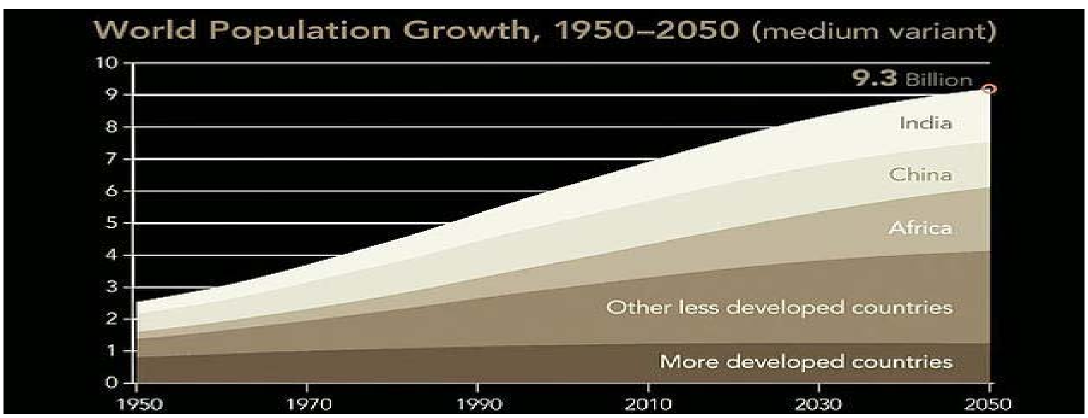
CHAPTER 1

INDIA, G20 AND THE WORLD

1.1 Second World War was definitive in redistribution of the world power . Authority of United States of America was established and after a prolonged cold war with the other waning super power, USSR , the power slowly shifted towards the western democracies led by US. Japan was quick to recover too and through its technological innovations & business practices soon became a formidable force despite its relatively smaller area, population and insignificant military prowess. Economic might had become the new centre of gravity and formations like **G6,** a **club of the rich,** involving US, Japan France, Germany , Italy and UK emerged in 1975.

Changing World Order & acknowledgement of the '*Systematically Significant'* (India, China etc)- Origin of G-20

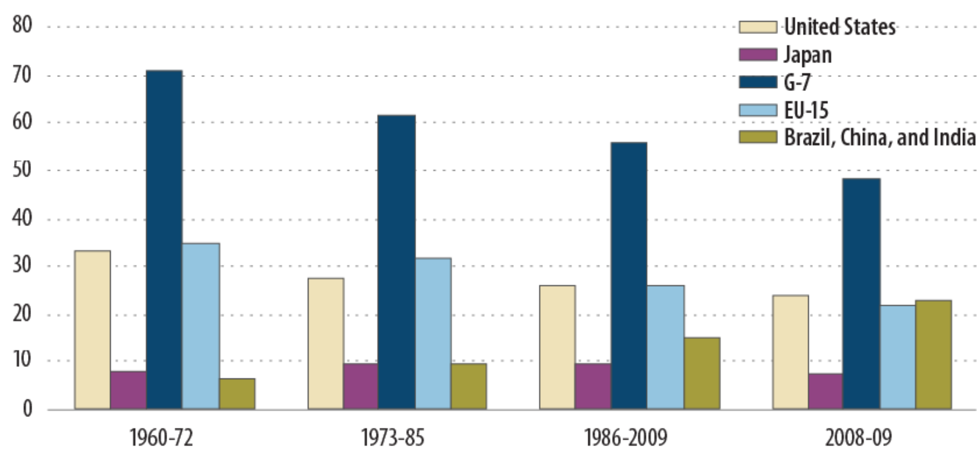
1.2 After the second world war, free from occupation and external aggression countries like India and China, initially stayed aloof addressing their own domestic concerns, building their nations. It took some time for these countries to integrate themselves in the world economy . Meanwhile they continued to grow rapidly in terms of population, a factor that they could later leverage when they would start to open up . Slowly even with relatively lower per capita GDP but a big enough population and favourable age structure their overall impact in world economy could no longer be ignored.



1.3 In the meantime , Developed countries were at their peak .The way in which business would be done was changing world over. Spurred by the information technology (IT) revolution, trade liberalization and other economic reforms, the entry of an estimated 2 billion people into the labor force as a result of the breakdown of the Soviet bloc and the opening of China, and the freer movement of capital and technology from developed countries to developing countries, the size of the global economy doubled over the decade preceding the 2008-2009 global financial crisis, increasing from $31 trillion in 1999 to $62 trillion in 2008. With the globalization of production, the phenomenon of *'factory asia'* (production flowing away to countries with cheaper labour) became more evident. While the growth reached practically every region of the world and encompassed dozens of developing countries, a handful of large developing countries—led by China, India, and Brazil—accounted for a major share of the global growth. Other emerging economies with large populations, such as Indonesia, Mexico, Russia, Turkey, and Vietnam, also grew at a rapid pace. China, in fact, was fast becoming a leading driver of the world economy. Larger size had economic repercussions in terms of both market and labour force. The balance of international economic power was shifting away from the United States and European powers that had dominated the world economy since the end of World War II to a few dozen developing countries located in Asia, Latin America, and the Middle East.

1.4 The long-standing distinction between advanced and developing countries, particularly for rising economic powers, was blurring. The advanced countries were still the richest countries in terms of per capita income, but their economies were no longer the largest, the fastest-growing, or the most dynamic. Rising economic powers were exerting greater influence in global trade and financial policies and in the multilateral institutions that have underpinned the global economy since World War II.

World GDP Distribution by Country, 1960-2009
(in percent)



Source: Brookings Institution, *Emerging Markets*, p. 30.
Notes: World GDP measures in Purchasing Power Parity (PPP) adjusted dollars.

1.5 In view of the above, metamorphosis of smaller elite group like G-6 was inevitable. However, the Group underwent some intermediate stages of expansion before the evolution of G-20 which would eventually include 19 countries namely, Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, the Republic of Korea, Turkey, the United Kingdom, the United States of America and the European Union, which is represented by the rotating Council Presidency and the European Central Bank as the 20th member . The first addition to G-6 was **Canada**, just after a year of the first summit in 1975 and the group became **G-7.** With **Russia**'s addition in 1997, the Summit became known as **G-8** . **G-13**, the **G-8 plus the outreach five (Brazil, India, China, Mexico & south Africa)** was another categorization , smaller in size than the **G-20** which was created in 1999, in the wake of the financial crisis in Asia, as an informal forum for the finance ministers and central bank governors of economies considered ‘systemically significant’ by the G-7.

1.6 The newcomers in the G20 were selected using implicit rather than explicit criteria. Consequently , the resulting membership did not include the twenty largest economies by any measure but it did include a combination of some of the largest and fastest growing developing countries (notably China and India), as well as some countries which were hardly ‘systemically significant’ (Argentina & Australia)

Role of emerging economies like India in G-20 & Regional Cooperations - Pre Global Crisis (2008)

1.7 For the first decade, from 1999 to 2008, the G20 forum attracted little public attention . Countries like Brazil, China and India were becoming more engaged both with the mature economies and the developing world. The rise of the major emerging countries over the past decade had coincided with their push into the world’s richest markets in the US and Europe, and at the same time, their construction of new ties of goods, money, people and ideas among themselves, their regions, and with other developing countries. In brief, they were increasingly integrating into the global economic system. China, Brazil and India each directed diplomatic support and some resources to new projects of regional institution building in their neighbourhoods. The three rising states had also gone beyond their own regions to promote “**South South cooperation**”. Finally, Russia, India and China garnered world attention when Brazil joined them in June 2009 at the inaugural “**BRIC**” Summit (in Yekaterinburg, Russia).Prior to the global crisis, the rising powers put concerted attention into building interconnectivity within the developing world, fostering new institutionalized ties of goods exchange, capital, people and ideas. They directed resources at creating a parallel set of institutions that operate largely according to their own sets of rules and currencies of power.

1.8 Beijing, Brasilia, and Delhi aimed to build new institutions that were autonomous from Northern control. China helped in developing the **Shanghai Cooperation Organization** and various institutional innovations around the **ASEAN** states, together with Japan and South Korea. Brazil promoted new cooperation in South America via renewed support to Mercusor; its proposal for a Union of South American Nations (**UNASUR**), started in 2007, “born out of a novel commitment on the part of member states to forge effective mechanisms to deal with the multiple challenges that should unite, but often divide— the region” ; and arguably foremost, through the operations of its national development bank, BNDES. Delhi supported the development of the **SAARC**, other new multilateral initiatives in the region such as “**BIMST-EC**” (Bangladesh, India, Myanmar, Sri Lanka, Thailand— Economic Cooperation).

1.9 The self-insurance strategies of the rising powers prior to the "Global financial crisis were aimed not simply at “decoupling” them from the global economy but rather to facilitate managed integration. Prior to the crisis, the major emerging economies were heavily reliant on the developed markets of the US and

Europe. By playing both sides, they were benefitting from the system in two ways, simultaneously. For the decade prior to the global crisis, they kept a low profile or minimized their engagement in the Bretton Woods Institutions, did not bear significant costs in maintaining the global architecture, and could channel their resources instead to fostering hedging options.

Growth in significance of G-20& increased engagement of economies like India, China – Post Global Economic Crisis

1.10 In the wake of the global financial crisis of 2008 the G20 was elevated to a Leaders Forum in an effort that was termed as '***fellowship of the lifeboat***' engendered by the global crisis and the urgency of launching a coordinated policy response In a short period of time the G20 moved from relative obscurity to centre stage in media coverage of global economic governance. With their limited formal voting power, and the long tradition of US–European dominance of the IMF, it was not surprising that the dynamic emerging market economies preferred the G20 as the premier forum for deliberations. The global crisis also challenged the sustainability of the Southern-only networking and autonomous institution building efforts. The crisis revealed that the rising powers were either unwilling or unable to play the role of alternative global lender-of-last-resort. Moreover, although China, India and Brazil all went into the global crisis in a better position than many, these countries nevertheless felt the impact of what grew into a global economic crisis. With the onset of the crisis, these countries shifted their diplomatic positions, and became more active in advocating for reforms in global architecture, via the G20 Leaders process, as well as at UN and other global meetings.

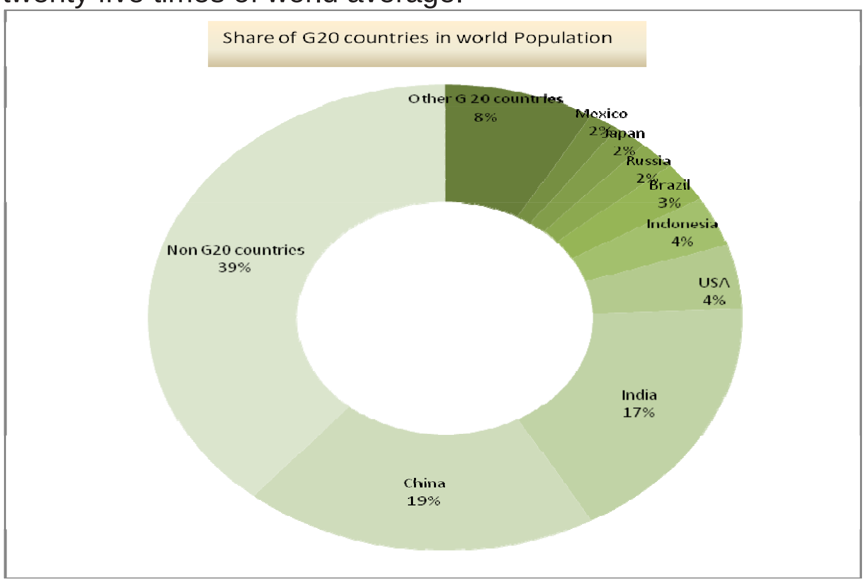
1.11 **Achievements and Concerns** : Several landmark reforms of International Financial Institutions were initiated at the behest of the G20 which heightened the expectation for bringing about fundamental changes in the functioning of the global institutions and in the global governance structure. Select mid-level emerging countries have been encouraging the major emerging countries to work within the G20 process, to gradually reshape the system of global economic governance from the inside. The goal of these states is advancing a reform "**from the inside**" agenda, of moving the world from a US/G7-centered system to one in which the emerging countries have more say in reform proposals, such as the proposal of reform in the lending norms of the international financial institutions floated by Indonesia, advocacy for, and implementing, institutional changes that further broaden the number of states that are actually consulted in global summitry, taken up by South Korea and South Africa etc. India as a member of the G20 has been actively engaged in Global Economic Governance and in shaping the World Order.

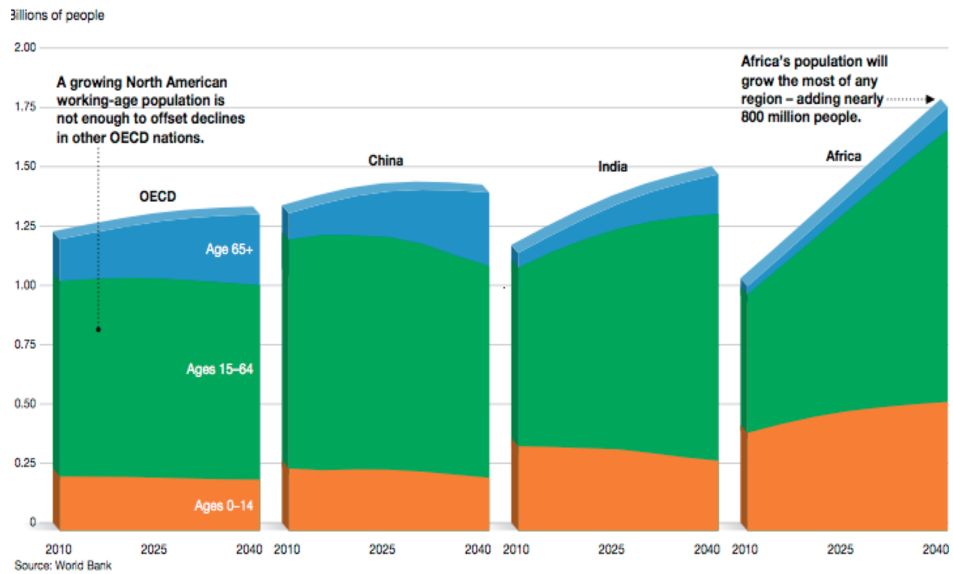
1.12 Despite broadening of the elite group G-8 to include emerging economies , the exclusivity of the G20 is questioned by some as it permanently excludes 173 countries. With no representation of low income economies and significant under representation of Africa (South Africa is the only African member country), the *representational legitimacy* is also questioned. Allegations of *'plurilateralism of the big'*, by which the vast majority of nations lose voice and influence on matters that affect them crucially, is also levelled against the group along with the charges of undermining the existing system of multilateral cooperation in institutions such as IMF, the World Bank and the UN .

1.13 However, responding to the charges of representational legitimacy, G20 has invited ‘representatives’ from underrepresented regions – such as Vietnam for ASEAN and Ethiopia and Malawi for the African Union – to participate as ad hoc ‘observers’ in G20 summits, though the same is contested as *‘concessions at the margins’*. Some of the inclusions like Argentina etc have been contested by many. Any measure like GDP or Population for membership would result in exclusion of Argentina, Saudi Arabia & South Africa . Netherlands, Spain, Poland may be included in case GDP is used as criterion and countries like Pakistan, Bangladesh, Phillipines etc may be preferred in case population is given primacy for inclusion. Further, inclusion of EU while leaving aside other regional formations is also debated.

India , G-20 & World a comparative picture (2012) :

(i) Population Divergences in opinion exist with respect to whether the GDP and population of all EU countries should be included in the calculation of G20 shares of the global economy or not. The populations of nineteen countries are represented directly through their own national representatives, whereas the populations of 27 EU countries are ‘represented’ indirectly through the EU seat. Excluding the EU, G20 comprises about 62 per cent of world population against the figures of two thirds used frequentlywhich includes EU. Out of this , only about 12.6 per cent share is contributed by G-8 countries. India alone accounts for about 17 per cent of world population (only behind China with share of 19 per cent), much more than G-8 countries put together. In terms of population density , India stands second , behind South Korea (high density) with number of people living per square km, in case of India, being more than twenty five times of world average.

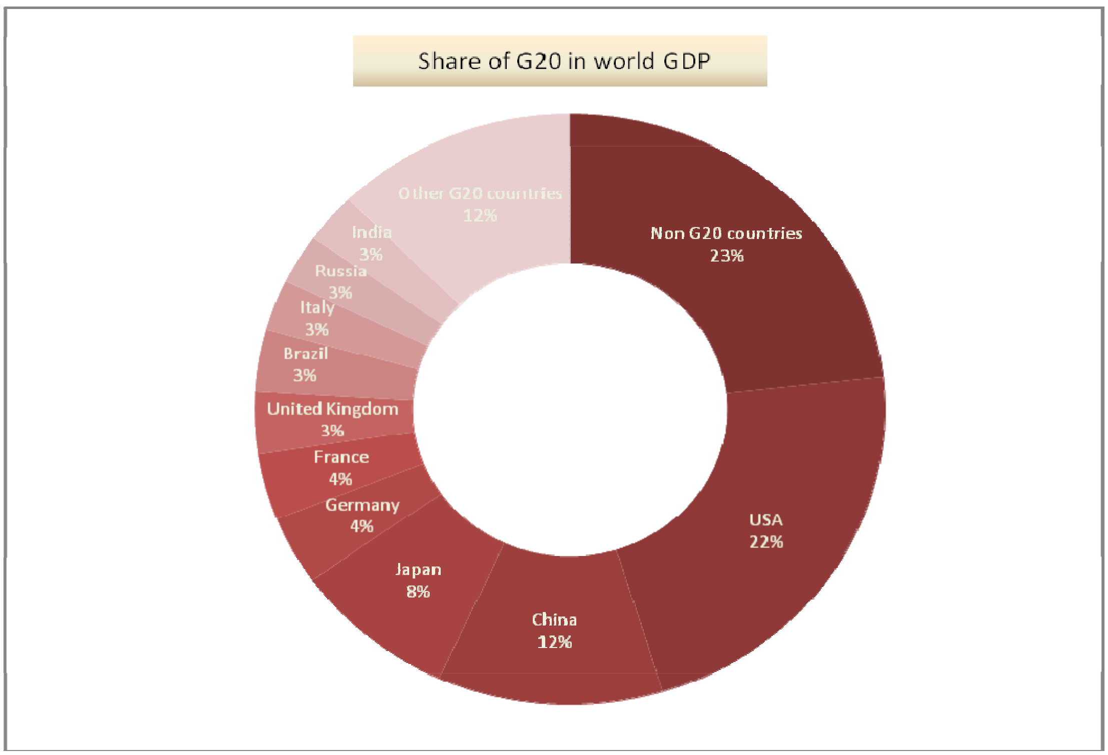




The significance of population of some G-20 countries like India and China is likely to continue in future though the growth rate has already decreased significantly in China and is slowing down in case of India too. Population structure will continue to be favourable in case of India. In case of OECD countries , a growing North American working age population is not enough to offset declines in other OECD nations. Africa's population will grow the most of any region – adding nearly 800 million people by 2040.

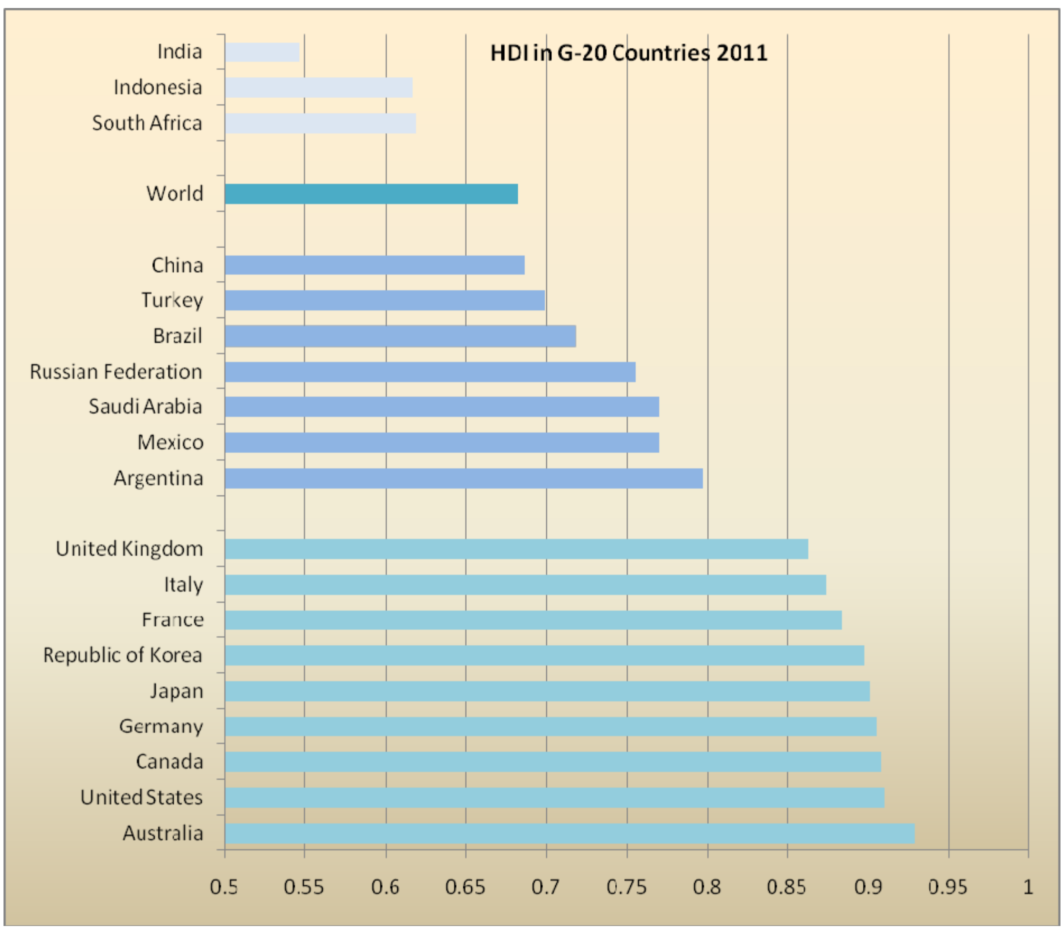
(ii) Economy G20 countries , excluding EU, accounted for 77 per cent of world GDP during 2012 and their share increases to 90 per cent on inclusion of EU. In the total share of 77 per cent , G-8 countries accounted for about 49 per cent , rest 28 per cent being contributed by eleven other member countries , with 12 percent by China alone . Share of India in the world GDP is about 3 per cent. The Indian economy is one of the fastest growing economies in the world and in terms of purchasing power parity (PPP), it ranks third largest in the world, after the United States and China. In terms of PPP it has moved up by one rank during 2012 (ahead of Japan) from its fourth position during 2011.

In terms of per capita GDP, Mexico, South Africa, India and Indonesia rank lower than the world average . India , despite of improvement over the years , is still at the bottom in G20 group with per capita GDP of 1592 USD, about one tenth of the world average of 10157 (USD).G-7 countries rank significantly higher (at the top of G 20 spectrum) .

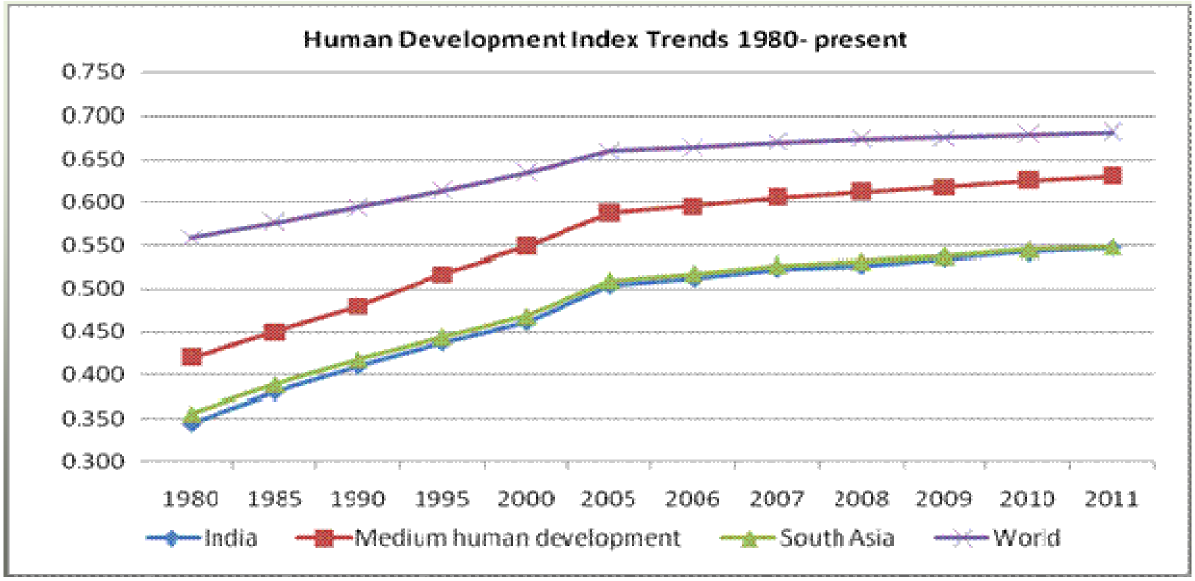


(iii) World Trade : . G-20 countries, including EU, account for nearly 80 per cent or world trade (sixty per cent if EU is excluded) that has been increasing rapidly with more and more economies integrating themselves .International trade grew at an compound annual growth rate of 12.2 per cent during 2000-08 with more than 20 per cent CAGR in case of G20 countries like China, India and Russia . After a decline in 2009 due to global economic crisis, the global trade recovered in 2010 & mid 2011 witnessing annual growth rates of more than twenty percent .During 2000-2010 , share of China in th world trade has increased by 6.5 percent , Russia by 1 percent , India by 0.8 per cent and Brazil by 0.5 per cent. India's share in world merchandise exports had started rising fast since 2004, reaching 1.3 percent in 2009 and 1.5 percent in 2010. It increased to 1.9 percent in the first half of 2011, mainly due to relatively higher Indian export growth of 55 percent compared to the 23.1 percent export growth of world .

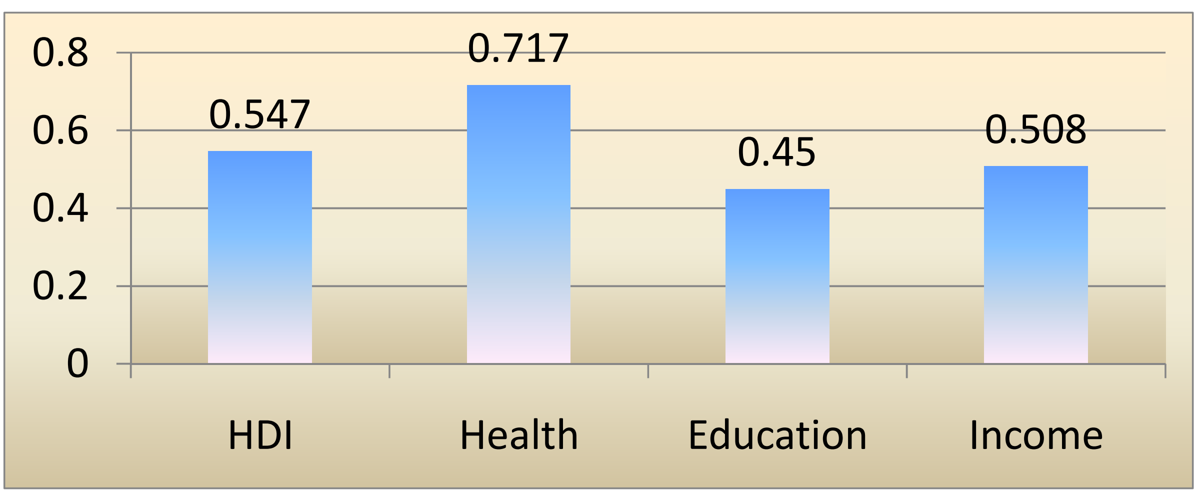
(iv) Human Development Index (HDI) Human development indicators like HDI have become increasingly popular as it is increasingly being felt that much more than economic development is required for a sustainable society. Social dimensions like literacy , access to public health etc matter in the long run not only because they enable better participation in the economy but also because they addressed issues essential for human well being . Human development concerns have become as critical as the GDP concerns , if not more. A comparison of Human Development Index (HDI) reports of India, G-20 countries & the world reveals that much remains to be accomplished in case of India which is ranked lowest (134th rank) in the G 20 Group while four G20 countries (Australia 2nd , US 4th , Canada 6th & Germany 9th) feature in list of top ten countries in the world, with Japan at close 12th rank.



Performance of India in terms of HDI has been continuously improving but its trajectory is still similar to that of south Asian economies, much below the medium human development or the overall performance of the world. Although India has improved in the income index, it lags behind the neighbouring countries like Bangladesh and Pakistan in education and healthcare. Between 1980 and 2010 India's HDI rose by 1.6% annually from 0.320 to 0.547 today.



Amongst the three dimensions of the HDI ,India performs best in health followed by income with education index being merely 0.45 compared to overall HDI (0.547) for India. Life expectancy in case of India (65.4years) is close to the world average (69.8 years) whereas the same is more than 80 years in case of six G-20 countries .Maternal mortality rate in case of India (230), though more than world average (176), is significantly lower than that of Soth Africa (410) and slightly better than Indonesia (240).In case of Japan, Italy , Germany ,France & Australia , MMR is less than 10. India's position for schooling is worst among G20 Countries. Expected years of schooling in India is 10.3, lower than world average (11.3). The mean year of schooling is 4.4, which is much lower than world average (7.4). Population with at least Secondary Education is 26.6, much lower than World average.



In the Gender Inequality Index, India is at a poor 134nd position; Bangladesh and Pakistan are ranked at 146th and 145th positions, respectively, indicating that India is better in gender equality than these nations.

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