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# Looking Back at G20 after 25 Years

**By: Biswajit Dhar**

*The G20 has remained a handmaiden of the Group of Seven (G7). Hence, even at the G20 the concerns of developing countries have been secondary to the interests of the major economies. Will the Indian presidency, to be followed by that of Brazil, make a difference?*

## 1. Introduction

In the aftermath of the "Great Recession" in 2008, the Group of Twenty (G20) emerged as the forum of the leaders of the world's most important countries, which, importantly, included some of the more prominent developing countries. The origins of this grouping can be traced back to yet another economic crisis, which was triggered by the Asian financial crisis in 1997.

The Group of Seven (G7) countries took an initiative to bring together the finance ministers and central bank governors of seven developing countries, four Organization for Economic Co-operation and Development (OECD) countries, Russia, and the European Union (EU), which led to the formation of the G20 in 1999. Notably, the G20 has since drawn its legitimacy from that it is the first significant grouping that includes both developing and advanced countries.

Though the G20 is not a decision-making body, consensuses among its members have helped it move several critical global issues forward. Given the key role that the G20 has played in influencing several global processes, one question that has repeatedly been asked is whether developing countries have contributed towards making the decisions of the group inclusive.

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Thus, when India assumed the G20 presidency, expectations were rife that it would make a strong pitch on behalf of the South, in keeping with its historical tradition. The confirmation that India would play this role came from the prime minister, who in his address to Global South Summit 2023 underlined that "it is natural that our aim is to amplify the voice of the Global South". He noted further that the grouping should "respond to the priorities of the Global South by framing an inclusive and balanced international agenda".

But this could be a tall ask—for a quarter of a century since it was first unveiled, the G20 has remained a handmaiden of the G7. Developing countries concerns continue to be over-ridden by the dominating influence of the major economies. This paper analyses the institutional underpinnings of the G20 and the decisions taken in a few specific areas by the grouping to show that it is so.

## 2. Formation of G20

The Asian financial crisis triggered the formation of the G20. The crisis that began in Thailand in July 1997 spread quickly to other countries in East Asia and beyond. The US, which had played a hegemonic role in shaping the post-War global financial governance, took the initiative to prepare a response to this crisis.

At the Asia Pacific Economic Cooperation (APEC) meeting in 1997, US President Bill Clinton proposed that the G7 countries should invite the finance ministers from a group of "systemically significant" economies to discuss ways of responding to the crisis. In early 1998, US Treasury Secretary Robert Rubin organised meetings of finance ministers and central bank governors from 22 countries. The G-22 (also known as the "Willard Group") discussed the financial crisis and sought a consensus on solutions.

The first meeting of the G-22 was held in Washington, DC in April 1998 on the sidelines of the spring meetings of the International Monetary Fund (IMF) and the World Bank. In early 1999, the G-22 was superseded by a much larger group of 33 countries, which now included several African and non-EU European countries. The dialogue initiated between the G-22 and G-33 countries remained ad hoc and this forced a rethink among the G-7 countries about their strategy of engagement with the major economies in the developing world.

> …[P]olicies 'will work only if the developing countries and emerging markets help to shape them, because inclusiveness lies at the heart of legitimacy and effectiveness'.

The rationale for establishing the G20 was given by the G-7 finance ministers and central bank governors in June 1999, whose view was that for strengthening the international financial architecture, a "broad range of countries should be involved in discussions on how to adapt the international financial system to the changing global environment". The formal announcement of the formation of G20 was made in September 1999—"*to establish a new mechanism for informal dialogue in the framework of the Bretton Woods institutional system, to broaden the dialogue on key economic and financial policy issues among systemically significant economies and promote cooperation to achieve stable and sustainable world economic growth that benefits all*" (emphasis added).

The idea of broadening the "dialogue on key economic and financial policy issues" was advocated by Paul Martin, the Canadian Finance Minister. Martin argued that the "international community had finally learned a fundamental truth about policies to promote development", which was that the policies "will work only if the developing countries and emerging markets help to shape them, because inclusiveness lies at the heart of legitimacy and effectiveness".

Some commentators have argued that this statement was "public confirmation that the lack of participation by emerging market economies within the decision-making structure of the global financial system" had begun to be "viewed as part of its broader governance problematic" (Germain 2001: 412).

The membership in the G20 was eventually decided during negotiations between US Treasury Secretary Larry Summers and Canadian Finance Minister Martin. In addition to the G7 countries, the EU, and Russia, the G20 includes China, India, and Brazil, and "systemically significant economies" Mexico and Indonesia. Turkey, Australia, Korea, Argentina, and South Africa were added after some bargaining, while Saudi Arabia was added because of its leading role in the Organization of the Petroleum Exporting Countries (OPEC). Along with the sovereign states, the IMF and World Bank are also a part of the G20.

> Since its inception, discussions in the group were primarily directed towards 'prevention and resolution of systemic financial crises, rather than the much wider range of reform issues in the financial system that require attention'.

Not surprisingly, several commentators have viewed the G20 as part of the "G7-isation" of the world. According to this view, "The G20 was born to legitimate G7 initiatives to the wider world, by securing a broader consensus for G7-generated ideas". This view seems justified as G20 was entirely crafted by the G7 without any formal engagement with the G24, a developing country grouping that was formed in 1972 by the Group of 77. G7's reluctance to engage with the G24 was significant given that the latter was constituted to "establish the position of the developing countries on the fundamental issues concerning the reform of the international monetary system".

A second reason why developing countries were "destined" to play a marginal role in the G20 was that since its inception, discussions in the group were primarily directed towards "prevention and resolution of systemic financial crises, rather than the much wider range of reform issues in the financial system that require attention". And, with the G24 highlighting the importance of reforms of the financial system, the G7 had no meeting points with the G77.

## 3. Objectives of G20

The first meeting of the G20 finance ministers and central bank governors spelt out the broad objectives of the forum, which were "to broaden the discussions on key economic and financial policy issues among systemically significant economies and promote co-operation to achieve stable and sustainable world economic growth that benefits all".

Two subsequent meetings defined the agenda of the grouping more explicitly. The Montreal meeting (2000) discussed"benefits of globalisation" from "increasing integration of national economies resulting from the greater international mobility of goods, services, capital, people, and ideas". More significant was the Berlin meeting (2004), which concluded with the "G-20 Accord for Sustained Growth", setting the agenda on the core issues of economic management.

This consensus document was effectively "Washington Consensus 2.0" with its emphasis on the neoliberal agenda. The virtues of fiscal discipline, strengthening competition through "carefully designed" policies of deregulation, privatisation, and liberalisation of

international transactions, and flexible labour market conditions for "achieving high employment levels and broad participation of the labour force" were underlined. Further, while employment was recognised as the "first and best safeguard against social exclusion", the document sounded almost agnostic about the possibilities of creating jobs, emphasising that "social safety-nets are needed to cushion the effects of unemployment".

This agenda for G20, adopted "by consensus", signalled the "G7-isation" of the grouping. Three sets of evidence can be cited to support this view.

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First, the US administration convened the first meeting of the heads of states or governments of G20 countries after the sub-prime mortgage crisis, ostensibly to ensure the political commitment of the major economies to respond to it. Though the crisis largely affected countries with which the US financial system was closely intertwined, all G20 countries accepted commitments for adopting stronger regulatory standards alongside furthering trade and investment liberalisation. This meant exacting burdens were imposed on countries that were not responsible for the economic downturn.

Second, the "G7-isation" of the G20 was effectively an ongoing process because meetings of the G20 finance ministers and central bank governors were directly influenced by their G7 counterparts. The evidence for this is that G20 meetings are always held in the shadow of meetings of their counterparts from G7 countries, a sequence that began with the establishment of the G20.[1] This has allowed the G7 to better coordinate is positions during the G20 meetings.[2]

Third, the "G7-isation" of G20 has been evident from the decisions adopted in the grouping on several critical global processes, which have not served the interests of developing countries. This is the most obvious limitation of a grouping whose declared objective was to make the deliberations more participatory and the decision-making more inclusive within the group and beyond.

In the following section, we discuss three areas in which G20 decisions that have not quite gone the way the developing countries would have desired.

### 4. Has G20 Failed Developing Countries?

We consider three areas to evaluate the outcomes of G20 decisions. The first of these involves tax challenges arising from globalisation, one of the more prominent issues that the OECD includes in the phenomenon called "Base Erosion and Profit Shifting" (BEPS). This issue has dogged tax authorities the world over as global capital has been shifting its profits earned in one jurisdiction to tax havens, thus escaping tax liabilities.

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The focus on BEPS increased following the unprecedented expansion of digital transactions, which have made it difficult to identify the jurisdictions where profits are actually being earned. A joint G20/OECD initiative on BEPS was initiated in 2012. In 2021, the G20 endorsed a decision to introduce a global minimum corporate tax, which has since been endorsed by 142 countries. This was part of a "two-pillar solution" to address the problem of BEPS.

The second issue is the reform of the multilateral trading system, an agenda that was adopted in 2001 with the backing of developing countries and is better known as the Doha Development Agenda (DDA). When the G20 leaders met for the first time in 2008, the consensus was on introducing the reforms in keeping with the DDA. However, from the Hangzhou Summit (2016) onwards, references to the DDA were removed and the agenda for reforming the World Trade Organization (WTO) has since been dictated by the developed countries.

Finally, we shall discuss the implications of the G20's external debt management strategy for low-income countries adopted in the aftermath of the Covid-induced downturn.

### 4.1 Addressing the Tax Challenges

In 2021, the G20/OECD initiative on BEPS arrived at a two-pillar solution for addressing the problem of tax evasion/shifting. The first pillar is aimed at ensuring a more equitable distribution of profits of the largest transnational corporations (TNCs) among countries. This is to be achieved by re-allocating the taxing rights over the TNCs from their home countries to economies in which they conduct their businesses and earn profits, irrespective of whether the corporations have a physical presence in these economies.

Eligible TNCs include those having a global turnover of more than €20 billion and profitability above 10%. A quarter of an eligible TNC's profits in excess of 10% of its revenues can be reallocated to the jurisdictions in which it earns more than €1 million. Two facets of pillar 1 must be noted. One, the basis of re-allocation is residual profits of the TNCs and not total profits, and two, smaller economies, where the TNCs earn lower profits, are excluded.

> A second pillar, the Global Anti-Base Erosion (GloBE) Rules, imposes a global minimum corporate tax of 15% on TNCs, which is well below the developing country demand of at least 25%.

The State of Tax Justice Report had reported that in 2021, the year in which the two-pillar tax solution was endorsed by the G20, TNCs had shifted US$312 billion to tax havens, with almost two-thirds of the total tax revenue lost. In the absence of transparency in country-wise data availability, there is no certainty that developing countries can meaningfully benefit from re-allocating taxing rights. In fact, the OECD corroborates this view—its estimates show that allocation of taxing rights may raise corporate tax revenues in poor countries by just around 1%.

A second pillar, the Global Anti-Base Erosion (GloBE) Rules, imposes a global minimum corporate tax of 15% on TNCs, which is well below the developing country demand of at least 25%. This demand was entirely justified as the average of corporate taxes for African countries was 27.6% in 2022, implying that these countries would have to take a substantial hair cut while taxing the TNCs according to the provisions of the second pillar. The G7 countries, on the other hand, have provided a cushion to the corporations while agreeing to the GloBE Rules since the average of their corporate taxes in 2022 was more than 11% higher.

While formulating the GloBE rules, the G7/OECD extended several benefits to TNCs, the most significant of which were the carve-outs based on a fixed percentage of their payroll costs and tangible assets in tax havens. This implies that if a TNC engages employees in a tax haven or has assets there, including property, plant and equipment and natural resources, among others, they are allowed a deduction from their profits before the minimum tax is applied.

This deduction will be 18% in the first year of implementation and will progressively fall to 10% at the end of 10 years. Thus, the global minimum corporate tax would effectively be between 12.3% and 13.5%. For resource-starved developing countries, the G20 could not have delivered a worse deal through the two-pillar solution.

### 4.2 End of the Doha Development Agenda

Possibly the most significant moment for developing country members of the WTO was the adoption of the DDA in 2001 and the launch of a new round of negotiations. The DDA provided the mandate for rebalancing several key WTO Agreements to provide better opportunities to developing countries to benefit from the multilateral trading system.

The value of the DDA was substantially enhanced after developing countries formed strong coalitions in most negotiating areas to effectively bargain with advanced countries. This was an entirely new dynamic, which had promised to deliver much, until it was hit by the economic downturn in 2008.

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However, the first G20 Summit rekindled expectations around the DDA with the leaders agreeing on the need for "a successful conclusion to the WTO's Doha Development Agenda with an ambitious and balanced outcome". The Leaders continued to express their commitment to conclude the DDA until the 2015 Summit, which coincided with the Nairobi Ministerial Conference.

But from the Hangzhou Summit in 2016, the DDA disappeared from the Leaders' Declaration. Almost on cue, the WTO Ministerial Conference in Buenos Aires (2017) recorded that there were "differences of opinion on the Doha Round and the Doha Development Agenda". In the WTO, discussions/negotiations are held by consensus among the members, and, therefore, differences over the DDA meant a premature closure of the Doha Round of negotiations.

With the developing country agenda off the table, discussions on the trade agenda in the G20 shifted to issues that were prioritised by the advanced countries, including the reform of the WTO to make the organisation pursue the neoliberal agenda more vigorously.[3] The discussions are now centred on the inclusion of issues such as electronic commerce and investment facilitation, which would bring investment liberalisation onto the agenda of the WTO.

### 4.3 Common Framework

In April 2020, G20 countries, at the urgings of the World Bank and the IMF, lent their support to the Debt Service Suspension Initiative (DSSI) taken in response to the significant increase in debt vulnerabilities and deteriorating outlook in many low-income countries arising from the pandemic. The DSSI, which became effective from May 2020, was aimed at ensuring that bilateral official creditors temporarily suspend debt service payments from the most vulnerable countries, subject to requests being made by the debtors, until the end of the year.

The potential beneficiaries under the DSSI were the 73 low-income countries eligible for support under the IMF's Poverty Reduction and Growth Facility (PRGF), the arm of the fund that supports the world's poorest countries. Private creditors were also invited to participate in the initiative on comparable terms.

Since the "Common Framework for Debt Treatments beyond the DSSI" to help countries restructure their debt was launched by the G20, only four countries—Chad, Ethiopia, Zambia, and Ghana—have requested a restructuring of their debts. This does not speak too well about the success of the initiative, especially because the debt restructuring plan has gone through only in Chad.

It is not difficult to understand that the "Common Framework" was doomed to be a failure because of its several design flaws. First, the initiative is intended to "temporarily" suspend the debt service payments that the PRGF-eligible low-income countries owed to only the bilateral official creditors. This implies that the G20 countries did not want to include the debt servicing obligations of the targeted countries arising from the larger burden of debt that they owed to their private creditors as well to the multilateral agencies in the "Common Framework".

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At the end of 2019, bilateral official creditors accounted for 25% of the total outstanding external debt stocks of developing countries, which had declined to 21% at the end of 2021. In this context, it must be mentioned that the debt that low-income countries owed to private-sector creditors had increased from just below US$14 billion in 2010 to more than US$83 billion a decade later.

A second major flaw in the "Common Framework" is that its targets low-income countries, ignoring the significant problems with external debt that several middle-income countries, especially Sri Lanka and Pakistan, are struggling with.

Finally, it is important to understand the rationale of the "Common Framework". First, the initiative was intended to bring on to the table the "new donors" from the developing world, especially China and India, alongside the traditional "Paris Club" donors. This has introduced a dynamic that the grouping has been unable to deal with, which is encouraging China and the traditional donors to work together.

Thus, the "Common Framework for Debt Treatments beyond the DSSI" is yet another creditor-driven initiative aimed at protecting the interests of global capital while the indebted countries remain condemned to bear the burden of debt.

## 5. By Way of a Conclusion

Over its quarter of a century of functioning, the G20 has been yet another instance of an "institutional capture" by the more powerful countries. This is often not obvious at first sight as the Declarations, especially those issued at the end of the Leaders' Summit since 2008, do include the concerns of poorer countries.

However, a close look at the decisions taken by the grouping, as this paper did, show that the poorer countries have continued to remain mired in their problems. This implies that despite the presence of the developing countries in G20, the grouping has not served the interests of the Global South.

The Indian presidency has expressed its deep commitment to address the concerns of the Global South during its presidency. It is important for India to initiate changes in the G20 dynamic for there is a strong possibility that the next presidency of the grouping, Brazil, will carry forward the changes that India initiates. India and Brazil have been at the vanguard of the struggles for making the global order less iniquitous and India's G20 presidency could see another new beginning.

*Biswajit Dhar is former Professor, Centre for Economic Studies and Planning, School of Social Sciences, Jawaharlal Nehru University.*

**Footnotes:**

**1** The first G20 finance ministers and central bank governors meeting that was held under the Indian presidency on 24-25 February 2023 was preceded by the G7 finance ministers and central bank governors meeting held on 22 February.

**2** While the latest meeting of the G7 finance ministers and central bank governors resolved to take a strong stand on "Russia's War of Aggression against Ukraine and its Impact on the Global Economy", there was no consensus on this issue in the G20 meeting. Thus, the latter ended without a ministerial declaration.

**3** The reform agenda was set up the EU members and also by the Ottawa Group, chaired by Canada.

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