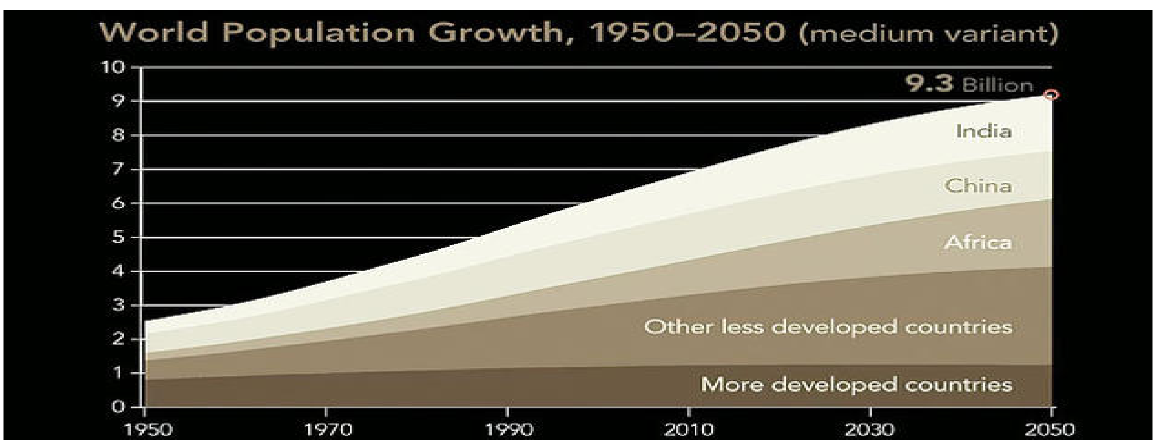
CHAPTER 1
INDIA, G20 AND THE WORLD

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.

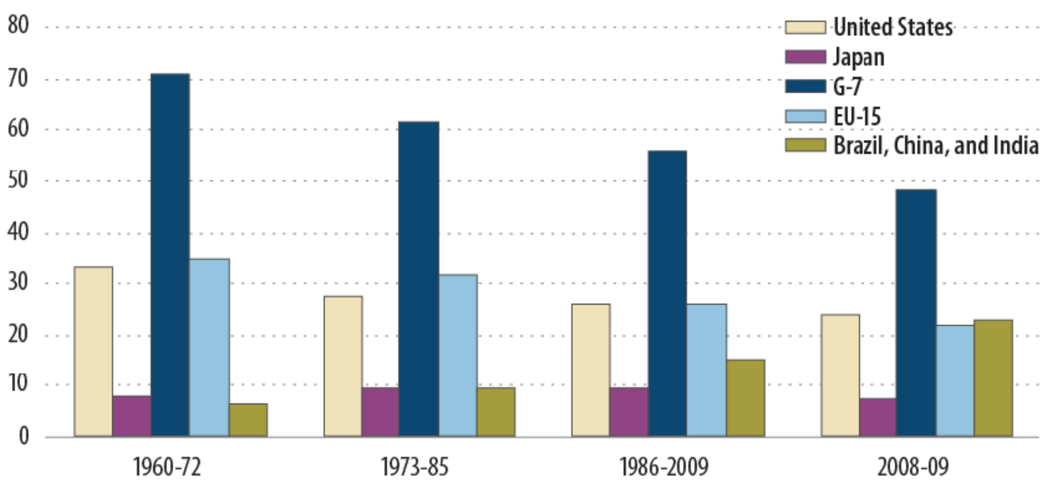


1.3 In the meantime, Developed countries were at their peak. The way in which business would be done was changing world over. Spurred by the information technology (IT) revolution, trade liberalization and other economic reforms, the entry of an estimated 2 billion people into the labor force as a result 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 was 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, with 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 its 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 view of the urgency of launching a coordinated policy response, an effort termed as "*fellowship of the lifeboat*". 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 G-20 : 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, eg 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

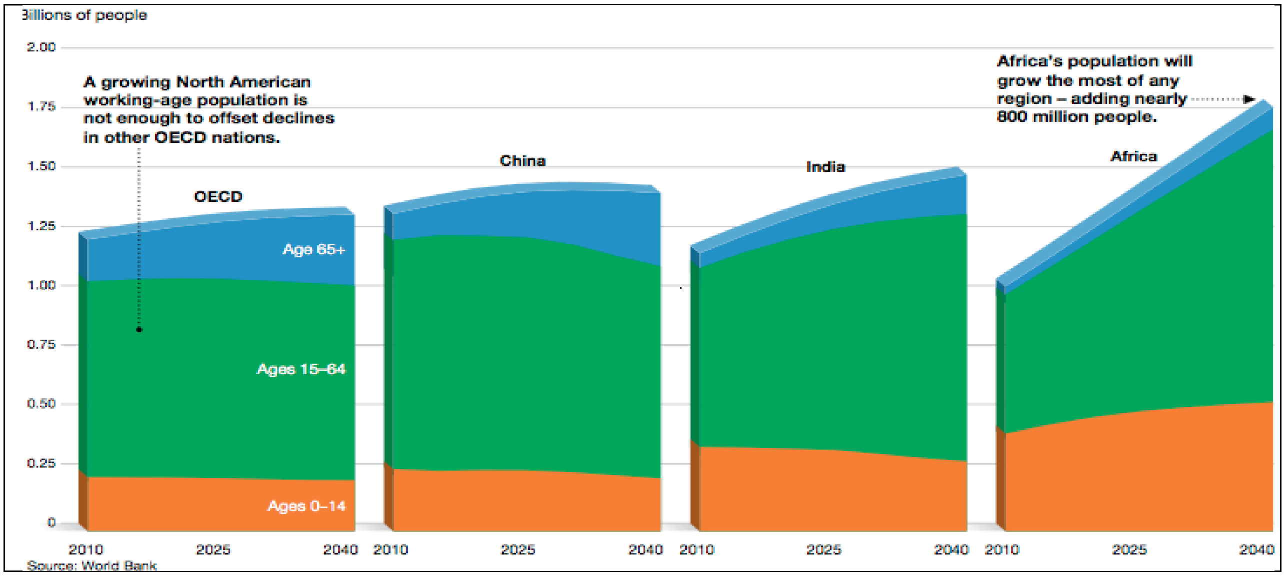
1.13 Responding to the charges of representational legitimacy, G20 invited 'representatives' from underrepresented regions – such as Vietnam for ASEAN and Ethiopia and Malawi for the African Union – to participate as ad hoc 'observers' in G20 summits. The same, however, is contested as 'concessions at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

India , G-20 & World a comparative picture (2014) :

(I) Population :

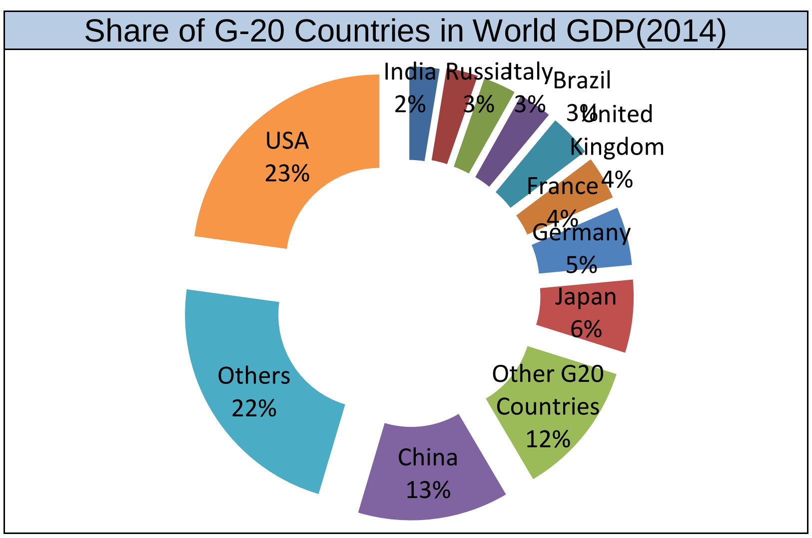
1.14 Divergences in opinion exist as to whether the GDP and population of all EU countries should be included in the calculation of G20's share of the global economy or not. The population of nineteen countries is represented directly through their own national representatives, whereas the population of 27 EU countries is 'represented' indirectly through the EU seat. Excluding the EU, G20 comprises about 61 per cent of world population against the figures of about two thirds used frequently which includes EU. Out of this, only about 12.5 per cent share is contributed by G-8 countries. India alone accounts for about 17.6 per cent of world population (only behind China with share of 19.1 per cent), much more than G-8 countries put together. Amongst G 20 countries, In terms of population density, India stands second , behind South Korea (highest density) with number of people living per square km, in case of India, being more than about twenty seven times of world average.

1.15 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:

1.16 As per World Economic Outlook, IMF, G20 countries , excluding EU, accounted for 77 per cent of world GDP during 2014 and their share increases to 86 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 13.1 percent by China alone. Share of India in the world GDP is about 2.6 per cent and US still emerges as the largest Economy with GDP share of 22.8 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 2011and has maintained the same since then. In terms of per capita GDP, Argentina, Turkey, South Africa, China, 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 1584 USD, about one tenth of the world average of 10699 USD. Australia & G-7 countries rank significantly higher (at the top of G 20 spectrum) .



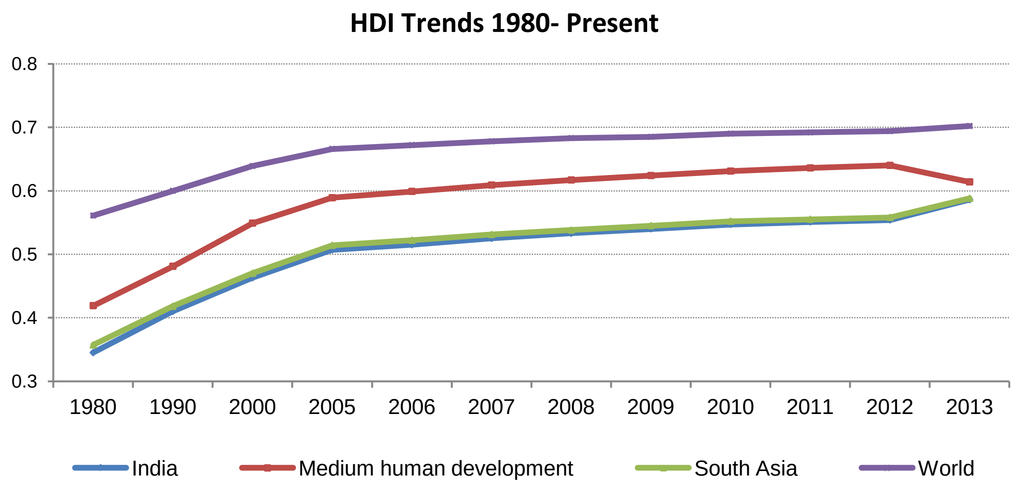
(iii) Trade :

1.17 As per International Trade Statistics 2013 , the top ten traders both for merchandise and commercial services each accounted for about half of world trade in 2012 - (51 % in case of merchandise & 49 % in case of services) whereas developing economies accounted for 42% of merchandise trade and 35% of world trade in commercial services . G20 members represent around three-quarters of global trade both in terms of overall exports and merchandise exports whereas the figure is slightly higher in case of services exports .International trade (indicator exports of goods) 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 & 2011 with export of goods witnessing annual growth rates of about twenty percent. However, during 2012, the value of global export of goods almost stagnated at 2011 levels. As per Report On G-20 Trade Measures (Mid-October 2012 To Mid-May 2013), WTO, global economy continued to struggle during 2013, with negative consequences for both global and G-20 trade flows. The most recent forecast for 2013 showed continuation of 2012 with both world trade and output to expand slowly and below historical trends and averages. World trade was forecasted to grow by 3.3% in 2013. Although this is higher than the 2% growth in 2012, it is still below the 20-year average of around 5%.

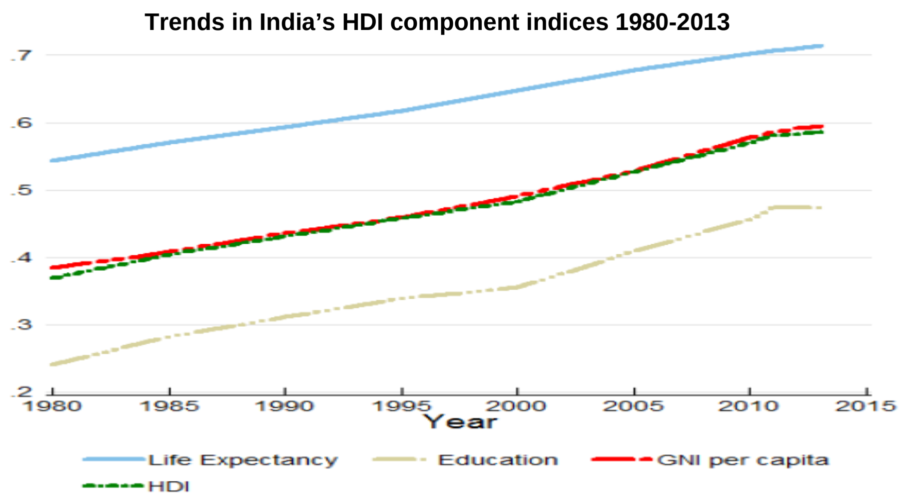
1.18 As per the data compiled from International Trade Statistics 2013, WTO and International Financial Statistics , IMF , during 2013, China , US and Germany accounted for maximum share in world exports of merchandise with a share of 12, 8.6 and 7.9 % respectively whereas EU (28) countries accounted for about 12.5% share excluding intra EU trade. Share of India continues to be relatively less (1.7 %) though it has improved over the years (from 0.8% in 2002) .During the same period (i. 2002-2013) China, amongst all G-20 countries , has gained significantly , increasing its share from 5 % to 12 %. India's share in world merchandise exports had started rising fast since 2004, reaching 1.5 percent in 2010 and 1.6 percent in 2012. The share in exports of goods in case of India declined from about 1.7 percent during 2011 as 2012 saw negative (-2.0%) annual growth in case of India even though the global exports almost stagnated.

(iv) Human Development Index (HDI) :

1.19 Of late, development indicators like HDI have become increasingly popular as it is 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. Human Development Report 2014 evaluated 187 countries for the HDI, a measure for assessing progress in life expectancy, access to knowledge and a decent standard of living or gross national income per capita. 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 (135 rank) in the G 20 Group , clubbed together with countries like Indonesia (rank 108) ,South Africa (rank 118) in the medium human development category whereas China (rank 91) has made the transition to high human category . Four G20 countries viz . Australia , US , Germany & Canada) feature in list of top ten countries in the world (with ranks 2nd, 5th , 6th & 8th respectively). UNDP puts India's HDI value for 2013 at 0.586. Despite India's progress, its HDI of 0.586 is not only much below the world average of 0.702 but is also below the average of 0.614 for countries in the medium human development group , and of 0.588 for countries in South Asia . 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.

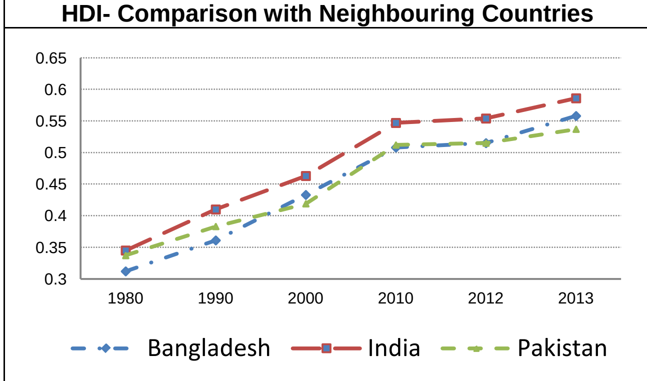


1.20 India's HDI value went up from 0.369 to 0.586 between 1980 and 2013 , an increase of 58.7 percent or an average annual increase of about 1.41 percent . Between 1980 & 2013 India's life expectancy at birth increased by 11 years , mean years of schooling by 2.5 years and expected years of schooling by 5.3 years. During the same period India's GNI per capita increased by about 306.2% (from 1,268 in 1980 to 5150 in 2013 in terms of 2011 PPP$).

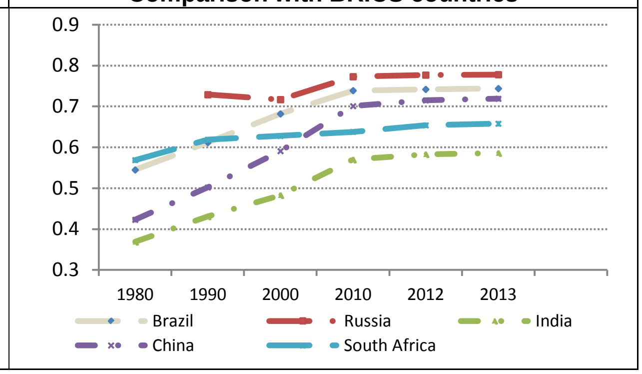


1.21 Amongst the three dimensions of the HDI , India performs best in health with an index of 0.714 followed by education (0.650) with income index scoring least (0.595). Life expectancy in case of India (66.4 years) is close to the world average (70.8 years) whereas the same is more than 80 years in case of eight G-20 countries. Maternal mortality rate (MMR) in case of India (200), though more than world average (145), is significantly lower than that of South Africa (300) and slightly better than Indonesia (220).In case of Japan, Italy , Germany, France & Australia , MMR is less than 10. India's position in schooling is worst among G20 Countries. Expected years of schooling in India is 11.7 years , lower than world average (12.2 years). The mean year of schooling in case of India (4.4 years) is also much lower than world average (7.7 years) along with percentage of female population with at least Secondary Education(in case of India it is (26.6 %) whereas World average is (54.2%)).One the whole, India's performance lags behind other BRICS countries (Avg. HDI 0.697) in all component indicators.

HDI- Comparison with Neighbouring Countries



Comparison with BRICS countries



1.22 India's HDI for 2013 is 0.586. However, when the value is discounted for inequality, the HDI falls to 0.418, a loss of 28.6 percent due to inequality in the distribution of the dimension indices. Bangladesh and Pakistan show losses due to inequality of 29.1 percent and 30.1 percent respectively. The average loss due to inequality for medium HDI countries is 25.6 percent and for South Asia it is 28.7 percent. The Human inequality coefficient for India is equal to 27.7 percent.

1.23 India has a Gender Inequality Index GII value of 0.563, ranking it 127 out of 152 countries in the 2013 index. In India, 10.9 percent of parliamentary seats are held by women, and 26.6 percent of adult women have reached at least some secondary education compared to 50.4 percent of their male counterparts. For every 100,000 live births, 200 women die from pregnancy related causes; and the adolescent birth rate is 32.8 births per 1000 live births. Female participation in the labour market is 28.8 percent compared to 80.9 for men. In comparison, Bangladesh and Pakistan are ranked at 115 and 127 respectively on this index. The 2013 female HDI value for India is 0.519 in contrast with 0.627 for males, resulting in a Gender Development Index, GDI value (ratio of the female to the male HDI) of 0.828. In comparison, GDI values for Bangladesh and Pakistan are 0.908 and 0.750 respectively

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