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Section 1
Introduction

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The Development Agenda – An Indian Perspective

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Introduction

The global financial crisis of 2008–09 originated in the United States, proceeded *pari passu* in European economies, spread to emerging economies through trade and finance channels, and led to a collapse of confidence. The fault lines comprised deep breaches in economic fundamentals including excessive bank credit, build-up of private consumption based on uncollateralized loans, and an inexorable rise in public debt (Shome, 2013). These elements possessed the potential to precipitate a global depression. Remittances slowed down, export demand weakened, export credit dried up and capital flows dwindled. The common consensus was to revive credit lines to restore confidence, curb protectionist tendencies, institute measures to stimulate and rebalance global demand in the medium term.

A group of leading global economies – the Group of 20 (G20) – was formed to frontally address the fault lines.[1] The G20 provided the critical mass needed for building global consensus for mobilizing resources to fend off the impending economic crisis associated with the 2008–09 financial crisis that acted as a precursor. It also imparted a sense of urgency, direction and action in the multilateral agencies for tackling the crisis. The G20 embarked on a strategy to formulate policies to address interconnected short-term and medium-term challenges with the objective of enhancing global economic governance i.e., re-regulating the financial sector, correcting macroeconomic and development imbalances, and providing for global public goods, in particular channeling global resources for financing development, energy and food security and environmental sustainability.

The G20 initiated a series of reforms in the financial sector which reflected the origin of crisis in this sector. Stimulus packages were formulated in the form of unprecedented bail-outs as well as the recapitalization of banks and financial institutions to loosen a severe liquidity crunch. The G20 also initiated a series of measures to identify and check global macroeconomic imbalances, introduced measures to check friction in global monetary arrangements, enhanced financial safety nets, and supported the use of capital controls under certain extenuating circumstances. Perhaps more importantly, it ensured that members opted for national policies that were not detrimental to the recovery of others, and agreed to avoid premature withdrawal of stimuli and exit from the programmes in a coordinated way. With these initiatives, the G20 is broadly perceived to have delivered on the immediate goal of preventing the crisis from deteriorating into a full-blown depression. The G20 leaders declared that their cooperation worked as the global economy fared better than expected in 2009 and recovered well in 2010 (WEO, 2010).

As the global economy recovered in 2010, the time appeared to be ripe for reorienting and expanding the G20 agenda to include developmental issues (Shome and Rathinam, 2011). Global developmental concerns were critical for some of the emerging economy members of the G20 themselves. The G20 also represented a gateway for them to reach out to other developing economies and gain credibility in the global governance arena if continuing cooperation was to be obtained from non-G20 economies. However, the G20 had to tread carefully as inclusion of development ran the danger of mission creep as several of the development agenda issues were already being dealt with elsewhere in multilateral organizations concerned with the development architecture. The job for the G20 was, therefore, to re-emphasize those issues by providing political critical mass and successfully leveraging the existing development architecture to deliver positive outcomes. Some commentators argued that the G20 should restrict itself to encouraging cooperation between international organizations, coordinating domestic policies of member countries and extending knowledge to non-members (Davies, 2013) rather than embarking on its own delivery framework. Nevertheless, the G20 expanded its brief to include a development agenda – in particular, achieving food security, controlling commodity price volatility, recycling global savings to boost infrastructure investment as well as enhancing energy and environmental sustainability. This volume relates to these issues.

The growing economic reach of emerging economies had a discernible impact on the global geopolitical balance and, hence, on their role in global governance and agenda. For example, Brazil, Russia, India, China and South Africa (BRICS), as members of the G20 were well placed to influence, support and even lead agenda on specific issues as well as contribute effectively to global economic discussion and policy setting. They found themselves as having a high stake in and possessing decisive power to contribute to, global recovery in the short run and to global governance in the longer run.

There are not yet too many scholarly treatises on the G20 with particular focus on emerging economy interests such as India's concerns and perspectives set in the context of G20 reform initiatives and challenges. The literature on the G20 from an emerging economy perspective is very recent. A volume edited by Shome (2014a) has examined emerging economy concerns and perspectives on reforms of the financial sector and the international monetary system set in the context of G20 reform initiatives and impasses, with the focus on India. It stopped short, however, of assessing the progress or any unresolved concerns of the G20's development agenda.

In the same vein, another attempt to provide a developing country perspective on the scope for cooperation among G20 members for better world economic outcomes may be found in Callaghan *et al.* (2014a). This volume focuses once again on key macroeconomic issues such as rebalancing in a multi-paced global growth scenario, balancing financial sector safety and development, reforming the international monetary system, and reinstating capital controls and austerity for optimal growth while considering the context of the Eurozone crisis. It discusses substantive structural and governance issues such as how best the G20 could become more inclusive at the same time remaining a manageably-sized leaders' forum. While the volume skilfully intertwines the likely impact of macroeconomic initiatives on India and other emerging economies, it does not directly address the barriers for further cooperation from a developing country perspective, in particular, regarding development issues.

In this backdrop, the current volume discusses the role India has played in the success of the G20 process with a focus on its development agenda. It delineates the possible barriers to India's enhanced involvement in the G20 and in global governance in general. It also explores what needs to be accomplished in the medium term for more inclusive global development. This volume follows a first volume (Shome, 2014a) cited above that was set in similar fashion while focusing on the G20's macroeconomic and financial sector agenda including the reform of multilateral institutions.

This second volume is organized in correspondence to the major development themes in the G20's focus areas, especially with respect to providing global public goods such as recycling global savings for development, and financing investment in global food and energy security, green growth and environmental sustainability.

Section 2 addresses the issue of recycling global savings to finance infrastructure investment in developing countries, and appropriate structural instruments in the context of India. Co-existence of a persistent gap in infrastructure investment in some countries, while excessive savings persist elsewhere, represents a serious drawback in converting savings into investment at the global level, underlying which is the need to rebalance the current accounts of deficit countries *vis-à-vis* surplus countries (Shome, 2012). If matching of demand and supply of savings could be achieved internationally, it would certainly provide an opportunity for removing structural impediments to growth in developing countries where the demand for investment lies thus boosting global production and growth. However, in practice, recycling of global savings is inhibited by considerable maturity mismatch risks. This section discusses potential impediments to growth in India, and explores alternatives to effectively recycle global savings and manage mismatch risks. Given the G20 development initiatives, India's role in international burden sharing is accordingly discussed. Finally, this section addresses commodity market policy for food security, and explores the role of financialization of commodities, both in the international and in the Indian context.

Section 3 first analyses the issue of energy security, and addresses the costs and benefits of energy subsidies as their intent and impact vary substantially across the G20 members. The Organization for Economic Co-operation and Development (OECD) countries provide subsidies to ensure regional employment and energy supply security, while the developing economies aim at managing the prices of basic goods and services in which energy is a key input, with the objective of reaching out to vulnerable end-users. As India contemplates taking up membership at the International Energy Agency (IEA) for better energy security, this section weighs the cost of membership and the loss of policy autonomy, against the fact that the non-members, including India, would enjoy the positive externalities of global oil stabilization measures taken by IEA if they were to take up membership.

Section 3 continues with the issue of environmental sustainability. It discusses global initiatives on climate change and adaptation financing in the context of global equity and economic efficiency. The G20 has been successful in bringing issues such as fossil fuel subsidy reform, climate change finance and energy efficiency into the mainstream debate that were earlier dealt with by specialized multilateral arrangements usually lacking adequate support. It has been able to fill the space and provide much needed political backing. This section explores new avenues for innovative revenue generation such as a global carbon emissions tax, air transport congestion tax, and other potential multi-source resource mobilization handles for financing global environmental objectives.

Purpose and Evolution of the G20 Development Agenda

The global developmental architecture (GDA), prior to the 2008–09 global financial crisis comprised a complex inter-linkage between the formal institutions of global development assistance – the United Nations and the Bretton Woods institutions – and informal groupings such as the Group of 7 (G7) and, later, the Group of 8 (G8). The GDA's main focus was coordinating macroeconomic management, fostering free international trade and development aid, while its non-core themes comprised energy, food security, environment, and countering terrorism.

The decade preceding the crisis witnessed significant geopolitical changes – the rise of new growth poles and a dwindling share of the G8 in both global GDP and trade. Consequently, the G8 by itself found itself unable to address newly emerging global challenges. The G8's outreach programme, named G8+O5, was to better integrate the emerging economic powers such as Brazil, China, India, Mexico and South Africa into the global governance process. While the outreach programme managed to include some issues pertaining to global economic development, the core governance issues remained unaddressed (Singh, 2009). With the advent of the G20 as a newly elevated premier forum for global governance, it became feasible to provide the necessary political impetus for both short term coordination and medium to long term development initiatives on a global scale.

In a joint paper issued at a G8 Summit organized in 2007, Brazil, China, India, Mexico and South Africa had indicated that the expanded network was able to look into pressing matters such as quota reforms in the Bretton Woods institutions, to conclude the Doha Development Agenda, to pursue differentiated climate change responsibility, and to help frame better energy and food security policies. However, by 2008–09, it had become clearer that such structural initiatives had not taken off too successfully. It was the G20 that subsequently provided the emerging economies a visible platform for steering the agenda to address seething development imbalances while, at the same time, managing to stem the crisis by 2010.

The promulgation of the G20 development agenda is generally attributed to the Seoul Summit. However, the G20 (1999) as a Finance Ministers' and Central Bank Governors' forum, had already recognized development as integral to global economic cooperation. Later, though the first Leaders' Summits were dominated by immediate concerns of the crisis, the Leaders also highlighted, for example, in Washington D.C., their development commitments through backing multilateral agencies' development mandates, recognizing member countries' own responsibilities for ensuring economic and social development, and urging other developing countries to undertake the Millennium Development Goals (MDG)[2] commitments consistent with their capacities (G20, 2008).

In the 2009 London Summit, the Leaders suggested that:

> growth, to be sustained, has to be shared; and that our global plan for recovery must have at its heart the needs and jobs of hard-working families not just in developed countries but in emerging markets and the poorest countries of the world too (G20, 2009a).

They promised more aid to sub-Saharan Africa for boosting trade and enhanced resources for lower income countries for better social protection and food security. Encouraged by global recovery, the Leaders endorsed a 'Framework for Strong, Sustainable and Balanced Growth' in Pittsburgh (G20, 2009b) and urged the World Bank and other multilateral agencies to emphasize agricultural productivity and food security, infrastructure investment, energy efficiency and climate resistance in developing countries.

In the Toronto Summit (G20, 2010a) the leaders reiterated their commitment to 'strengthen the focus on lifting the lives of the poor' and agreed to establish a Working Group on Development mandated to propose a development agenda and multi-year action plans to be discussed and adopted at the subsequent Seoul Summit (G20, 2010b). Primarily, however, until the Seoul Summit, developmental issues were mainly constrained to resisting protectionism and easing the supply of developmental finance for food security and infrastructure investment.

The Seoul Summit was the watershed moment in global development cooperation. The 'Seoul Development Consensus for Shared Growth' and 'Multi-Year Action Plan on Development' identified nine pillars for inclusive and sustainable development: infrastructure, human resource development, trade, private investment and job creation, food security, growth with resilience, financial inclusion, domestic resource mobilization and knowledge sharing. The action plan detailed the necessary action points for effectively removing the bottlenecks in achieving the endorsed development goals.

However, limited progress on several development pillars led, during the French presidency, to further streamlining of the agenda into the pillars that help promote growth and those that foster resilience (Davies, 2013). The 2011 Cannes Summit prioritized food security, infrastructure, and finance for development so as to 'overcome the most critical bottlenecks and constraints hampering growth in developing countries' (G20, 2011). They were picked over the other pillars, job creation, agricultural productivity, capacity building and knowledge sharing. While the Leaders returned to firefighting during the Mexican presidency of the G20, they reiterated that development remained one of the core objectives of the G20. In practice, the efforts were directed towards commodity price volatility, food security and infrastructure and newly introduced a key challenge inclusive of green growth into the agenda (G20, 2012).

The Russian presidency stated that the development agenda was among its priorities as infrastructure and access to basic amenities are fundamental prerequisites for spurring economic growth. Specifically, the stated priorities included food security, human resource development, financial inclusion, infrastructure and a post-2015 development agenda (G20, 2013). However, while the broad themes of Russian development priorities were consistent with previous development commitments, some commentators expressed the view that the Russian presidency's emphasis falls outside the purview of the Development Working Group (DWG) (Carin, 2013).

The Russian presidency also took forward the commitment on accountability made in the Leaders' Declaration at Los Cabos, Mexico to develop a mechanism for taking stock of the achievements, assessing the progress, drawing lessons and, in the process, streamlining and strengthening the G20 development agenda going forward (G20, 2013a). While lauding the G20 for delivering strong results on developmental issues, the St. Petersburg Development Outlook identifies several long-term objectives as key deliverables of the Russian Presidency. They include quality jobs and investment, trust and transparency, sustainability and resilience, and social inclusiveness (G20, 2013b). One of the welcome changes was to consult developing countries, particularly low income countries (LICs), and regional and sub-regional organizations, for refining the development agenda.

The Australian presidency's development focus is to link development to growth through better infrastructure investment by private sector, information sharing between tax authorities, access to financial services and reducing the cost of remittances into developing economies (G20, 2013c). Australia is well placed to 'mainstream' the development agenda into the

G20's core themes as it has been making considerable contributions to the development agenda through co-chairing the DWG.

India's Role in the G20 Development Agenda

In the new multi-polar world, India enjoys considerable attention reflective of its integration with the global economy through the current and capital accounts of its balance of payments (Shome, 2012; 2014b). However, its growing economic advances are not fully reflected in the prevailing global governance arrangements, beginning with the above-mentioned G8+O5 outreach programme, which did not represent India's interests adequately. Singh (2009) lamented that the outreach initiative was not cohesive, that the countries lacked a composite identity, and that the group did not participate fully in the proceedings and the preparations. Indian policy-makers repeatedly emphasized that India had 'a lot at stake and a lot to contribute' to global governance, and assured that 'India [would] seek its due place, play its destined role and share its assigned responsibility … guided by the principle of common but differentiated responsibility and respective capability'.

India is an avid supporter of including a development agenda in global economic governance arrangements. In its joint statement with Brazil, China, Mexico and South Africa during the G8 Summit in 2008 in Heiligendamm, Germany, it avowed:

> Development is a right, central to people's progress and critical to the eradication of poverty, fostering peace, stability and security of all nations... . We are committed to working with our partners to advance the development agenda and the eradication of poverty. We believe that eradication of poverty in the world is not only an issue of importance to developing countries, but also a matter of our collective global interest.

This book addresses India's concerns reflecting inadequate infrastructure, food and energy security, and green growth, how India has contributed to these G20 agenda issues, and how global coordination could result in better outcomes for India and other emerging economies.

Structural Impediments in Developing Economies and the G20

Underdevelopment is self-perpetuating. The literature on economic growth identifies accumulation of real and human capital and technological progress