Concept Note on G20 Finance Track

The road to the G20 summit comprised meetings of Finance Ministers and Central Bank Governors, their Deputies and various working group meetings which constitute the G20 Finance Track. Together they monitor the global economic outlook and risks; tinker with the global financial architecture and shape the policies around taxation, infrastructure financing, roadmap of sustainable finance and so on.

The G20 became one of those influential groupings that was intended to adjust the chords of some of the most crucial economies of the world to the tunes of international finance, i.e., the IMF and the World Bank. Only that the group's relevance has received a blow given the fractures that have deepened since the Ukraine war and its impact on both geopolitics and the economy.

In the third G20 Finance Ministers and Central Bank Governors Meeting in Bali last year several members conceded that the recovery of the global economy has slowed and is facing a major setback as a result of Russia's war against Ukraine. They also highlighted the importance of addressing debt vulnerabilities of several developing nations. They "affirmed their commitment" to use all available policy tools to address current economic and financial challenges, including the risk of food insecurity. This included pledges amounting to USD 73 billion through the voluntary channelling of Special Drawing Rights (SDRs) or equivalent contributions; a call for further pledges to raise USD 100 billion of voluntary contributions for countries most in need; the establishment of Resilience and Sustainability Trust (RST) and call for further contributions to it and to the Poverty Reduction and Growth Trust (PRGT). There were also talks of revitalizing infrastructure investment by leveraging private investment, MDBs, and public investment. The member countries also endorsed the continued discussions on Central Bank Digital Currencies (CBDCs), as these may be designed to facilitate cross-border payments.

The G20 yet again paid lip service to the "commitment to tackling urgent global challenges such as climate change and environmental protection" and spoke of the elusive goal of jointly mobilizing USD 100 billion climate finance. Rich countries have not only consistently broken the promise but have also fudged data to inflate their so-called contributions. Instruments of loans continue to dominate over 70% provision of public climate finance forcing poor countries to repay them while coping with the climate emergency that they were least responsible for causing thereby adding to the debt crisis across developing countries. None of these substantive matters saw any resolution apart from rhetoric in the run up to the G20.

The G20 not surprisingly became yet another occasion for the member states to renew their commitment to preserve financial stability and long-term fiscal sustainability even as the geopolitical shifts and the polycrisis is making several such tenets irrelevant. So, the G20 central banks predictably remained strongly committed to achieving price stability. They member states also spoke of buttressing their faith "open and fair rules-based trade" and reiterated their commitment to "fight protectionism". This is despite the fact that the war, the climate induced food shortage, the energy crisis and the climate commitments have already thrown these “certainties” of the past decades to the winds. The members for instance pledged to reinforce global financial system resilience and ask the Financial Stability Board (FSB) to intensify its monitoring. These instruments have continued to shift the burden of the financial crisis on to the poor, as we saw with the fateful FRDI Bill crafted as per its prescriptions exposing the depositor’s money to overcome default by corporate borrowers. The G20 expectedly only ended up bolstering the same tools that led to the crisis.

The members were forced to acknowledge that “the pandemic has widened inequality for the most financially vulnerable” but expectedly they failed to diagnose the problem which emanates from the same neoliberal prescriptions that forces governments to cut back on welfare spending, to erode public services and adhere to a development paradigm that damages livelihoods, destroys ecologies and perpetuates inequalities. The case in point being in Sri Lanka and Pakistan in recent times which have been saddled with back breaking austerity conditions in exchange for the loans, thereby limiting the government’s abilities to increase much needed public expenditure required to cope with the domestic crisis. Since the onset of the neoliberal reforms pushed by forums like the G20 that allowed market forces to dominate and detested welfare spending, extreme poverty and extreme wealth have risen sharply and simultaneously for the first time in 25 years. While trickle down has been proved a hoax, the drastic cuts on welfare measures and subsidies as part of overt or covert conditionalities, have wreaked havoc on the poor while the number of billionaires have seen a steady rise. The group expectedly stayed away from even discussing the idea of a super rich tax that could enhance the fiscal space of the respective countries to mend the broken social security safety net that the pandemic exposed.

The result of this financial architecture is such that developing countries live at the constant fear of capital flight of the kind we have been witnessing since the increase of interest rates by the US. The flight of finance to the US has forced developing countries including India to run down their foreign exchange reserves and has led to depreciation of currencies across the world. This makes external debt far more burdensome for the poorer countries, a burden that is borne largely by the poor. With recession looming owing to geopolitical tensions and the aftershocks of the pandemic, one is also looking at fall in exports further precipitating the crisis. While India claims to be the voice of the global south, in its presidency none of these looming dangers that face the third world seem to occupy much space.

G20 instead has yet again become a show where there are promises made by the developed nations that the developing nations are forced to accept without much thought about its implications, designs and impact on the poor. This includes digital currency, support to the private sector, increased support to Non- Banking Financial Companies and the digital push. The Indian banking system, still dominated by public sector banks, shielded the economy to a large extent during the 2008 financial crisis. The Regional Rural Banks, the PSBs and the cooperative banks that were aimed at providing much needed credit support to the vulnerable sections on priority basis to ensure real financial inclusion, remains thoroughly ignored and shunned in the policy prescriptions. Instead, the entire agenda is set on the recommendations of the World Economic Forum, Cashless society Initiative and the whims of finance capital.

The G20, to start with, is not an adequately representative body as it fails to represent the interests of small and less influential economies. In fact it has thwarted attempts to create bodies that are more equal and representative. Neither is there any accountability or transparency in decision making. The decision-making process in G20 is thereby skewed in favor of the dominant economies, leading to policies that primarily benefit their interests and corporate welfare, rather than promoting global economic stability that keeps the interests of the people at the centre. The G 20 does not have a mandate to enforce the implementation of its prescriptions as it says the countries will voluntarily accept the conditions. While China and the rich nations continue to ignore such prescriptions, the Indian government meticulously follows the same to support few global champions at the cost of our people. Finally, it is unrealistic to expect the perpetrators of inequality and promoters of corporate welfare with public finance to find solutions and fix the problem. The neoliberal consensus among the majority of the member nations thwarts all possibilities of an alternative to emerge that can meet the emerging challenges of the times.