies establish government-level links. India was briefly a member of the troika under the Saudi presidency (until it deferred to Indonesia for 2022). It has once again become a troika member when Italy handed over to Indonesia on 1 December 2021. India's return to the troika provides the context for this essay.

The G20 Leaders' process is divided between a 'Finance' track and a 'Sherpa' track, each track in turn maintaining stewardship of an expanding (and increasingly unwieldy) set of dialogues and engagements. Owing to the origins of the G20 at the finance minister level in 1999, a decade before the first Leaders' summit, the finance track has the better-established machinery for engaging with multilateral financial entities and other expert groups, notably the OECD.

Finance track ministerial meetings (formally called Finance Minister and Central Bank Governor, or FCBG, meetings) take place more frequently than Leaders' summits and now have come to provide the political background for the established governance systems at the multilateral institutions such as decisions of the Executive Boards; the International Monetary and Finance Committee at the IMF and the Development Committee at the World Bank; and the Financial Stability Board convened by the BIS. It is by these means that the political consensus established by a self-appointed group aims to gain wider acceptance and legitimacy.

Country-level organization of the Sherpa track is more idiosyncratic than the Finance track. The Leaders' summits are the marquee events in the annual G20 (and indeed global) diplomatic calendar. Sherpas are appointed at the pleasure of the head of government, often (though not invariably) housed in the foreign ministry. India's newly appointed sherpa is Piyush Goyal who holds multiple cabinet portfolios, while the secretariat that serves him sits in the External Affairs Ministry.

In principle G20 members participate in their own capacity, and not as members of blocs. The G7 has, however, continued to meet as a group even after the creation of the G20, and the G7 FCBG explicitly coordinate their positions before they meet within the G20. Partly in response, the five emerging markets encompassed by the

2. The first Leaders' Summit, in 2008, took place during the tenure of the UPA government led by Dr Manmohan Singh. Prime Minister Modi has represented India at all summits since the 2014 summit (held in Brisbane, Australia), in person in each case other than the Riyadh summit of 2020 which took place virtually.

3. The European Union, a member in its own right, does not assume the presidency. Overall, European nations are handsomely represented at the G20. France, Germany, and Italy attend in their own right (as does the UK, no longer a member of the EU; all these are G7 members), while Spain is a permanent invitee.

4. The G20 presidency now rotates annually, with each new presidency usually taking over starting in December of the year prior to the presidency's Leaders' summit.

BRICS[5] have also institutionalized their interaction at both the leader and FCBG level, though less effectively.

For the discussion to follow it is useful to partition the G20 membership between what we call the G7+ (the G7, Australia and the European Union, with South Korea and Saudi Arabia occupying an intermediate status), and the remaining nine large emerging markets: the five BRICS members plus Argentina, Indonesia, Mexico, and Turkey (henceforth the E9 or emerging nine). While there are undoubtedly many oddities in its composition, the G20 represents an attempt to combine global economic significance with geographic and economic diversity.

The range of global issues addressed since the leaders first met in 2008 has been wide-ranging. With hindsight it becomes clearer that, led by the G7+, the leaders have been attempting to manage the political dissatisfaction associated with globalization by citizens of the rich democracies, most importantly rising income and wealth inequality at a time of stagnant real wages. These concerns were crystallized by the management of the 2008 global financial crisis on both shores of the Atlantic, but the underlying unease had started to be evident (at least in the US) as early as 1999 when rioters protested against a ministerial meeting of the World Trade Organization (WTO) held in Seattle. The evolving agenda has entailed overlap with the jurisdiction of other multilateral bodies (the WTO on trade and the UN on climate), a form of mission creep that has not always been welcomed by India.

Two other institutional features deserve mention. The G20 has over time created standing working groups each with two co-chairs: one from a G7 member and the other from an emerging market. India has been the standing co-chair of the Framework Working Group, until recently joint with Canada, and now with the UK. Second, while the traditional multilateral links have been with organizations in which all G20 institutions are full members, the OECD has increasingly been inducted to undertake staff work for the G20. This is mildly surprising as many of the larger G-20 economies are not formal members of the OECD and indeed have tended to see the OECD as an organization dominated by the G7. Both Mexico and Turkey are full OECD members, and a Mexican has headed the organization as Secretary-General.

We now briefly examine the core activity of the G20 finance track since 2008 to give a sense of the issues that have dominated the agenda. As noted earlier, since the Pittsburgh summit in late 2009, the G20 has wished to be judged by its record on global policy coordination, and more specifically its ability to create a framework conducive to encouraging stable and balanced growth. As co-chair of the Framework Working Group (FWG) India has had the opportunity to influence G20 thinking, though not much has been written on how India has deployed this influence in practice.

Prior to the 2007-08 global financial crisis there was considerable skepticism in G7 academic and policy circles, most of all in the US, of the political feasibility and the economic benefits of coordinating macro (primarily monetary) policies among the major advanced economies. (The views of the European Union member states were different, particularly once the course was set for monetary union under the Maastricht Treaty of 1992, as this framework entailed adherence by member states to formal fiscal rules). Such co-ordination had initially been seen as unnecessary in the world of market-driven, floating exchange rates that replaced the Bretton Woods system in 1971, fifty years ago.

G7 monetary coordination had last been attempted in the mid-1980s under the Plaza and Louvre Accords to guide markets to a major realignment of G7 floating exchange rates through coordinated announce-ments and market actions. While these actions did have some immediate impact, deeper analysis suggested little lasting effect.[6] Against this background it is somewhat surprising that the G20 chose to embrace policy coordination with such gusto in 2009, perhaps more for symbolic than substantive reasons.

Many analysts have examined the global economic recovery from the 2008 crash, usually from the perspective of the G7+, less commonly from the perspective of the E9[7]. The G20 acting with rare unity played a critical role at the London summit of May 2009, but as early as 2010 the G7+ countries found themselves divided on several issues: how quickly to withdraw fiscal support; how to handle sovereign debt issues that lay behind the euro crisis; and on the global consequences of super-loose monetary policy operations of the major central banks

5. Brazil, Russia, India, China and South Africa.

6. C.F. Bergsten and R.A. Green (eds.), *International Monetary Cooperation: Lessons from the Plaza Accord After Thirty Years*. Peterson Institute for International Economics and Baker Institute for Public Policy, Washington DC, 2016.

7. S. Bery, 'The G20 Turns Ten: What's Past is Prologue'. Bruegel Policy Contribution 20, November 2018, Brussels. Last referenced at https://www.bruegel.org/2018/11/the-g20-turns-ten-whats-past-is-prologue/

(quantitative easing). In the years immediately after the crisis the economies of China and India were valuable locomotives for the world economy as their financial sectors were relatively unscathed, but this contribution was ignored when time came for the US Federal Reserve (the Fed) to normalize monetary policy, provoking the 'taper tantrum' of 2013.

As the post-crisis decade (approximately 2010-16) wore on, three things became clear. First, as befits a hegemon, the US Fed was the indispensable first responder, even if it had been partially culpable in allowing the crisis to occur in the first place. Second, while successful in averting a depression, the political management of the financial crisis provided fuel for anti-elite, nativist movements in both the US and in Europe. This tendency was epitomized by the election of Donald Trump to the US presidency in late 2016 but was also evident in the pro-Brexit vote in the June 2016 referendum in the UK. The reaction in Germany to Chancellor Merkel's wise and humane decision to admit a million refugees from the Middle East and Afghanistan was an additional harbinger of the shifting political winds, as were the riots in Hamburg when Germany held the G20 presidency in 2017. In the decade since 2009 the political mood in the G7+ had changed dramatically.

Third, the financial crisis and its aftermath marked a shift in the tone of relations between rich countries and emerging markets, leading to a much more cautious view on the benefits to the 'north' of the rise of the 'south'. Central to this reassessment have been the domestic political forces discussed above, but also at play was the greater muscularity demonstrated by China under President Xi Jinping after he took office in 2013, in part to capitalize on the loss of elan and credibility of the G7+ following the GFC.

Also important was a sharp rerating of the growth potential of the EMs following the GFC, at least as assessed by researchers at the IMF. From the earlier commitment to rising prosperity and declining poverty through deeper global integration, the rhetoric of the G7+ has gradually shifted to 'shared responsibility' (based on size of economy, not real *per capita* income); fair (not free) trade, with fairness in the eye of the beholder; focus on the least developed (read Africa) with the emerging markets largely left to the vagaries of the markets; and the priority of environmental sustainability over poverty-reducing economic growth. These have been the themes of recent G20 communiqués, presumably issued with the concurrence of the E9.

The G20's agenda and performance in the present crisis has once again, been largely, perhaps excessively, driven by its richer members. This reflects longer-established traditions of cooperation (among them, and with the senior leadership of international institutions) together with their greater credibility in global financial markets. While the rest of the world has benefited from the greater freedom of action available to the rich countries, this been at the cost of diminished attention to 'strong and balanced' growth in the G20's hierarchy of objectives. With Indonesia leading India, (and Brazil now scheduled to follow in 2024), three large developing countries in succession will hold the G20 presidency. If handled well by each country's economic diplomats and coordinated between them, this sequence provides a golden opportunity to bring sustained long-term economic growth (and not just economic recovery) back to centre stage on the global economic agenda.

Sharpening this agenda will entail deeper examination of two related issues. First, in what way might future growth differ from the past, particularly (but not only) where the less affluent, but more populous regions of the globe are also concerned? Second, from the perspective of the E9 what, if anything, has fundamentally changed in global economic relations that warrants change in the structure and functioning of global institutions? The goal should be to make these institutions 'fit for purpose' for the revival of a decade of sustained long-term global growth, of the kind that the world economy enjoyed in the 1960s, and again in the first decade of this century (the noughties?). Answers to these questions lie beyond the scope of this essay; below we suggest a process by which a global debate on these issues might be stimulated in the run up to India's G20 year.

A focus on the international environment in no way diminishes the responsibility for sound policies at the level of individual countries; global influence entails corresponding consistency in domestic policies, with suitable (but not excessive) allowance for different levels of economic development. The point rather is that as the rich world wavers in its support for at least some aspects of global integration, usually citing domestic distributional goals, leadership needs to come from elsewhere.

Linked to a renewed focus on long-term growth, but worth highlighting separately on account of its particular significance for India, is the urgent need to strengthen global disciplines on legal international migration (what in international trade negotiations is called 'movement of natural persons'). A decade of sub-par employment and real income growth, particularly in the G7+ but also elsewhere, has turned cross-border movement of humans in all its varieties into a tempting target for populist politicians the world over. In a world organized on Westphalian principles (rather than the more inclusive world of multi-ethnic empires that was destroyed by the Great War of 1914-18) control over borders will remain the core expression of national sovereignty. The challenge is to establish ground rules for a global labour force experiencing huge technological and demographic shocks.

If, over the course of successive G7 and G20 presidencies it has proved possible to hammer out a global agreement on corporate taxation, a matter principally of interest to the G7+ powers, it should be possible for India to lead a longer-term conversation on roles and responsibilities of states toward legal (and perhaps also undocumented) non-national residents. India might well be able to make common cause on immigration with other E9 members (certainly Mexico and perhaps Indonesia, Russia, and China, each of which has a significant overseas diaspora), though this may also be the area where coherence between global posture and domestic policy is particularly challenging.

Both internationally and domestically, 2023 is shaping up to be an important year. The economic and humanitarian consequences of the Covid pandemic now seem likely to last well into 2022, particularly where the emerging and developing countries are concerned. This largely reflects difficulties in producing and distributing vaccines equitably, but also delayed and inadequate direct financial support from rich to poorer countries. The saving grace has been the spillover effect on global growth and trade due to the extraordinary stimulus measures in the rich countries. Led by the US, current indications are that this exceptional stimulus will start to be unwound in the course of 2022, presenting challenges both for sustaining global growth and for the capital accounts of poorer countries.

Domestically, 2023 will be the last full year for the Modi government's second term, by which time the impact of the broad range of reform measures taken over this parliament should begin to bear fruit. A successful Leaders Summit toward the end of the year would provide visible confirmation of India's high standing in the global pecking order.

European politics between 1919 and 1939 has been called 'the twenty years war'. What erupted in 1939 was the cumulation of multiple political and economic stresses that remained unresolved at the end of the Great War. To stretch the analogy perhaps to breaking point, if 2008 is equated with 1919, then 2021 would be the equivalent of 1932, which marked the nadir for the inter-war global economy. Given the prevailing intellectual framework in the leading market economies (Britain, France, and the US) at that time, there were clear failures of economic diagnosis. Yet, as Liaquat Ahamed[8] (among others) has persuasively argued, an important contributing factor was an incomplete transition in global economic leadership (from Britain to the US), a transition that was not fully consummated until Bretton Woods conference in 1944.

Though imperfect, the above analogy helps to illuminate the task facing the G20 Leaders, as also the challenges and opportunities of India's forthcoming presidency as the world remains poised in an uneasy competition between the current powerful but internally divided hegemon and an aggressive though less wealthy challenger.

While I have chosen to stress differences in agendas between the G7+ and the E9, I share the submission of our External Affairs Minister, Dr Jaishankar (also referred to in my contribution in last year's *Seminar* annual number) that the sharp boundaries of the nonalignment era are no longer relevant, and that India will need the flexibility to participate in issue-based 'coalitions of the willing'.

I have referred above to the important intellectual task that lies ahead if issues of economic growth are to be brought back to centre stage. Diplomats are habitually cautious; theirs is the art of the possible, of intricate haggling on communiqué language. Yet what the times require is a discontinuity[9] in thinking. This also reflects the duality in rhythms of the G20: each presidency has power to introduce new items on the agenda, yet actual action on that agenda can be a very long time coming. The G20 has tried to institutionalize the induction of new ideas through the machinery of a 'Think Tank 20' (T20) with participation of think tanks from all G20 countries. A more radical approach would be for a consortium of Indian think tanks to join hands with leading thinkers around the world to articulate an analytic and policy agenda focused on helping poorer countries close the gap with their more fortunate brethren.

8. L. Ahamed, *Lords of Finance: The Bankers who Broke the World*. The Penguin Press, New York, 2009.

9. I am indebted to Dr Paul Samson of the Canadian government, who has extensive G7 and G20 experience, for this suggestion.