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G-20: IN SEARCH OF A ROLE

Muchkund Dubey*

Introduction

The Group of 20 (G-20) was formed in 1999 as a forum of Finance Ministers of the member countries to discuss issues in the areas of money and finance. The initiative for setting up the Group was taken by the Group of 7 (G-7) of the highly industrialised countries. Thus, G-20, in a sense, was and continued to function until the onset of the 2008-2009 crisis, as an extension of G-7 at the level of Finance Ministers. It was not a mere coincidence that the Group was put in place soon after the economic meltdown of the South-East Asian countries in 1996-1997 and the economic disaster that struck Russia in 1998. Underlying the formation of the Group was also the desire on the part of members of the Group to explore the possibility of taking coordinated action to prevent the recurrence of such financial and economic crises.

2. An attempt was made to give a shot in the arm of the G-20 by the U. N. High-Level Panel on Threats, Challenges and Change in its report submitted to the Secretary General of the United Nations towards the end of 2004. The panel suggested that the G-20 Group of Finance Ministers should be transformed into a leaders group and should be entrusted with the task of "addressing the critical inter-linkages between trade, finance, the environment, the handling of pandemic

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diseases and economic and social development". This proposal was seen by several observers of the U.N. scene as an attempt to secure a broader consensus for the G-7 generated ideas. It was also felt that if there was indeed a need for a summit level gathering to discuss the inter-relationship between trade, money, finance, environment and development, then the most appropriate forum for this would be the Economic and Social Council of the United Nations. For, the UN Charter vests the function of the coordination and harmonisation of social and economic policies of the member states squarely with the United Nations, and not with any elite group outside the UN. As it happened, this particular suggestion of the High-Level Panel did not find a place in the consensus on UN reforms adopted by the General Assembly in December 2005.

3. The G-20 was resurrected, elevated to the summit level and used quite effectively during the global financial and economic crisis of 2008-2009. At the third Summit Meeting of the Group in Pittsburgh it was designated to be the "premier forum for ----- international economic cooperation". This decision was hailed in India with great enthusiasm. Speaking to media- persons in Pittsburgh, the Prime Minister of India stated: "This is an important development broadening the international governance structure". No doubt, by virtue of its economic clout, the G-20 has the potentiality of playing an important positive role in international economic cooperation. The Group accounts for 90 per cent of global output, generates 80 to 85 per cent of world trade and harbours two-thirds of world population. Decisions taken by this Group, therefore, have a good chance of influencing global economic trends and macro-economic policies. There is also no doubt that for emerging economies like China and India which till the onset of the crisis, had been on the periphery of G-7, the new role acquired by the G-20 provided opportunities of playing a more active role than before in decision making on international economic issues. In fact, one can even assert that the participation of India and China in the summit level meetings of G-20 has exercised considerable influence in shaping the decisions of the Summits in

their interests and that of other developing countries. Some of the important decisions at the G-20 Summits falling in this category include standstill on prevention of intensification of protectionism, expansion of the resources of the IMF under its new Arrangements to Borrow, the issue of additional SDRs, a move towards exercising greater control over money laundering through the operations of tax havens and over terrorists financing and the recomposition of the IMF quotas in favour of the under-represented countries.

4. There was an inevitability about the decision to provide greater salience to G-20 in international economic cooperation. This arises from the recent shift in the economic power balance from the Western countries to Asia and other emerging economies. In this changed situation, it is not possible to have a meaningful discussion and effective coordination of policies on issues of critical importance to the world, without the involvement of countries like China, India, Brazil and South Africa. These issues include not only a coordinated approach to getting over the global economic crisis but also the new international financial architecture, negotiations on climate change, Doha Round of Trade Negotiations, energy security, food security and development of the developing countries, particularly the least developed among them. In deciding to expand the role and status of G-20, the G-7 only yielded to the dictates of the current reality of the world economy. The recognition of G-20 as the principal forum for international cooperation thus marks an institutionalisation of the radical change that has taken place in the global economic power structure.

5. There is no doubt that during the global economic and financial crisis, the G-20 played an important role in helping to "stop the dangerous sharp decline in global activity and stabilise financial markets". Within a period of less than a year, the Group held three Summit Conferences, the first in Washington on 3 November 2008, the second in London on April 2, 2009 and the third in Pittsburgh on 25 September 2009. The fourth Summit Conference in Toronto was

in the nature of winding up of the affair of the crisis management. A decision of major significance taken at the London Summit Conference was to make substantial resources available to help countries, particularly developing countries, in coping with the crisis. For this purpose, it was decided to bring about a three-fold increase in the liquidity at the disposal of the IMF, that is to increase it from the then level of 250 billion dollars to 750 billion dollars. It was also decided to support a general allocation of Supplementary Drawing Rights (SDRs), which would inject 250 billion dollars into the world economy. Since the SDR allocations are in proportion to country quotas, it was expected that developing countries would be allotted some 80 billion dollars out of the total. The Group further agreed to support increased lending by multilateral development banks to the tune of at least 100 billion dollars. Finally, the members of the Group promised to ensure the availability of at least 250 billion dollars over the following two years to support financing of trade. Besides, additional resources were agreed to be generated by gold sale by the IMF, to be made available to the least developed among developing countries. The estimate of the total additional amount to be made available to cope with the crisis was 1.1 trillion dollars.

6. Developing countries were likely to gain substantially from the package announced at the London Summit. Apart from their share of the additional allocation of SDRs, the enhanced resources made available to the multilateral development banks were likely to flow mainly to these countries. A substantial proportion of the additional amount for financing trade was also likely to accrue to them. A good part of the additional liquidity made available to the IMF for bailing out countries in distress and for financing the various contingency facilities under it, was also likely to be available to developing countries.

7. In retrospect, there can be little doubt that the four Summit Meetings of the G-20 held during the peak of the global economic and financial crisis achieved notable success in collectively respond-

ing to the challenges of the crisis and minimising its adverse impact. A substantial amount of additional resources were placed at the disposal of the international financial institutions. This made it possible to place a fairly large amount of resources at the disposal of developing countries to launch their own rescue packages which they would not have been able to do otherwise. The summit level coordination also helped in restoring business confidence, maintaining the momentum of rescue measures by individual countries, exerting pressure for adopting expansionist economic policies and restraining contingent trade protection. At the Pittsburgh Summit, a timely advice was given to member countries to continue with their stimulus packages till the recovery was well under way. It is quite a different matter that in spite of this the recovery has been slow and soon started faltering.

8. The fifth G-20 Summit at Seoul was a watershed in the brief history of the Group in its present incarnation. It was a test for the ability of G-20 leaders to make a transition from responding to a contingent situation to dealing with structural problems of the world economy -its imbalances and inequalities, and the decay of institutions of global economic governance. The Chinese President Hu Jintao had underlined the need of this transition at the Toronto Summit itself when he said: "We should focus on the future and push the G-20 to switch priority from collaborative stimulus to coordinated growth, from short term emergency response to long term governance, and from passive action to active planning".

9. Two of the major challenges before the Seoul Summit were to deal with the US pressure for the revaluation of the Chinese Yuan and the complaint of emerging economies like India, China, Brazil against the United States' decision to inject 600 billion dollars of additional liquidity into its economy through the device of "quantitative easing" by the US Federal Reserve Bank. Because of difference of opinion among the countries concerned on these issues, the Seoul Summit sidetracked them and instead tried to address the underlying factors

behind these issues, in terms of general policy guidelines relating to exchange rate imbalances and excessive volatility of capital flows. Regarding exchange rates, it was agreed that the G-20 member countries "will move towards more market determined exchange rate system and exchange rate flexibility to reflect underlying economic fundamentals and refrain from active devaluation of currencies". It was further agreed that "advanced countries, including those with reserve currency, will be vigilant against excessive volatility and disorderly movement in exchange rates". These agreements did not make any difference in the situation on the ground. For, China went on claiming that it was in any case, moving, though at a pace determined by it, towards a more market determined exchange rate system and the US continued to argue that its quantitative easing did not amount to competitive devaluation of the dollar.

10. In the run up to the Seoul summit, at the Finance Ministers meeting preceding it, the United States had taken the initiative to propose that an agreement should be reached on assessing the impact of persistently large current account imbalances against indicative guidelines, and on the identification of large imbalances that require preventive and corrective action to be taken. In reports which leaked out to the press from the Finance Ministers meeting, it was mentioned that an indicative figure of current account surplus amounting to 4 per cent of GDP was proposed by the United States. The current account surplus in excess of four per cent was to be regarded as excessive and countries incurring such a surplus were to be brought under peer pressure to adopt a set of measure to bring down their surplus. As it happened, the Finance Ministers could not reach an agreement on an indicative figure. However, the Summit accepted the principle of assessing current account imbalances against indicative guidelines and identifying imbalances calling for corrective action. The Summit further called upon its Framework Working Group to develop these indicative guidelines which would be reviewed at the meeting of Finance Ministers and Central Bank

Governors to be held in the first half of 2011 in order to be able to finalise the recommendations at the sixth Summit at Cannes.

11. The kind of adjustment measures that are envisaged to deal with imbalances were spelled out in some detail in Seoul Summit Document. Members with sustained, significant external deficit pledged to undertake policies to support private savings and, when appropriate, undertake fiscal consolidation while maintaining open market and strengthening the export sector. Members with sustained significant external surplus, on the other hand, pledged "to strengthen domestic source of growth". This means that they will rely less and less on exports for growth. China on which the main burden of adjustment in this direction would fall because of its very significant external surplus, accepted this formulation because it had already decided to reduce its dependence on exports and create additional domestic demand by such measure as increased expenditure in social sectors, enhanced investment in public goods like health and education, adoption of macro-economic policies for reducing income disparity etc. These projected shifts in macro-economic policies are duly reflected in China's 12^{th} Five Year Plan. In the Finance Ministers meeting preceding the Cannes Summit, there was a broad agreement on the indicators to measure imbalances within and between member countries. The indicators agreed and subsequently endorsed at the Cannes Summit were those relating to trade and investment flows. However, the agreement was on general variables and not on quantitative limits beyond which the trigger must be pulled. The Summit decided to pursue the question of sustainable level of indicators and seek to reach an agreement on it by April 2012.

12. The decision taken at the Seoul Summit Document on adjustment of imbalances reads as follows: "Persistently large imbalances assessed against indicative guidelines – warrant an assessment of their nature and the root causes of impediments to adjustment – recognising the need to take into account national and regional circumstances, including large commodity producers". The agreement

reached on this subject at the Cannes Summit takes this proposed arrangement a step forward in that commitments on behalf of G-20 as a Group were firmer and more specific and that individual countries also undertook commitments. In the G-20 Action Plan adopted at Cannes, it was stated that emerging market economies in surplus "will adopt macro-economic policies to move towards more domestic led growth---". The G-20 also affirmed their commitment "to move more rapidly towards market determined exchange rate systems and enhanced exchange rate flexibility to reflect underlying fundamentals ---". There is also a reference to the objective of "reducing excessive accumulation of reserves".

13. China, in particular, undertook the commitment "to re-balance demand towards domestic consumption by implementing measures to strengthen social security net, increase household income and transform the economic growth pattern. These actions will be re-enforced by promoting greater exchange rate flexibility to better reflect underlying fundamentals and gradually reduce the pace of accumulation of foreign reserves". The G-20 welcomed "China's determination to increase exchange rate flexibility consistent with underlying market fundamentals". As already stated, these commitments including the identification of indicators are in broad general terms.

14. The concept of adjustment of imbalances to be made according to indicators agreed at the international level, harks back to the Keynes Plan put forward at the Bretton Woods Conference in which it was proposed that persistently surplus countries should bear the main burden of the adjustment of imbalances. The Plan in fact envisaged an automatic flow of resources from the surplus countries to augment the liquidity at the disposal of the IMF, which would be utilised to meet both the reserve and capital investment requirements of deficit countries. At that time, the United States and other major developed countries enjoyed persistently recurring current account surpluses and the developing member countries of the

IMF were chronic deficit countries. Therefore, the former showed little interest in the Keynes Plan which was jettisoned at the Bretton Woods Conference. Today the table has been turned on these countries, particularly the United States which is finding itself in a position of persistently recurring current account deficit. That is why it is pushing for the adoption of a plan by G-20 which would put pressure on the countries having current account surplus to adopt a whole set of measures for restoring the balance. The targets are mainly the emerging economies of China (with a foreign exchange reserve of 3.2 trillion dollars at the end of the third quarter of 2011), Russia (with a reserve of 517.8 billion dollars for the week ending 4 November 2011), and India (with a reserve of 314.7 billion dollars for the week 11 November 2011). It is very unlikely that there would ever be an agreement in the G-20 on an automatic trigger for carrying out adjustments for correcting imbalance.

15. The position on the question of the rebalancing as it emerged at the end of the G-20 Summit held in St. Petersburg, Russia, is that:

- Emerging surplus countries will increase domestic consumption;
- Advanced surplus countries, having weak private demand, will promote domestic demand, notably through liberalisation of services and promotion of investment; and
- Countries with current account deficit will increase national savings, enhance competitiveness and move towards flexible exchange rates.

16. On exchange rates, the understanding reached is that the member countries will move towards market determined exchange rate systems and exchange rate flexibility to reflect underlying fundamentals, avoid persistent exchange rate misalignment and refrain from competitive devaluation of currency.

17. As in several other areas, these commitments do not pin down any member country for their acts of deviation or oblige them to comply. Moreover, these are couched in a language which can be interpreted differently by different countries. The idea of a quantitative indicator to trigger compliance has apparently fallen by the wayside.

2. Reforms of the IMF

18. The decision taken by the G-20 leaders in their first three Summits, particularly at the London and the Pittsburg Summits, no doubt infused a new life into the decadent international financial institutions, particularly the IMF. There was an unprecedented increase in the liquidity at its disposal. After a gap of more than 35 years, the IMF was able to issue SDRs on a sizeable scale. It was assigned an important role in implementing the G-20 decision on financial regulations and in the surveillance of the economies of both developed and developing countries. This has opened up the possibility of reviving the original mandate of the IMF for the surveillance of the economies of all member countries, and not only developing countries which have been borrowing from it. However, these measures are still inadequate to enable the IMF to do full justice to its statutory functions, let alone to the additional role assigned to it by the G-20.

19. The Summit leaders have committed themselves to strengthening "the longer term relevance, effectiveness and legitimacy of the international financial institutions". They have also stated that they would "reform their mandate, scope and governance to reflect the changes in the world economy". They conceded that developing and emerging economies "must have a greater voice and representation" in the IMF. There is, however, a legitimate concern whether any of these statements of objectives would ever be translated into meaningful concrete reforms. There have been similar expressions of good intentions in the past which have not been followed through. The reforms carried out so far of the IMF and the World Bank have taken years and are peripheral in nature. Looking ahead it is difficult to believe that the major developed countries would really agree to

relinquish their stranglehold over these institutions without which there can be no meaningful reform. Some of the principal issues on the reforms agenda have been:

- Greater representation of developing countries through quota adjustments;
- Increase in the resource of the IMF; and
- Reform of the IMF conditionality.

2.1 Quota Adjustments

20. There has been marginal shift in the IMF quotas to the under-represented member countries. It was agreed in 2009 to shift the IMF quota share of at least 5 per cent from over-represented to under-represented countries. But even if a shift of this magnitude takes place, this would not change the balance of power in the decision making process in the IMF. The United States with its 17 per cent share will continue to be able to veto important projects, which require the support of members holding 85 per cent of the quotas. Moreover, together with its allies, the US will continue to have a majority to be able to shift the balance of the decision making in its favour. India, Brazil and other developing countries members of G-20 had suggested a shift of 7 per cent so as to bring the quotas of the developing countries from the present level of 43 per cent to 50 per cent, but this was not agreed.

21. At the Seoul Summit, the G-20 leaders endorsed the decision taken at their Finance Ministries meeting preceding the Summit, to increase the quota shares of dynamic emerging members and other member countries by 6 per cent. The agreed redistribution of the quotas will have the effect of putting China in the third position and India in the 8^{th} position among the quota holding countries. Two developed countries would cease to be the members of the 24-member Governing Board of the IMF and two others would slip below the 10^{th} position. This redistribution no doubt will improve the voting power of the emerging economies, but the improvement will be still

marginal and the major developed countries together, particularly the United States, EU and Japan will still hold enough quotas to block any project. There was a promise in the Seoul Summit Document of a new alignment of quotas designed to further improve the position of the emerging economies and other developing countries. It was decided to start the next comprehensive quota review by January 2013 and complete the process within a year. Thereafter, the Board's composition was to be reviewed every eight years. In view of this, there was no substantive discussion on quota adjustment at the Cannes Summit.

22. At the Mexico Summit, the G-20 leaders affirmed their commitment to implement the agreed Quota and Governance Reforms by the 2012 IMF/World Bank Meeting. However, this Reform has not until now been ratified by IMF member governments, without which it cannot come into effect This has made impracticable, the commitment of the G-20 to undertake by January 2013, a comprehensive review of the quota system with a view to addressing its deficiencies, and completing the exercise by January 2014. Without a drastic revision in the quotas, there can be no progress in democratising the decision-making process in the IMF nor in giving greater voice to developing countries in this process.

2.2 IMF Resources

23. The IMF has for a long time been marginalised in its role of bailing out countries in economic distress. It could not go to the rescue of the South-East Asian countries during their economic meltdown in 1996 and 1997. It was nowhere in sight during Russia's economic crisis in 1998 when it suffered huge loss of national output and wealth. A large part of the reason for inaction at the international level in both cases was political. But it was also due to the inadequacy of resources at the disposal of the IMF. The IMF is clearly not in a position to substitute what major economies acting individually or collectively can do for bailing out countries facing economic crisis. The total liquidity at the disposal of the IMF before the London Sum-

mit decision to augment its resources was only 250 billion dollars. In contrast, the liquidity that some of the member countries of the Fund can dispose of runs into trillions of dollars. The latest example is the debt crisis in the periphery of the Euro Zone. The major economic powers in the Euro Zone, particularly Germany, put in resources to bail out Greece from its economic crisis. IMF was nowhere in the picture as a provider or mobiliser of fund on any significant scale. There were reports of countries like China, India and Russia which have accumulated sizeable foreign exchange reserves, having been approached to pitch in for the Euro Zone rescue operation. But none of these countries volunteered to do so. Both India and China took the view that the responsibility for restoring stability to Euro Zone essentially belonged to the Euro Zone countries. India gave a hint that it could consider joining the IMF effort if Europe's own rescue effort failed. At the same time, the Indian Prime Minister wanted to make sure that after making resources available for bail out operations, IMF must be left with enough resources to meet the liquidity needs of the developing countries. At the Cannes Summit, the Prime Minister of India stated: "We endorse the IMF playing its part in restoring stability in Europe. At the same time, IMF must also keep in mind the liquidity requirements of developing countries". Given the limited resources at the disposal of the IMF, this statement is a contradiction in terms, unless the intention is to mobilise support for a hefty increase in the IMF resources. This leads us to the crucial issue of what should be the adequate level of resources at the disposal of the IMF and how it should be mobilised. This issue has not until now been faced squarely. This is mainly due to the determination of major developed countries to retain their discretion to take decisions of their own on bail out cases on a country-by-country basis.

24. The Chinese have given sufficient indication that they have other priorities than putting a substantial part of their reserves at the disposal of the IMF. According to the priorities set in their 12th Fiver Year Plan, they have to invest much larger resources to meet their avowed objective of raising the standard of living of the people

to at least that of the middle income developed countries, to reduce regional disparity, to create domestic demand and to provide public goods particularly in the areas of education and health where both public investment and standards have declined in recent years. Their next priority is likely to be bilateral assistance to and investment in other developing countries. This is important not only for their international image and in fulfilment of their commitment for South-South cooperation but also for obtaining energy and other natural resources for sustaining their high rate of growth. As regards bailing out economies in distress, their preference is likely to be the developing countries of South East Asia. They are already collaborating for this purpose under the institutional arrangement of the Chiang Mai Initiative. Recently there has been further consolidation of this regional financial and monetary arrangement, by China and Japan deciding to put much larger resources in the kitty and with the establishment of a group of experts to monitor the major indicators of the economies of the member countries and to make recommendations for intervention, if necessary. For all these reasons, Beijing is unlikely to affect any substantial increase in its contribution to the IMF under its various arrangements and windows. In any case, it would like to have a *quid pro quo* for any increase in its contribution, in terms of enhanced voting power. But the process which can lead to this enhancement, that is the realignment of quotas, has been and is still proving to be very slow and long drawn out.

25. Besides, China has taken the view that its main contribution to the growth and stability of the global economy will be its remaining the biggest engine of growth in the world. At the Seoul Summit, President Hu Jintao stated: “In the coming five years China’s imports are expected to exceed eight trillion US dollars, which will be a major contribution of China to the global economy”.

26. The G-20 Summit Leaders have made commitments in general terms to increase the resources of the IMF. The agreement reached on this issue at the Seoul Summit did not represent much of an advance

from the existing position. The Seoul Declaration referred to the enhancement of the Flexibility Credit Line to which member countries in need can have access and the creation of the Precautionary Credit Line as a new preventive tool. The fact is that the resources available under these credit lines are utterly inadequate and even these remain unutilised because of their availability being subjected to forbidding IMF conditionalties. Perhaps realising this, the Summit Leaders in the Seoul Document asked their Finance Ministers and Central Bank Governors to explore a “structural approach to cope with a shock of a systemic nature”. At the Cannes Summit, the Leaders stated: “We commit that the IMF must get adequate resources to fulfil its systemic responsibilities”. For this purpose, they asked their Finance Ministers to work on deploying a range of various options including bilateral contribution to the IMF, SDRs and voluntary contributions to IMF special arrangements. As a follow-up, there has been an increase in the temporary resources of the IMF (other than quota increase) to the tune of 461 billion dollars, in the form of bilateral contributions.

27. Coming back to the question of what is enough by way of resources to enable IMF to discharge the responsibilities under its statute, Keynes in his Plan had suggested that it should be 30 per cent of global liquidity or 50 per cent of global imports. The global merchandise import in 2010 was 15.4 trillion dollars, 50 per cent of which comes to 7.7 trillion dollars. If trade in services is included, the desired level of resources will be approximately 10 trillion dollars. It is inconceivable that members states would provide resources to IMF approaching anywhere near this magnitude.

2.3 IMF Conditionality

28. A major problem that the developing countries have encountered in dealing with the IMF is the conditionality imposed by it for bailing out countries in financial distress and for providing other forms of accommodation. The quintessential form acquired by the IMF/World Bank conditionality was the structural adjustment

programmes prescribed by them for developing countries from the early 1980s. Empirical evidence has shown that in several cases, the IMF/World Bank conditionality worked to the detriment of the development of developing countries. The situation came to a pass where because of the conditionality, several developing countries decided not to avail themselves of the facilities of these institutions. That is why most of the facilities under the IMF have been scarcely utilised in recent years.

29. An anomaly which surfaced during the last economic crisis was that although developed countries under the grip of the global recession, followed counter-cyclical policies, a number of developing countries in a similar situation, were forced by the IMF and the World Bank to pursue pro-cyclical policies like controlling inflation, reducing government expenditure, devaluing their currencies and encouraging exports when the markets for them shrank drastically. The Summit decisions do not contain any recommendation for bringing about a qualitative change in, let alone jettisoning, the conditionality. The London Statement simply referred to the new Flexibility Credit Line and Reforms in the conditionality. These reforms fall short of what is dictated by the current economic circumstances. In any case, they do not, by any means, usher in a new regime of conditionality.

30. The IMF and the World Bank conditionality severely restrict the space for macroeconomic policy making by developing countries. The recent events showed how important this space was for adopting stimulus measures. Developed countries which are beyond the pale of the surveillance of the IMF, exercised the unlimited space of macro-economic policy making available to them. In contrast, developing countries which, during the last crisis, and even otherwise, needed this space as much as developed countries, found themselves constrained by the IMF/World Bank conditionality and the WTO regimes which have the effect of restricting space for sovereign decision making by developing countries in the economic sphere. For example, developing countries should have freedom to adopt national

policy measures to regulate capital flows and to defend themselves from speculative movements of currencies. For this to happen, the IMF/World Bank conditionality, which insists on moving towards capital account convertibility, liberalisation of financial service and deregulation of investments, should be significantly altered. Until now, the G-20 has not made any recommendation in this direction.

3. The Development Agenda

31. Apart from its pre-occupation with recovery, one of the major tests of the success of G-20 is what it can achieve by way of promoting longer-term growth and stability of the world economy, particularly the development of developing counties. Growth is essential for fulfilling the important goals that the world community has set before it, that is, elimination of poverty, meeting the basic needs of the people, ensuring human rights, and promoting the dignity of the individual. In addition, sustained growth in developing countries is an important condition for ensuring the sustainability of the global recovery process. It was, therefore, not surprising that trade and development was included as an item in the agenda of the Seoul Summit. For, to quote from an article by the former Secretary General of the United Nations, Kofi Annan, written a few days before the Seoul Summit, "it is not possible to address the issue of trade imbalances without discussing development imbalances". Moreover, if the developing countries member of the G-20 are to remain credible in the eyes of the other developing countries, they have to demonstrate that they are making progress in harnessing international cooperation for development. The developing countries members of the G-20 have to carry other developing countries along with them because they depend on the latter's support for advancing their interest in international forums on a whole range of issues, particularly reduction in domestic agricultural protection in the developed countries, revision of the TRIPS Agreement and safeguarding their interest in the climate change negotiations.

32. Development, therefore, occupied a prominent position in the Seoul Summit Document. The Summit adopted a Social Development Consensus for Shared Growth, with a ten-page Multi-year Action Plan on Development. This Action Plan dealt with a large number of issues relating to development, such as infrastructure, human resources development, trade, private investment and job creation, food security, growth with resilience, domestic resource mobilisation and knowledge sharing. Among development issues, India put maximum emphasis on the development of the infrastructure. Infrastructure development and financing found a prominent place in the Action Plan for Development. It was the very first item of the Plan in the operative part. International Banks were requested to "work jointly to prepare Action Plans for increased public, semi-public and private finance and improved implementation of national and regional infrastructure projects". The Summit Leaders also agreed to create a High Level Panel for Infrastructure Development to mobilise support for scaling up infrastructure financing. The Panel was directed to submit its final report to the Finance Ministers meeting prior to the 2011 Leaders Summit.

33. At the Cannes Summit, the Prime Minister of India directed the attention of the Summit Leaders to slowing growth trend in developing countries, and uncertainties in their financial market and export prospects. He called for "measures to redirect global savings so that they could be leveraged to increase investments in developing countries". He also called for an increase in the level of ambition of the multilateral development banks in order to ensure enhanced flow of resources to developing countries.

34. In the Los Cabos Declaration adopted at the Mexico Summit, the G-20 Leaders stated: "We will intensify our effort to create a more conducive environment for development, including infrastructure development". Several recommendation have been made on infrastructure development, including by the High Level Panel on Infrastructure set up by the G-20 Leaders and under the Multilateral Development

Banks' Action Plan on this subject. But there is no evidence of these having yielded any concrete results.

35. On the development agenda, *per se*, though some items have figured in all Summit declarations, the priorities of the G-20 have differed from Summit to Summit depending upon the salience acquired by particular development issues at the time of the Summit and the predilection of the host country. For example, the Declaration adopted at the Cannes Summit put emphasis on fostering employment and social protection, addressing food price volatility, increasing agriculture production and productivity, improving the functioning of energy markets, protecting maritime environment and fostering human energy, green growth and sustainable development. At the Mexico Summit, the emphasis was on food security, infrastructure and inclusive green growth. Under the last mentioned subject which was introduced at the initiative of the Mexican President, the G-20 Leaders committed themselves to "finding ways in which economic growth, environmental protection and social inclusion can complement and reinforce each other". The priority listed in the Annex to the Development Outlook Document adopted at the St. Petersburg summit, included food security, infrastructure, human resources development including international cooperation for training, financial inclusion and innovative approaches to reducing remittance costs.

36. In fact, the Development Agenda has become a "catch all" heading, in which almost all currently fashionable items of development have figured. These include disaster risk management, inclusive finance, Millennium Development Goals after 2015, aid effectiveness and climate change.

37. The commitments with varying degrees of specificity have been undertaken in each of these areas. Most of these commitments are in the nature of platitudes. There is no obligation for compliance except by way of reporting. Nor is there any commitment of resources, let alone additional resources, for implementing the commitments.

38. The G-20 have also created a number of ministerial forums, expert groups and panels to examine various development issues and make appropriate recommendations. Multilateral financing agencies, particularly the World Bank and Regional Development Banks have been assigned the central role for not only mobilising and providing financial resources for development but also for assessing and monitoring progress in implementation of the growth and development agenda, including "the assessment of the impact of the external environment in promoting development and reducing the development gap". This is in spite of the demonstrated failures of these agencies to mobilise resources on the required scale and the fundamental flaws in the development strategies prescribed by them. That is why the Stiglitz Commission recommended the creation of a new credit facility administered under a more representative governance arrangement. This new facility is to be designed with the intention of attracting funds from countries that have accumulated large international reserves. It could also draw upon financial contributions from other countries and leverage funds from financial markets. By steering clear of the idea of a new facility outside the framework of the World Bank and the Regional Development Banks, the G-20 Leaders have indicated their preference for the *status quo* for pursuing the development agenda.

4. Trade

39. The G-20 Leaders have pronounced themselves to be in favour of an open, predictable, rule-based and transparent multilateral trading system. They have also committed themselves to "keeping markets open" and "resisting all forms of protectionist measures". At the Seoul Summit, they "re-affirmed the extension of their commitment for standstill on protectionism until the end of 2013 as agreed in Toronto, and also committed themselves to roll-back any new protectionist measures that may have arisen". This commitment has been extended from time to time. At the St. Petersburg Summit, it was extended to 2016. In spite of this commitment, there

are instances of developed countries in their rescue packages and elsewhere including protectionist measures having the effect of adversely affecting the trade interests of developing countries. In the Los Cabos Declaration, the Leaders were "deeply concerned about rising instances of protectionism". They, therefore, "pledged to roll back any new protectionist measure". This pledge was reiterated at the St. Petersburg Summit. They have, however, studiously refrained from naming countries resorting to new protectionist measures and holding them accountable for rolling them back. On the Doha Development Round, the G-20 Leaders have in their successive Summits, reiterated the declaration made by them several times in the past from other forums, to bring the Round "to a speedy conclusion and attain a balanced and ambitious outcome". The pronouncements made by the G-20 Leaders at their Summit Conferences do not reflect any change in the positions taken by individual countries on the Doha Round of Trade Negotiations. They have not been able to give a push to the negotiations nor have they suggested any strategy for taking it forward. The little change that was noticed in the Los Cabos and St. Petersburg Declarations was to make a departure from the single undertaking principle in order to pick up some early harvests. The Los Cabos Declaration refers to "outcomes in specific areas where progress is possible, such as trade facilitation and issues of concern to the least developed countries". In the St. Petersburg Declaration, the G-20 leaders lent their support to a successful outcome in the Bali Ministerial Meeting "on trade facilitation and some elements of agricultural policy and development issues". But this does not represent any new initiative as this is only a reiteration of what has already been agreed in the negotiations in Geneva.

40. In tune with the current recognition of the importance of global value chains, the St. Petersburg Declaration recognised "the importance of better understanding of the rapid expansion of global value chains" and welcomed the work being done on the subject by OECD, UNCTAD and WTO.

5. Climate Change

41. The G-20 Leaders have not also contributed in any significant measures to pushing forward the climate change negotiations. At the St. Petersburg Summit, they recognised the *fait accompli* brought about by recent negotiations, of relegating the Tokyo Protocol to the background. In this Declaration, they welcomed the effort of the United Nations Secretary General to mobilise political will "towards the successful adoption of the Protocol, another legal instrument or an agreed outcome with legal force under the UNFCCC, applicable to all parties by 2015". This indicates that Tokyo Protocol is now only one of the several options to be pursued. This is indeed a triumph of the position taken by the United States and several other developed countries, on the Tokyo Protocol.

6. International Reserve Currency

42. A subject which was debated at the time of the creation of the IMF, has remained on its agenda, and came to the fore again in the context of the global financial and economic crisis, is the untenability of current international reserve system based on the dollar. The sustenance of this system depends upon the willingness of the United States to run constantly growing current account balance-of-payment deficits. There is a limit to which US can go on running such deficits and there is a view that the imbalance created in the global monetary and financial system on this account has already reached a dangerous proportion. Countries like China which hold a substantial proportion of their reserves in the form of US Treasury Bills, are concerned that they would suffer huge losses if the system collapses. This concern was expressed by the Chief of China's Central Bank as well as other Chinese leaders on the eve of G-20 Summits. China and some other developing countries have, in this connection, underlined the need for creating a new international reserve system based on the SDRs. However, this subject has not so far been brought to the formal agenda of the G-20 Summit.

43. On the eve of the Cannes Summit, it was indicated in the newspaper reports that one of the principal objectives of President Sarkozy, the Head of the Government of the host country, France, was to get the Summit to decide to reduce the role of the dollar and bring Yuan, the Euro and other important currencies into the SDR basket. President Hu Jintao also suggested, in his remarks at the Summit, that we should "expand the use of the SDRs of the IMF, reform the SDRs currency basket and build an international reserve currency system with stable value, rule-based issuance and manageable supply". India has not so far shown much interest in the issue of a new international reserve currency. The United States and its allies other than France, who are members of G-20, can be expected not to be in favour of any move to diminish the status of the dollar in the international monetary system. It is, therefore, not surprising that G-20 Summits have so far treaded very warily on this issue. There is no reference to the creation of a new international reserve currency in any of the documents issued at G-20 Summit meetings. The G-20 Leaders have until now been concerned only with the broadening of the SDR basket to reflect the emergence of new international currencies. For this purpose, they decided at the Cannes Summit to review the composition of the SDR basket in 2015. This is an indication of the leisurely pace at which they want to move in this direction. This is in spite of the fact that there has for long been a strong case for the creation of an international reserve currency in order to overcome the inequities and instability inherent in a global reserve system based on a national currency. Developments in the world economy and financial markets during the last few years have imparted greater urgency to this much awaited reform of the international monetary system. As the Stiglitz Commission Report points out "this is an idea whose time has come". The Commission is further of the view: "This is a feasible proposal and it is imperative that the international community begins working on the creation of such a new global reserve system. A failure to do so will jeopardise prospects for a stable international monetary and financial system, which is necessary to support a return to robust and stable growth."

44. There could be a number of approaches to the creation of a global reserve currency. The Commission suggests: “One institutional way of establishing a new global reserve system is simply a broadening of the existing SDR arrangements, making their issuance automatic and regular----. The simplest version ----- is an annual issuance equivalent to the estimated additional demand for foreign currency reserves due to the growth of the world economy.” A relatively large-size cyclical issue of the SDRs could also serve as a mechanism, through the device of the link between the SDRs and development assistance as proposed by an UNCTAD Panel of Experts in the 1960s, to provide financial support to meet both the liquidity and development needs of developing countries. As the Commission points out, “depending on the way emissions are allotted, the system could also correct the inequities associated with the large demands for reserves by developing countries, provide collective insurance against future shocks, help finance global public goods, including the costs of climate change mitigation and adaptation and promote development and poverty alleviation including in the poorest countries.”

45. Clearly, G-20 is not the forum to pursue such an ambitious proposal. The appropriate forum to do so is the United Nations.

7. Financial Regulation

46. One of the most important factors responsible for the recent global economic and financial crisis was the inadequate and flawed regulation of financial markets. As the Stiglitz Commission Report points out, the crisis also demonstrated that “markets are not generally self-correcting; that financial markets in particular are usually characterised by market failures; and that failures in financial markets have systemic consequences for the economy. It is, therefore, of paramount importance to devise adequate and appropriate mechanism and guidelines, regulations and standards to prevent the mistakes of the de-regulation of the financial markets that led to the crisis”.

47. The financial market regulation has, therefore, been one of the principal pre-occupations of the G-20 Leaders. They have entrusted the task of coordinating and promoting the monitoring of the implementation of their agreed decisions on financial reforms to the Financial Stability Board. The Board has by now been institutionalised as a legal entity with greater financial autonomy and enhanced capacity to discharge its functions. It reports on progress in the implementation of financial regulatory policies of the G-20, within the Coordination Framework for Implementation Monitoring (CFIM). The overall objective of the G-20 in this area is to support "a stable and integrated global financial system and prevent further crises".

48. The main reform areas identified by the FSB are:

- Basel capital and liquidity standards and framework;
- Framework for global systemically important financial institutions;
- Reforming over-the-counter derivative market;
- Addressing risks to financial stability emanating from the shadow banking system;
- Reforming compensation practices; and
- Combating money laundering, financing of terrorism and of the proliferation of weapons of mass destruction.

49. The FSB carries out its monitoring and reporting work in collaboration with the relevant standard setting bodies, particularly the IMF. It has set up a Financial Action Task Force on the specific issue of combating money laundering and risks posed by tax havens, and financing of terrorism.

50. The results achieved during the last five years of the effort of the G-20 Leaders to regulate financial markets have not been of much consequence. All member countries by now have endorsed the new Basel 3 guidelines on bank capital and liquidity. However, the Basel Frameworks and Guidelines suffer from the fundamental deficiency

of having been agreed in a forum where most of the developing countries are not present. Besides, the institutions of these countries do not have the capacity of risk management recommended under this Framework. G-20 has also identified global systemically important banks and insurers and agreed to subject them to heightened prudential standards to mitigate the risk they pose. However, there is no indication of any significant progress having been made in achieving this objective. The commitments in most of the areas are in terms too general to be amenable to precise monitoring and to holding any member country accountable. This is illustrated by the following report in the progress in this area in the St. Petersburg Declaration

"We are fully committed to systemic issues. We are building more resilient financial institutions; making substantial progress towards ending too-big-to-fall; increasing transparency and market integrity; filling regulatory gaps and addressing risks from shadow banking".

51. On the question of money laundering in which India has been particularly interested, mainly because of domestic political reasons, the G-20 Leaders have only identified some tax havens. There is no indication that any of the member countries in whose territory such tax havens lie, are going to take any action to close them down or apply controls.

52. On the whole, the G-20 Leaders seem to be wedded to a *laissez faire* and *status quo* approach in matters of financial regulation. The main emphasis in the successive Summit Declarations has been on improvements and streamlining of national regulations based on a set of commonly agreed criteria. As already pointed out, these criteria are too vague and general to be of much operational significance. The Summit Leaders have made it clear that regulations will be "first and foremost the responsibility of national regulators". The only role that international cooperation can play is to seek to ensure that national regulations are formulated in a consistent manner. On the whole,

commitments undertaken at the national level are for more effective oversight and supervision, greater transparency and better flow of information. The idea of international surveillance of such oversight and supervision has not found favour with the Summit Leaders.

53. In contrast to the approach followed by the G-20 on financial regulation, the Stiglitz Commission is of the view that while the effective regulatory system must be national, there should be a global regulatory framework to establish minimum standards and govern the global operation of systemically relevant global institutions. The Commission has suggested, as one possible structure, the establishment of two apex regulatory institutions working closely together, a new Central Bank focusing on macro-economic issues and a Financial Regulatory Authority (FRA) focusing on micro issues. The FRA should have several sub-commissions under it: a Securities and Exchange Commission, an Insurance Commission, a Financial Product Safety Commission, an Accounting Oversight Commission and a Financial Systems Stability Commission. At an earlier stage of its deliberations, the Commission had also suggested the establishment of a Global Competition Authority.

54. The idea of a financial regulatory mechanism and a mechanism to curb the monopolistic and unfair business practices of systemically relevant global institutions is not new to the UN system. The IMF itself was created as a financial regulatory mechanism at the global level, whereas the Havana Charter had a whole chapter on restrictive business practices. Subsequently, after transnational corporations came to dominate the world economy and trade, the UN established a Commission on Transnational Corporations and also started negotiating a Code of Conduct for such corporations. However, in the beginning of the 1980s, under the influence of the neo-liberal economic policies pursued both at national and international levels, the TNC Commission was wound up and the attempt to negotiate the Code of Conduct for Transnational Corporations was given up. In a major non-governmental conference convened on the occasion

of the 50th anniversary of the Bretton Woods Institutions, the idea of establishing an independent commission, to keep surveillance on the activities of the transnational corporations with a view to curbing their non-competitive practices, was revived. However, it was not followed up at the inter-governmental level.

8. Impact of G-20

55. G-20 no doubt served a very useful purpose until the Toronto Summit when the first phase of its work for meeting the challenges of the global economic and financial crisis came to an end. Can this be said also about the next phase of its work which has involved grappling with the structural problem of the world economy and international economic cooperation. In their Los Cabos Declaration, G-20 Leaders claimed: "-- G-20 has led to a new paradigm of multilateral cooperation that is necessary to tackle current and future challenges effectively."

56. There is no doubt that the G-20 has been extraordinarily active during the second phase of its work. It has been meeting every year at the Summit level. The Summit meetings have been preceded by those of the Finance Ministers of the member countries. In addition, Ministerial level meetings have been convened to discuss and make recommendations on issues in the sectors of agriculture and employment. A number of task forces and special groups have been set up, like the Task Force on Employment, Financial Action Task Force under the FSB and Development Working Group. The G-20 has also been able to energise international agencies selectively, particularly the World Bank, IMF, WTO, UNCTAD and the OECD, to monitor developments in the respective areas of their competence and hold in-depth discussions with a view to making recommendation. The G-20 has also triggered institutionalised cooperation among different non-governmental interest groups like Business-20, Labour-20, Youth-20, and Thinktank-20.

57. Moreover, the G-20 has evolved various frameworks for reporting progress in the areas of its engagement. The Mexico Summit set in motion the process of country reports on the progress in complying with commitments undertaken in G-20 Summit conferences. Based on the material provided in the country reports, a Plan of Action is being prepared and submitted at each Summit conference. The declarations adopted at the Summit conferences draw heavily from the Plan of Action. Like the usual country reports to UN bodies, these reports tend to depict the general economic conditions prevailing in the country concerned in a positive light, and highlight the so-called achievements. They include policies announced and those contemplated, including bills likely to be submitted by governments of the member countries to their respective legislatures, as a fulfilment of their commitment. There is very little in the country reports designed to help other member countries, particularly developing countries. In general, there are very few collective commitments in the Declarations and Plans of Action adopted by the G-20. Most of the commitments are expressed in general terms making it very difficult to pin down any member country to a particular course of action. Moreover, G-20 pronouncements mostly seek to reconcile or balance differing country positions.

58. A typical example is the G-20's verdicts on quantitative easing policy being implemented by the United States. In the Los Cabos Declaration, it was stated: "While capital flows can be beneficial to recipient economies, we reiterate that excess volatility of financial flows and disorderly movement in exchange rates have adverse implications for economic and financial stability". This formulation goes to satisfy both a country like India which implicitly welcomed the short-term capital flows stimulated by the US quantitative easing, as well as countries like Brazil and China which had strong reservations on the impact of the quantitative easing on the value of their currencies and hence on their export prospects. In the St. Petersburg Declaration also, the compromise formulation on quantitative easing is designed to accommodate the differing positions of the member

states. The relevant part of the Declaration states: “We recognise the support that has been provided to the global economy in recent years from accommodative monetary policies, including unconventional monetary policies. We remain mindful of the risks and unintended negative side effects of the extended period of monetary easing - - -. Our central banks have committed that future changes in monetary policy setting will continue to be carefully calibrated and clearly communicated”. The first sentence of this formulation supports the US position that the impact of quantitative easing has been supportive of the global economy. The second sentence reflects the point of view of Brazil and other emerging economies. And the third sentence goes towards meeting the Indian anxiety about the sudden withdrawal of the measure.

59. G-20’s consensus on exchange rates contained in its recent declarations, bristles with similar contradictions. On the one hand, the Leaders are in favour of market determined exchange rates. This is close to the position of developed countries. At the same time, they recognise that excess volatility and disorderly movement in exchange rates brought about by the unhindered operation of market forces, have adverse implications for economic and financial stability.

60. The objectives and policy measures agreed upon in almost all the areas of concern to G-20 are platitudinous in nature and have little operational significance. They do not oblige member states to change or make adjustments in their existing policies. They also do not impose obligation on member states to make additional financial and other resources available to realise the objectives set out under different headings. Here are a few illustrations.

61. The agreed formulation on employment recognises the importance of labour market reforms to boost competitiveness and employment. It also makes general recommendation on re-training, skill development, education in training, and special measures for the employment of target groups of the population like women and youth. These recommendations are self-evident.

62. On the post-2015 Development Goals, the St. Petersburg Declaration states: “We support the on-going effort in the U.N. for the elaboration of the post-2015 development agenda”. This is merely a procedural pronouncement. On the issue of food security in the WTO, the G-20 steer clear of taking any side. Their St. Petersburg recommendation seeks to reconcile the irreconcilable. On the one hand, they “support discussion in the WTO to respond to legitimate food security concerns, ---- including those related to carefully targeted policies to protect vulnerable population”. On the other hand, they would like this to be done “without distorting trade”.

63. At the St. Petersburg Summit, the G-20 leaders issued a Fifth Anniversary Vision Document which summarises what they have so far achieved, describes the range of subjects covered by their cooperation, sets out objectives in general terms and reiterates commitments to continue to work together to achieve these objectives. There is nothing new in this document. Most of the objectives are self-evident and couched at a level of generalisation where they have hardly any operational significance. Included among the objectives are:

- Raise growth, produce jobs and boost confidence;
- Maintain fiscal sustainability;
- Continue to reduce interest and external imbalances;
- Keep market open for trade and investment;
- Promote a rule-based international economy;
- Support strong and more representative global institutions;
- Promote open and transparent governance; and
- Build inclusive and sustainable global economy.

64. Apart from being platitudinous, these objectives suffer from a number of other deficiencies. They are of a long term nature and not likely to be realised in the short and medium run. It is, therefore, not possible to hold any government accountable for success or failure

in the realisation of these objectives. Secondly, some of them contain contradictory elements. Thirdly, there is no consensus in several of the member countries including India, on some of these policy objectives. Here are some examples.

65. In several of their statements, the G-20 leaders have highlighted the importance of growth as a means for reducing poverty. For example, in the Los Cabos Declaration it is stated, " - - - - by stabilising global market and promoting stronger growth we will generate significant positive effect on development and poverty reduction across the globe." Growth no doubt can reduce poverty. But the people in many G-20 member countries have no trust in this trickle down effect of growth. Experience has shown that in the absence of other measures of a structural nature, higher rates of growth have had the effect of bringing about only a marginal reduction in poverty in general and hardly any reduction in extreme poverty.

66. At the Toronto Summit the G-20 undertook the commitment of reducing their fiscal deficit by half within 2010 and 2015. In the Los Cabos Action Plan, it was stated that most members were projected by IMF to achieve this target. However, with the continuation and deepening of the world-wide recession, the mood changed and G-20 started "endorsing growth enhancing measures" along with fiscal consolidation.

67. In the Los Cabos Declaration, the leaders endorsed "social safety nets in a way that is financially responsible". Is there is an objectively determined standard to make a judgement as to what is financially responsible? A diehard neo-liberal can very well take the view that every safety measure is financially irresponsible. Similarly, contradiction is implicit in the G-20's recommendation on tax reforms, including reduction in subsidies, and labour reforms, including ease in retrenchment of labour. As is well known, these are highly contentious issues in a country like India where there is a huge backlog of poverty and unemployment.

68. Yet another example, in the St. Petersburg Declaration, the G-20 leaders recognised, among others, "the importance of putting in place conditions that could promote long-term investment". They, therefore, declared their commitment "to a supportive business environment" for investment. One form that the creation of supportive business environment has taken, particularly in India, is massive tax concessions to the corporate sector, at the cost of social sector spending, and government facilitation of large scale takeover and control by corporations of natural resources including land, at the cost of the poor owners of these resources. This is also a highly controversial issue in India on which the government should not have undertaken an international commitment.

69. Ever since the G-20 at the Summit level came into being under the exigency of the global economic and financial crisis, promotion of growth and employment and the strengthening of the recovery process has remained a major pre-occupation of the Group. The G-20 launched the framework for sustainable and balanced growth at the Pittsburg Summit in 2009. In the Declaration adopted at the St. Petersburg Summit the Group stated: "Our most urgent need is to increase the momentum of the global recovery and generate high growth and better jobs. It also committed itself to "avoiding policy that could cause the recovery to falter." However, the objectives declared , commitments entered into and measures recommended for this purpose are full of contradictions and ambiguities and generally platitudinous and non-binding. It is, therefore, not surprising that the world economy, instead of regaining even a semblance of its pre-crisis buoyancy is steeped in deep trouble. This was admitted by the G-20 Leaders in the Los Cabos Plan of Action which states: " ---- our common goal of achieving strong sustainable and balanced growth has remained elusive. Among others, recovery in private demand in most advanced countries remained muted. Unemployment in these countries remained stubbornly high." The picture of the world economy depicted in the St. Petersburg's Action Plan is equally bleak: "The global growth prospects for 2013 have been

marked down repeatedly over the past year, global rebalancing is incomplete, regional growth disparities remain wide, unemployment remains unacceptably high" and in the last few months, market volatility has increased and "despite our action the recovery is too weak."

9. Legal and Institutional Aspects

70. When the G-20 was designated as the premier forum for international economic cooperation, several observers of the international scene believed that it would replace G-8. This was clearly mistaken as has been demonstrated by subsequent events. G-8 is very much in existence and the coordination of the macro-economic policies of the countries constituting this Group continues to take place in this forum. However, with the new role assigned to G-20, only issues on which there can be no meaningful discussion or effective coordination without the involvement of the emerging economies like China, Brazil, India and South Africa, are likely to be brought to the G-20 forum. These issues indeed are of critical importance. They include, apart from the continuing global economic recession, new financial architecture, Doha Round of Trade Negotiations, and negotiations on such critical issues as climate change, energy security, food security, etc.

71. In spite of the recognition of the inevitability of the cooperation of the emerging economies for dealing with these critical issues, the voice of developing countries like India will remain weak and muted in the G-20 forum. This is largely because of the composition of G-20. Out of the 20 countries constituting the Group, eight are major developed countries. The European Union is a member in its own right, Turkey which has traditionally been regarded as part of Europe, is another member of the Group. Among developing countries, Mexico, Saudi Arabia and South Korea are generally expected to side with the major developed countries with whom they share common interests more than they do with other developing countries. Argentina is likely to be on one side or the other, depending upon how it perceives its national interest on a particular issue under

discussion in the G-20. Given this composition, the G-20 is likely to be used as a forum for putting a stamp of approval of the Group on decisions taken at the G-8 forum. This will be all the more so because countries generally like to go along with the majority for fear of being isolated. In any event, the G-20 will never become a forum for bringing structural changes in the international economic system in order to make it just and equitable. Any attempt to do so will be regarded as heresy by the dominant members of the Group.

72. The remaining 173 members of the United Nations are outside the G-20. They have equal right to participate in dialogues on international economic cooperation. For them, the U.N. is the only available forum for this purpose. In fact, the U.N. is also the proper forum for this purpose according to the international law as enshrined in the U.N. Charter. The Charter in its Preamble declares that the U.N. will "employ international machinery for the promotion of the economic and social advancement of all peoples". Article 1(4) of the Charter provides that U.N. will "be a centre for harmonising the actions of nations in the attainment of the common ends". According to Article 1(3), one of the purposes of the U.N. is "to achieve international cooperation in solving international problems of an economic, social, cultural, or humanitarian character". The instrumentality that the Charter created for pursuing this objective is the Economic and Social Council as a Permanent Organ of the Organisation.

73. During the last three decades, major developed countries have made a conscious, well-planned and concerted effort to deprive the U.N. of the functions in the economic field as provided in the Charter. This has resulted in the erosion of these functions to an extent where the U.N. has virtually ceased to discharge them. U.N's functions in the Charter relating to matters of money, finance, trade and development strategy have been transferred to the World Bank, IMF and the WTO, which the developed countries control by virtue of their voting power or their power to retaliate as in the case of WTO. The emergence of the G-20 as the premier forum for interna-

tional economic cooperation is a significant institutionalisation of this process of the erosion of the economic functions of the United Nations. Unfortunately, this has the approval of India. This is most unfortunate because the pioneer of India's foreign policy, Jawaharlal Nehru, had an abiding faith in the U.N. and till the end of his life he kept on emphasising that a 'world government' of his vision would be built on the foundation of this Organisation.

74. In its actual functioning, the G-20 has further undermined the role of the United Nations and reduced its stature in the planetary system of international institutions. It has done so by selectively reviving the World Bank and the IMF which in recent years have become impotent and dysfunctional; by equating IMF, World Bank, WTO and FSB with the United Nations, and by putting OECD, an organisation of developed countries, on the same footing as the United Nations.

75. In contrast to the UN, the G-20 has a very tenuous legal justification to play the role it has been assigned. Its members were nominated by G-8. Besides, the Charter envisages no alternative arrangement or parallel structure other than the U.N., for assuming the overall responsibility of international economic cooperation. Article 57 of the Charter provides that all existing specialised agencies "shall be" associated with the United Nations. Article 67 provides that the United Nation will convene conferences for establishing new specialised agencies. Thus, there is no separate or independent role for institutions like G-20 in the scheme of global economic governance envisaged in the Charter.

76. Suggestions have been made from time to time for reforming the U.N. institutional structure for international economic cooperation. A number of commissions on U.N. reforms have recommended the establishment of an Economic Security Council of the United Nations. A High-level Working Group on U.N. Reforms suggested the convening of an annual Conclave of both the Security Council and the Economic and Social Council to discuss global issues in

an integrated manner. The Stiglitz Commission has suggested the establishment of a Global Coordination Council. These suggestions may be open to criticism on one ground or the other, but they all have legal legitimacy as each of the suggested new bodies is to be located within the United Nations, the universal organisation created by the international community through a treaty, for undertaking international economic cooperation.

77. The interests of India and other emerging economies in several areas can be best served through cooperation within the United Nations and broader forums of developing countries like G-77, rather than under the G-20. The generic drugs exported by India were confiscated by developed countries members of the G-20 and those who joined India in opposing it were the developing countries members of the G-77. Developed countries members of the G-20 are hurting the interest of the emerging economies by their agricultural protectionist policies. The countries which have joined India and other emerging economies in an effort to bring about a change in these policies in the Doha Round of Trade Negotiations, belong to G-33 Group which is a part of G-77. India along with other emerging economies is seeking amendments to the TRIPS (Trade-related Intellectual Properties Rights) Agreement, among others, to get deleted its provision on the patenting of macro-organism to prevent the usurpation of their bio-resources. In this also, among the adversaries are developed countries members of the G-20, and the support for amendment comes from G-77 members. These and several other examples demonstrate that in order to safeguard India's immediate and long term interest in the international economic order, it needs the support of developing countries much more than developed countries members of the G-20.[1]

78. However, the G-20 in its new role is firmly established and is likely to remain active in the near future. The challenge for countries like India is to reconcile their role in the wider forums of the United Nations and G-77 with that in the G-20. This is going to be a

tight rope walking and will call for clever and calibrated diplomacy and extraordinary negotiating skill. A very important aspect of this challenge will be to ensure that the G-20 does not in any way undermine the authority of the United Nations. Another and an equally important aspect will be to keep the line of communication open with developing countries outside the G-20, and safeguard their interest in decisions taken in this forum.

Endnote

[1] The material used in paragraphs 70 to 78 is taken from the author's paper "Global Economic Crisis; Response of the International Community" published in *India Quarterly,* 65,4 (229): 453-67. Sage Publications, New Delhi.

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