

G20: From economic powerhouse to guardian of global welfare

As the G20 leaders gathered in Hamburg, Germany, over the weekend, critics and supporters amplified their hopes in this economic powerhouse — a club of 19 countries plus the European Union. Nine years into its formation at the leaders' level, G20 has consolidated its status as the power center of global economic governance.

The G20, which accounts for 85 percent of the world's economy and 80 percent of global trade, successfully controlled the damage from the 2008 crisis by macro-level economic policy coordination. The coordinated actions by the G20 countries from 2009-2012 helped inject liquidity into markets, recapitalize international financial institutions, as well as provide a formula for global economic recovery and future crisis avoidance.

Its efforts during that period were also hailed as the exemplar of cooperation between developed and emerging economies of the world. G20 was also given credit for moderating trade conflicts and averting currency wars.

With five Asian countries as part of this group, namely China,

India, Indonesia, Japan and South Korea, now G20 wants to steer the global economy toward strong, sustainable and balanced growth.

Critics have voiced their concern over the fundamental lack of legitimacy for the self-appointed group of global powers. They call into question the effectiveness of the G20 in balancing the national interests of countries that preside over the management of the world economy.

As a result of conflicting interests among members, particularly the United States, and other rising powers of Asia and Africa, the G20 has not shown much ambition to stop the erosion of the multilateral trade system through the emergence of mega regional trade agreements like the Transatlantic Trade and Investment Partnership (TTIP). Critics cite the lack of support from G20 on global public goods, such as the stability of the ecosystem that supports economic fundamentals.

Some also doubt the merits of G20, going much beyond its original mandate of fixing the global financial architecture to non-economic issues like climate change,

INSIGHT



Venkatachalam
Anbumozhi
JAKARTA

healthcare, migration and terrorism — much like the United Nations. Issues on the finance track, typically led by finance ministries and central bank governors, were overtaken by the prioritization of issues on the “other track,” typically led by officials outside finance ministries.

Both arguments have merit. As the G20 enters the ninth year of its formation in a world that is in geopolitical turmoil, it is appropriate to assess what has worked, what has not, and why. Over the years, and under pressure to address the larger socio-economic needs of member countries, G20 began to include issues such as economic inequality, jobless growth and sustainable development challenges — issues that are

particularly important for the developing countries, and not an illogical evolution.

Looking at the G20 from the perspective of effective global economic governance, the big question to ask is: Do the member states see their group as a constellation of great economic powers or are they ready to act as guardians of global welfare? There are three ways the G20 need to concentrate so they can achieve both objectives.

First, due to the group's unique economic and political weight, member countries hold a particular responsibility for implementation of free trade and anti-protectionism measures. Sustainable economic growth cannot be achieved globally if they are not realized in all G20 countries — high-income and middle-income countries alike.

To demonstrate the sincerity of their commitment, G20 countries should ensure coherence across all of its work streams emphasizing free trade, investment and finance that nudge private business toward the trajectories of wellbeing of global citizens. This will have the effect of boost-

ing domestic employment and reducing account surplus on overcome global imbalances.

Second, G20 governments should signal their collective support for a transformation of the world economy toward new models of low-carbon and resource efficient growth. They need to establish coherent policy frameworks for inclusive growth anchored on the 2030 sustainable development agenda and Paris Climate Agreement.

The G20 should use its collective voice in directing the multilateral development banks and other international financial institutions to make sure that these institutions fully support social and environmental standards set by the global community.

Third, G20 governments should support the evolution of new global formats and institutional arrangements for North-South joint knowledge creation and South-South knowledge sharing to address the global economic and social challenges. International knowledge networks are mostly dominated by representatives from major Organization of Eco-

nomic Cooperation and Development (OECD) countries. Innovative knowledge solutions can only become effective on a global scale if it is co-created by participants from different regions and if it reflects ideas and approaches in pluralist perspective.

G20 should initiate a process of establishing an inclusive knowledge network to support its future actions and to interact with policymakers as well as business and civil society across the countries.

The G20 is now a matured institution with a depth of experience in global economic governance. China, Germany and Mexico, which holds the G20 presidency last year, this year and next year respectively, have the unique opportunity and responsibilities to expand its role. They should join hands in transforming the G20 from a club of economic powers into genuine guardians of global welfare.

The writer is senior energy economist at Economic Research Institute for ASEAN and East Asia (ERIA), Jakarta. The views expressed are his own.