



# ISSUE BRIEF

*"Advancing the Strategic Potential of India-US Relations, Accelerating India's Economic Development"*

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## G-20: Beyond Economic Coordination?

by Amb. Hemant Krishan Singh



The transition from G-8 to G-20 as the premier forum for global economic coordination,

precipitated as it was by an unprecedented financial crisis originating at the heart of the developed economies, is still relatively new. While the world economy appears to have stabilized since 2008, Europe remains precariously poised. Meanwhile, global growth has slowed and only a handful of emerging economies remain buoyant.

Between 1991 and 2010, the balance of global economic power has gradually become more dispersed. In 1991, the G-7 economies accounted for 66% of nominal global GDP, which came down to 50% by 2010. For want of a better comparison, the BIC economies were at 5% in 1991, whereas the BRIC economies accounted for 18% of world GDP in 2010. This indicates the rapid pace at which the emerging economies are closing the gap as their growth outpaces the developed economies by significant margins.

This trend will accelerate in the years ahead, particularly in Asia, which the ADB estimates will account for 52% of global GDP by 2050. Just seven countries (China, India, Indonesia, Japan, ROK, Thailand and Malaysia) are likely to be the main drivers, contributing 91% of Asian GDP growth and 53% of global growth between 2010-2050\*. While none of this is preordained, these numbers do point towards the possible shape of things to come.

Emerging markets today provide around 75% of global growth. The output of Europe on the other hand is estimated to fall from 20% to just 11% of the world economy in a decade.

So, change in the distribution of global economic power is coming relatively fast, even though there are not many signs that this is being amply recognised by the old economic order defined by Bretton Woods and dominated by the US and Europe. Witness the slow progress on IMF quota reform or the traditional pattern of selecting the heads of the IMF and the World Bank. The US has made an effort in signalling some receptivity towards change through its choice of a development protagonist as the head of the World Bank, but as Europe's fortunes slide it appears content in claiming privileges that have to give way sooner rather than later.

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Vol. 2, Issue 7

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Interestingly, even as there are projections of an “Asian Century”, there are admonitions to the emerging Asian powers to “delicately manage” their rapidly rising role as major players in global governance by acting “non-assertively and constructively”. They are being called upon to ensure that the “Asian Century” should not be Asia’s alone but the century of shared global prosperity, even though the world has been happy to term the past century as the American Century. The ADB finds it necessary to urge Asia to adhere to prescriptions of open regionalism, which in fact Asia is already following\*.

At the same time, the rebalancing of economic power is being resisted on the grounds that there is no cohesive Asian community, discounting the challenge posed by several Asian emerging economies.

It is useful to assess where the G-8 and G-20 stand today. After three decades of G-7/G-8 dominance, the G-20 has marked some progress towards multi-polarity, with emerging economies demanding an equal say in global agenda setting, including greater policy coherence for sustainable development.

The G-8 Summit held in May 2012 failed to forge agreement on steps to calm the Eurozone crisis, leaving it to members to choose between the demands of growth and austerity. No concrete measures or coordinated actions were announced even though the crisis in Europe is arguably at par with the 2008 meltdown and there is widespread recognition that Europe has taken only a small proportion of required measures (as compared to the US post-2008)

to recapitalise its collapsing financial sector.

The G-20 grouping on its part is also struggling to maintain forward momentum. At their meeting in April 2012, Finance Ministers preparing for the Summit could not quite decide whether the world economy can expect receding tail risks with moderate growth or the persistence of volatility and downside risks. High levels of debt, insufficient global rebalancing, persisting development gaps and the need to avoid protectionism, all pose daunting challenges for Summit leaders when they meet later this month to define priority areas for policy actions. The G-20 framework is also being called upon to contribute more meaningfully to increasing growth, infrastructure financing, employment and social inclusion. On Europe, it remains to be seen if the G-20 can muster up coordinated actions to help the old continent address its problems through larger firewalls. The relevance of the G-20 will be severely tested in the coming weeks.

Greater sharing of responsibility between the established and emerging powers is a valid idea whose time has surely come. However, this is relatively easier done on economic and trade issues where the global economic order enjoys established governance institutions. The world political order, on the other hand, remains hierarchical, even if one were to accept multi-polarity as part of the emerging scenario. Political power is still unequally distributed and the world scene is marked largely by the developed Western countries laying down prescriptive yardsticks and employing a variety of means to enforce them. We are slowly realising that history did not in fact end with the Soviet collapse and global developments are refusing to follow a linear path validating the triumph of liberal democracy.

The realm of international security is similarly marked by the persistence of this imbalance, drawing its concepts from the geo-politically driven national security interests of a handful of Western states, with which others are called upon to comply. The UN Security Council is not sufficiently representative of developing countries, or indeed the shifts in global power since 1945, to assume its responsibilities with credibility and effectiveness. Insecurity and conflicts persist in the absence of a global security architecture designed to deliver equal security to all nations.

Thus, broadly speaking, established and emerging powers may have common security interests but have not yet renewed the institutions that can take these forward constructively. This situation cannot persist indefinitely, nor can a new framework be imposed unilaterally.

At the same time, there is no denying that the world faces innumerable challenges that transcend borders beyond the stability of the global economy. The international community is already grappling with these in different fora.

Can the G-20 be tasked with areas outside the economic domain? That is a difficult proposition indeed, not least as the G-20 comprises a variety of powers with disparate agendas and capacities. It is important to recognise that whatever the G-20 is able to do cannot be at the expense of its primarily economic agenda.



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\* “Asia 2050, Realizing the Asian Century”, Asian Development Bank.

It will be difficult for the G-20 to handle traditional security issues which are inter-State in nature. Even on non-traditional security issues the scope for action is limited. Without duplicating the work of mandated institutions, G-20 may be able to act in areas where there is convergence among its members to leverage their economic strength and political influence, for instance in stabilizing and re-building Somalia, subject to a consensus being forged.

The G-20 has to be careful in picking up issues outside the economic domain. Speaking purely hypothetically, such issues may include energy security, food security, maritime security, cyber security, counter-piracy, maritime environmental issues and nuclear safety.

There is little purpose in the G-20 getting involved with domestic and international issues of global impact in general, which are better handled elsewhere. That would needlessly politicise the work of the G-20, seriously jeopardising its functioning and core contributions.

So perhaps the way forward for the G-20 is to focus on its main mandate related to the world economy, and see where else it can make a difference because of its composition and capacity at a suitable juncture in the future. In the meanwhile, the G-20 should be strongly supportive of reform of the global institutions of governance dealing with political and security issues, not least the UN Security Council, even while recognising that this change will actually happen only when the designated fora are ready to act. There has to be greater recognition that developing countries and emerging economies can contribute to improved global governance in both the economic and security fields.

On the prospect of the G-20 looking beyond economic coordination, it would be prudent to conclude as

follows:

- the G-20 forum has been conceived with a specific purpose; calls to broaden its mandate may not be a productive approach.
- even on tackling its original mandate, the G-20 has yet to deliver tangible results, with Europe still threatening to descend into a chaotic quagmire.
- there is little appetite within the group to go beyond its mandate into the political-security arena; even the limited issue of climate financing has not found resonance.
- the G-20 is driven mainly by Finance Ministries of member countries, and is ill equipped to even contemplate the widening of its mandate to non-economic issues.

What the G-20 can more usefully do at the forthcoming Summit is to revive its determination and cohesion of 2008-2009, especially by strengthening growth in Asia and South America which will be the main drivers of the global economy within the next decade. For the present, the undiluted focus of the G-20 should be a well-balanced and sustainable global economic revival that brings shared prosperity to all nations.

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