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Is the G20 Breaking Up?

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SYNOPSIS

In the face of rising nationalism and populism worldwide, the G20 has failed to craft coordinated global responses to the COVID-19 pandemic. There is the possibility that the G20 may break up into the “G7 and the Rest” with each focusing on its own agenda.

COMMENTARY

THE UNPRECEDENTED public health crisis posed by the COVID-19 pandemic has led to a deep economic malaise from which a tepid divergent recovery is now underway. As inflation risks rise, there is a possibility that monetary contraction in the industrialised countries could lead to a repeat of the “taper tantrum” of 2013 resulting from the policy of quantitative easing (QE). This could eventually result in a financial crisis.

But unlike in 2008, this time around, global coordination has been lacking mainly because of rising nationalism and populism in the Western world and eventually elsewhere. G20 has failed to come up with a coordinated response to the COVID-19 pandemic.

Global Financial Crisis and G20 Leadership

During the global financial crisis of 2007-2008, it was realised that economic recovery could not be brought about by the actions of the rich G7 countries alone. The voices of the systemically important emerging markets like Brazil, China, and India had to be heard as well. An optimal provision of global public goods (financial stability, at that time) required coordinated global responses. Enter the G20 – an expansion of the G7.

The first summit of the G20 Leaders, comprising the G7 and key emerging markets,

was held in November 2008. The G20 responded convincingly by launching a programme for coordinated fiscal and monetary stimulus. The G20 also tripled the resources of the International Monetary Fund (IMF) and mandated it to create additional global liquidity in the form of new allocation of Special Drawing Rights (SDRs).

The Financial Stability Forum (FSF) was upgraded to the Financial Stability Board (FSB) and given the mandate of overseeing and strengthening the international financial regulatory system. These coordinated efforts prevented the global economy from experiencing a repeat of the Great Depression of the 1930s.

Rising Nationalism and Weakening Global Cooperation

But rising nationalism and populism have dimmed the environment for global cooperation including among the G20 Leaders. Countries have preferred to “go it alone” rather than cooperate with others.

Under then President Trump, the United States had embraced the “America First” policy and protectionism pivoting away from multilateralism to “unilateralism” and “bilateralism”. Tariffs were imposed on about 20% of total US imports mainly from China. The US also sought to disband China-centered supply chains.

Similarly, European countries had initiated policy actions to protect their economies especially from rising inflows of migrant workers from the Middle East. Countries around the world also retaliated and became more inward-looking. Although it remains an export powerhouse, China has turned inwards to some extent. Since 2020, India has also adopted a more self-reliant policy.

Despite the initial commitment at the virtual Extraordinary G20 Leaders’ Summit convened by Saudi Arabia in March 2020 to “do whatever it takes” to overcome the pandemic, only a few commitments have emerged, so far, from the G20. A month later, the G20 endorsed an Action Plan in response to the pandemic.

But this plan comprised a collection of uncoordinated national monetary and fiscal policies that countries had planned on their own. Also in 2010, the G20 had established a debt forgiveness programme for eligible countries through the Debt Service Suspension Initiative. This Initiative was not renewed at the recent Leader’s Summit in Rome and is set to expire on 31 December 2021.

Indeed, the G20’s response to the pandemic has been weak and uncoordinated. The agenda and outcomes of the Rome G20 Summit on 30-31 Oct 2021 further illustrates the case.

Outcomes of G20 Rome Summit

The agenda for the Rome Summit set by the Italian presidency were important for the key emerging markets of the group, but they were not the top priority issues.

For these emerging markets global vaccine distribution, access to vaccines, fiscal support from the IMF and other international financial institutions, and support for

health services were the key issues. The absence of these items in the agenda could be a reason why the Leaders of China, Japan, Mexico, Russia, and South Africa did not show up at this Summit.

At the Rome Summit, the Leaders agreed to pursue efforts to limit global warming with “meaningful and effective actions”, but they offered few concrete commitments. While they committed to the key Paris Agreement goal of limiting global warming to 1.5 degree centigrade above pre-industrial levels, and pledged actions against dirty coal plants, they fell short on a target year for zero emissions.

On vaccine rollouts, the Leaders committed to support the World Health Organisation (WHO) goal of vaccinating at least 40% of the world’s population by the end of this year and 70% by the middle of next year by boosting the supply of vaccines in developing countries and removing supply and financing constraints.

No details were provided on how these ambitious targets will be realised. The G20 should have come up with a comprehensive strategy to address the pandemic with quantified commitments, clear timelines, and milestones for achieving them, with a focus not only on the vaccines but also the required logistics.

Looking Forward

While the G20 Summit in Rome achieved some progress in the agenda that were of interest to the G7, it failed to address the critical issues of pandemic control, vaccine nationalism and vaccine inequity despite the numerous pleas of policymakers and the WHO. The Leaders failed to heed to the oft-quoted warning that “no one is safe until everyone is safe”. They also failed to suspend intellectual property (IP) protections on COVID-19 vaccines.

In the future, G20 needs to do more than recycle the G7 agenda. It needs to also address the agenda of the emerging markets that are crucial to the health of the global trading system. Otherwise it risks being broken up into the “G7 and the Rest”.

Next year onwards, the G20 will be hosted by three emerging market members in succession – Indonesia, India, and Brazil. Since the rotating presidency of the G20 comes with agenda-setting powers, hopefully the priorities will be reoriented to promote international cooperation and save the G20.

Given that the pandemic is expected to be around for some time yet, Indonesia has announced its plan for G20 to meet this priority. Under the core theme of “Recover Together, Recover Stronger” it will push for fair and equitable global vaccine distribution as well as for the availability of sufficient financing.

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