G-20: Global Issues and Challenges

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Abstract: The Group 20 is a group of economies comprising of developed and emerging economies. It is vital economic forum to deal with global issues that the world is facing. It also provides or creates a consensus on the emerging issues that may have far reaching sequences and impacts on the development of world economy. The Group also suggests new ways and means to solve global issues and challenges. The latest 15th meeting at Seoul, South Korea, discussed the emerging issues, namely- trade imbalances between cash-rich exporting economies, European debt crisis and debt burdened importers. The meeting also discussed currency war due to foreign exchange rates especially between the US and China. It also discussed other vital issues, such as the Millennium Development Goals (MDG) and Doha Development round (DDR), which are affecting the global economy. This paper analyses the major issues concerned and how these issues should be handled appropriately by the Group-20 countries.

Keywords: Trade imbalances, currency war, competitive devaluation

1. Introduction

Since the creation of the Group 20 (G-20) countries comprising of both developed and emerging economies, the mechanism has opportunities to identify and discuss the major issues with challenges that the global economy is facing. The G-20 Summit at Seoul in 2010 is a landmark as it is the first time to be held in the Asia-Pacific continent. The coming-up center of ‘gravity’ for the global economy, where in the dynamic economies of India and China, is contributing constructively to the process of the global recovery (Hazer and Kumar, 2010).

During the last fifty years, the globe has registered an exponential rise in merchandise exports. Yet, the world crisis resulted in about 25 per cent fall in the global exports in 2008-2009 (Diagram 1). The left side of the diagram indicates growth in world trade index. The bottom portion shows how much trade would have risen with the gross domestic product (GDP) at constant prices or if fixed at the 1960 share of GDP. The middle portion of the diagram adds in the effect of the prices. The upper portion forms the additional expansion in the world trade during the mentioned period shown in the diagram 1, resulting into a rise in a share of the trade in GDP. It is true that, without this, the global trade would have about 45 per cent less than that actually registered in 2008-2009. How does this increase in the global trade take place? The answer is lying in the following contributory factors:
• Cost advantages in a large scale specialization in particular economies resulting into a greater supply than that of an internal demand.
• Improvement in complementary technologies in communications and transport, especially air shipment and containerization; larger use of billing and tracing through increasing use of the Internet.
• Reductions in trade barriers both quantitative and qualitative under the WTO regime.
• Globalization resulting in an increase in a consumer demand.
• Growing taste of a higher turnover and product diversification

The diagram 2 outlines net trade trends i.e. exports – imports as percentage of total trade from the selected economies. The portion above zero indicates net export sectors, whereas below zero shows net import sectors. The economic indicators for the year 1980 reveal that India and China were exporting low value added raw materials and agriculture (Shame. 2010). But the United Kingdom and United States had advantages in manufacturing and services. In 2008, the trend has become different. China has created a strong advantage in manufacturing. Accordingly, it has come up as a net importer of raw materials, whereas India developed strong advantage in commercial services. The most noticeable trends indicate that, between 1980 and 2009, services have registered an appreciable rise from 15 per cent to 21 per cent.

The diagram 3 indicates the changes have taken place in the regional trade imbalances in respect of the United States and the Asia. The diagram shows the question how the US (North America) has transformed into deficit since 1968. On the other side, Asia has emerged as a trade surplus region. The changed scenario, due to ‘global imbalances’ is considered as one of the most vital contributory factors for increasing need in the world economic re-imbalances (Shame. 2010).

The Group-20 agreed in principle to tackle global ‘tensions and vulnerabilities’, which have raised the specter of a currency war and trade protectionism. The developed and emerging economies have also agreed upon to set vague ‘indicative guidelines’ for measurement of imbalances among the multi-speed economies. This is calling a timeout to make tempers cool, and leave the details to be discussed during the first half of 2011. The new guidelines are chalked out
in collaboration to the Internal Monetary Fund (IMF), which was finalized in 2011 when the France held the presidency of the G-20 Group.

The G-20 is in gradual currency moves (Diagram 4) for easing out the global tensions and vulnerabilities. The Group has also provided some nations covering to enact capital controls to limit exchange rate swings. In the circumstances where economies are facing undue response in emerging market nations, adequate reserves and increasingly overvalued flexible exchange rates may also be included with carefully designed macro-prudential measures (The Financial Express. 2010).

The reserve currency economies have special responsibility to ensure that their monetary policies do not lead to destabilized capital flows in order to avoid pressure on emerging markets. When the US dollar is the main reserve currency, the US has begun referring to efforts at deficit reduction. In order not to have a negative impact of the global economy, it must be offset by reducing current account surpluses (China) that has unwarrantedly large surpluses (Diagram 5). The responsibilities of the world fiscal profligates, such as the US, must follow policies of fiscal consolidation consistent with their respective individual circumstances so as to ensure debt sustainability over a medium term (The Business Line, 2010). Among the G-20 economies, Germany, Russia, China, and Saudi Arabia all run in surpluses larger than 4 per cent, whereas Turkey and South Africa have deficit bigger than 4 per cent.

2. Major issues to consider

In 2010, the global leaders gathered in Seoul for the Group-20 Summit aiming to safeguard the world economic recovery and also to defuse trade and currency tensions. The following major issues have to be handled carefully in order to save globe from tensions and venerability.

**Global imbalances:** Easing out conflicts among export-rich economies and debt-laden consumer countries needs to be done as early as possible. The leaders have endorsed an approach to existing imbalances and brought out consensus in respect with a ‘framework’ for attaining balanced growth. Accordingly, a medium-term economic plan was submitted to IMF. The IMF would conduct an analysis on the ‘root causes’ of the imbalances and the impact. Its further assess included not only exchange rates and trade flows, but also variables, namely, labor costs, saving rates, demographic, investment and commodities. The main objective of this exercise is to facilitate timely identification of large imbalances that require preventive and corrective actions to be taken (The Hindu, 2010).

**Currencies:** Foreign exchange rates occupied center stage in the Seoul Summit. The US and other economies cross the fingers at China and asked for China to permit its Yuan currency to rise faster. It is because that the Chinese currency is undervalued for having gain in respect with trade advantage. But the US has a tougher time making that case when many developed and emerging economies believed that the American approach of easing money was a means to weaken the dollar.
**Financial regulations:** The global leaders considered the Basel III Agreement to enhance the quality and quantity of bank capitals. They endorsed an idea of creating a Financial Stability Board’s proposal in order to tighten supervision of the over-the-counter derivative market and also to reduce the existing greater dependence on credit rating agencies.

**Global trade:** Slowly growing developed economies wish to export the way to economic health for the cause of the existing tensions over currencies and imbalances. The leaders agreed with avoiding protectionism and going forward concluding the long-stalled of Doha Development Round (DDR). The trade negotiations became strategic and vital for the survival of the WTO in general and multilateral trading system in particular.

**Diplomacy:** In the Summit, economic problems dominated the official agenda; and global leaders did find time to exchange views on diplomatic issues or diplomacy. The Seoul Summit followed several weeks of conflicts between Japan and China over a chain of disputed Islands. Relations between Tokyo and Moscow have also chilled after the Russian President visited part of an Island chain in the north of Japan. Concern was also in respect of the Chinese assertiveness in its monopoly over rare earth minerals needed for high-tech goods as a lever in diplomatic disputes (The Financial Express. 2010). Other diplomatic issues included frozen negotiations with North Korea to end its nuclear programmed and efforts by global powers to retrain Iran’s nuclear operations.

3. **Divergence of opinion**

There were no universally agreements made upon diagnosis of what ails the global economy. India, the UK and Mexico disagreed with the view of the US that only China’s current and capital account surpluses are responsible for the world economic predicament. Seventy-page communiqué of the G-20 nations is itself an indicator that there was difference of opinions on ails of the world economy.

The main issue was an old one, namely, that the US and its allies did whatever they wanted and then expected others to adjust the policies accordingly. The US decision to inject US$ 600 billion into its economy over the next few months, gas left it jumpy as to the consequences for the respective economies (The Hindu. 2010). Brazil has already spoken out sharply against the proposal. The Chinese officials are more aggressive and opined that if the ‘US catches a cold it cannot look for the Chinese medicine’. Keeping in mind of the US proposal, the Chinese Government has taken preventive measures against the capital surge by advising its banks to deposit money with the central bank. Many countries in G-20 have put sand in the machine so that destabilizing dollar inflows did not cause cons for their economies.

Competitive devaluation and bringing in exchange rate flexibility ensure that no country gets undue advantage. The globe would move towards more market determined exchange rate system and enhance exchange flexibility to reflect underlying economic fundamentals and refrain from competitive devaluation of currencies. Advanced countries, including those economies that have reserve a currency, need to be more vigilant against excess volatility and disorderly movement in exchange rates. Every country at all costs avoids competitive devaluation and resists any resurgence of protectionism (Times Business. 2010).

4. **Millennium development goals**
The G-20 leaders give a clear and strong message that attainment of MDG, narrowing development gaps, and other policies to foster balanced development now have to occupy a ‘central theme’ in sustaining growth in the post-crisis period. The latent potential of the poor to generate aggregate demand could be harnessed through promoting agriculture and rural development; strengthening social protection, enhancing financial inclusion, and promoting job creation among other policies within the emerging markets and among the excluded and poor countries. The poor countries need to be assisted in closing the development gaps through enhanced Overseas Development Assistance (ODA) and development financing. The potential of South-South cooperation also requires to be fully exploited in closing the development gaps (Hazer and Kumar. 2010).

Two basic principles: In the G-20 Summit in Seoul, two fundamental and strategic principles stood out for those who were taking interest directly and indirectly in the promotion of international growth and development (The Hindu. 2010).

- The concepts of fairness, balance, and the common good have experienced a welcome renaissance. The global leaders have had to remind each other of these universal principles to avoid a potentially devastating escalation of their disagreement on currency values and trade imbalances.
- Whereas it remains to be noticed to what extent it would help to bring countries’ contending economic strategies into line. This rediscovery of basic values comes just as the G-20 is beginning to top international development issues in its deliberations. The issues, such as undervalued currencies, lopsided trade statistics, and skewed consumption patterns are also important to them.

Outcome of the Summit: Given below are the major and vital economic agreements that have taken place at the G-20 Summit at Seoul (The Financial Express.2010).

- Create more effective and efficient international cooperation
- Explore potential risks possible for world economy, and then take necessary steps to achieve shared objectives
- Increase concerted efforts on Mutual Assessment Process
- Steps taken to put supportive economic policies on right track for speeding-up the rate of recovery and job creation
- Sound steps directed towards safeguarding the stability of global financial system
- Efforts made out to enhance global demand and potential of growth

Strategy: The 15th Summit of G-20 countries also evolved an effective and efficient strategy. The strategy was based on the following facets:

- Ensure an unwavering commitment to needed cooperation
- Propounded an action-oriented plan with the member’s concrete policy adherence
- Total adherence on the strategic and vital issues, such as sustainable and balanced growth
- Greater emphasis on the significant and increasing role and contribution of Central Banks’ in the effective implementation of monetary and exchange rate policies
- Reaffirming on free trade and investment policies and their effective role in the process of global economic and financial recovery
- Formulation and implementation of clear, credible and ambitious medium-term fiscal consolidation plans by keeping in mind the Toronto commitments
G-20: Global Issues and Challenges

- Measures in respect of national and international level to enhance standards, and also ensure that national authorities carried out global standards developed to date
- Total adherence on bank capital and liquidity standards
- Create level playing field and avoid fragmentation of markets and protectionism
- Inculcate the desired degree of confidence and growth

These measures may go a long way in creating desired level of global recovery. On the other hand, balanced trade and exchange rate policies are sine-quo-non for the survival of global financial and trading system.

4.1. Reforms in IMF role and voting power

There has been a long pending agenda of reforms in regard to international financial architecture. The agenda includes reform of the IMF conditional ties, creation of a global reserve currency based on Special Drawing Rights (SDR), which can be issued in a country cyclical manner. It enhanced voice and quota of developing countries in general and emerging economies in particular in Bretton Woods Institutions (IMF and IBRD) for addressing the democratic deficit, restore the legitimacy, effectiveness and development of the global financial system. In this direction, the United Nations (UN) and the leaders of G-8, G-20, and G-77 Groups come forward to work together in seeking a better future for countries and for all people living on the earth.

The most noticeable outcome of the 15th Summit is the ratification of changes in the governance of the IMF that would expand representation of emerging markets economies. It endorsed the expansion of IMF lending programmes that could be used by countries facing a sudden liquidity crunch, and empowered the fund to spearhead the process for fixing imbalances (Chan and Stolberg. 2010). The reforms have also made out in respect of shifting the voting share in favour of emerging economies, such as India and China. The net benefit to India would be the improvement in the position in terms of voting power from 22nd to 8th (Times Business. 2010). There has been a steady progress in respect of redistributing quota. Further efforts are necessary in this direction. The decision to comprehensively review the quota formula by the end of 2013 shows the growing economic weight of the emerging market economies.

4.2. Emerging challenges

Save capitalism from protectionists is one of the formidable challenges for the world economy. The globe needs business to end the ongoing G-20 charade on promotion of trade. There is grave risk that the global economy would collapse into a protectionist spiral. The concept of new regionalism may get momentum. The world economy again divided into regional blocks. The best preventive step is to ensure that protectionism does not happen. This can be only possible when Doha Development Round (DDR) is concluded in the right spirit and direction. Since 2008 (the Washington Summit) up to June 2010 at Toronto, nothing concrete has been done in this regard (Lehman. 2010).

Now it is believed that 2011 is a critical window of the opportunity. Consequently negotiators are being asked to promptly bring DDR to a successful, comprehensive, and balanced conclusion. What is at stake is not less than the world open market system and true capitalism. The globe is at crossroads. The conclusion of DDR will ensure the single most significant boost to confidence in the system and also a
great stimulus to the global economy. There is a saying that the problem of communism is communism, while major problem with capitalism is capitalists. They are the agents of their own destruction. Another challenge is to address the reduction in unsustainable and socially unacceptable unemployment levels (The Financial Express. 2010). This is because of the uneven growth in the globe resulting into the risk of economies diverging from global solutions and embracing go-it-alone measures. Such uncoordinated policies and plans would not result in increased employment.

4.3. Matter of great concern or double standards

According to the Global Trade Alert (GTA), the G-20 countries are still continuing to carry out protectionist policies in contrast to repeated pledges to keep markets open. Developing nations have been among the main victims. According to the GTA report, the G-20 nations have implemented 111 measures that harm foreign commercial interest since their last summit in June 2010 at Toronto, Canada (The Financial Express. 2010). The total number of harmful measures implemented by the G-20 economies during the crisis and subsequent recover has crossed 500 to reach 511. This indicates doubts on the quality of the G-20 leaders on protectionism. Simon Evenett, one of the founders of GTA has opined that the report follows a warning by the WTO, OECD and UNCTAD that the global economy is threatened by increasing protectionism, caused in part by tension over exchange rates (Evenett. 2010). The GTA has also observed that, since the crisis begins, about 141 government measures have hurt traders and migrant workers of among 50 poorest Least Developed countries (LDC) (GTA.2010). The GTA urged the G-20 Group to ensure that any initiative on trade and development revised government measures so that they do not harm the poorest economies. Otherwise, the Seoul G-20 Summit risks introducing yet more incoherence into trade and development policy. This revives long standing concerns on what governments give with one hand (ODA and other support), and then take back with the other (protectionism).

5. Collapse of cancun summit

The debit crisis has come to European Union because of the default in case of Greece, Portugal, Ireland, Spain and even Italy. Deed to this, European Central ban has also failed in making payment of debt which was due to these economies. Similarly, the United States is also responsible for European debt crisis. There was a danger of starting Second recession which could harm global economy in general and EU in particular. The USA has unemployment of alarming nature. Accordingly, unemployment rate in case of globe has increased enormously. Hence, the situation is very shocking and precarious as global unemployment stood at 200 million over. These trends and situation has compelled the global leaders called G-20 to come together at Cannes to find some amicable solution to the most strategic issues that world is facing in present century.

5.1. G-20 and debt crisis of Europe

The G-20 summit at Cannes can hardly be taken as a success. The persisting unemployment levels in developed countries along with high degree of tension in financial markets have resulted into sovereign risks in Europe. These trends have created slowing down in growth in the emerging markets wherein commodity price swings have further resulted into growth and imbalances at risks. The existing grim overview of the world situation presented by the global leaders in the concluding document is being considered as a disappointment. Economies that are looking relatively inflexible may emerge as more
flexible. The fact is the real extent of concessions taken from emerging economies in general and China in particular is very easy to come out with fine words but extremely difficult to transform into reality or action. Progress attained on social issues particularly through Business Summit and the Labour Summit which were held together, it is evident that no concrete commitments were extended by developing nations to counteract social dumping. The European nations are putting blame on developing economies and their social dumping for increased delocalization and outsourcing with a consequent rise in unemployment in developed world (Hindu 2011).

5.2. Outcome of the Summit

Global leaders have failed to agree on how to strengthen the International Monetary Fund (IMF) to reverse the European debt crisis. These leaders struggled to reach concrete resolutions and the summit was completely overshadowed by Greece’s political turmoil and worries about Italy. No nation outside EU had committed any money to the region’s bailout fund. Emerging economies namely-Brazil, Russia, India, China and South Africa (BRICS) have refused to give any concrete commitments and hence, where the Euro-zone would find money to boost its bail out fund for debt-ridden nations namely- Greece, Italy and Spain The President of European Central Bank opined that recession is looming, the Euro zone may find some support from BRICS countries. European policy makers are looking beyond their boarders to more than double the spending strength of their Euro 440 billion or $ 608 billion rescue fund. The only concrete measure to emerge from the summit is that debt-ridden Italy has agreed to position itself under trime-strial supervision of the IMF. Other than that, weary leaders admitted that the results of the meeting that brought together leaders of the globe biggest countries are meager when compared to earlier encounters marked by real sense of progress at international cooperation.

5.3. Worthy role

Emerging new economic powers namely-China, Brazil, and South Africa would be deciding whether helping Euro-Zone is worthy investment and accordingly, these economies are quick enough to show that they would channel out their money through IMF. The European Union would now accelerate work on the guidelines of the EFSF and then call on IMF members to contribute to EFSF. The BRICS nations will contribute to Europe in line with their current voting rights at IMF. The IMF may receive a broader fillip after the UK backed an increase in the fund’s S391 billion war chest to give bigger crisis fighting role. There is an urge upon IMF to expedite a new liquidity line for countries that have strong and sound policies and fundamentals facing outside shocks. When the globe is in crisis, it is high time that all should consider boosting the resources of IMF. In the face of uncertainty over events in Greece, ways and means should be found to manage the situation so that a package can be put in place quickly as possible

6. Concluding remarks

The G-20 Group is an international platform of relevance today and careful consideration has to be given by each member nation. It ensures that right and positive signals are sent out to the rest of the globe. A reasonable debate on whether the best way to beat the heat and crisis is austerity or spending may not yield an unequivocal answer. Protectionism certainly should not find place. The immediate need is to reaffirm its commitment to open markets with a rule-based trading system. The emerging markets should adopt a cautious approach towards capital flows. They also have to resort to capital controls and regulate
potentially destabilizing capital inflows that might pose a threat to their economies and financial systems. The Seoul Development Consensus and the associated Multi-Year Action Plans provide a comprehensive agenda with timelines that has to pursue on all relevance in coming months. The Cancun summit was also proved to be ineffective to solve the persisting Europe debt crisis. There are indications that the crisis would tilt towards a grime situation may create a sense of disintegration of EU. The BRICS countries especially China could play a positive role in easing out the debt crisis.

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