

EMEs AT ST PETERSBURG SUMMIT

Petering out

With growth slowing, the BRICS countries may find G7 unwilling to concede ground on issues raised by them

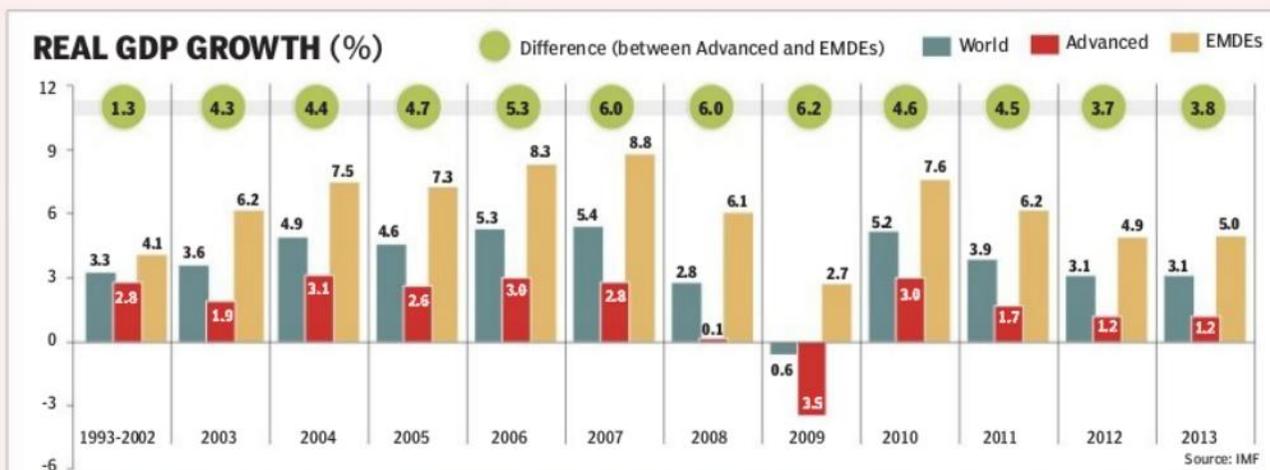
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The eighth G20 summit will take place in St Petersburg, Russia, on September 5-6, 2013, in an interesting and unfamiliar environment. This is the first summit where IMF's near-term data to be presented to leaders is likely to show growth strengthening in the US and Japan, and recovery in the UK and the eurozone, while the prospects for growth in the emerging market economies (EMEs) might be shown as further weakening. What impact would such a scenario have on the deliberations and the final summit declaration from an EME perspective?

Macroeconomic stabilisation, growth and jobs—which dominated the first two G20 summits at Washington DC and London, respectively—returned to occupy centre stage in the last two summits at Cannes and Los Cabos in the wake of the eurozone crisis and fears of a double dip. These concerns remain paramount despite some improvement in the near-term data. Labour participation rates have not recovered from their crisis lows, and there are concerns about the quality of job creation. Trend growth may have also moved lower because of some permanent loss of demand. According to IMF's WEO July update, advanced economies are expected to grow at just 1.2% in 2013. Even if this is revised slightly upwards by the time of the summit, they are growing at only about half the pre-boom (1993-2002: see table) rate.

Growth in developing countries, on the other hand, is now at around the pre-boom average. The boom in global growth after 2004 was basic-



ly an EMDE (emerging market and developing economy) phenomenon, as a result of which their growth differential with advanced economies almost quadrupled over the 1993-2002 average. They also weathered the first phase of the global financial crisis remarkably well.

This recovery has, however, tended to stall after 2011, with the growth differential lower than what it was in any year in the post-2002 (boom) period. Growth concerns have magnified over the past few months by market expectations of imminent rollback of the abundant global liquidity arising out of non-conventional monetary policies in advanced economies, pressuring the financing of their current account deficits and their currencies.

There are two new issues on the G20 agenda on which EMEs need to take a considered stand. The first one relates to non-conventional monetary policies adopted by advanced economies, and the management of their public debt. The second issue relates to international tax matters

The case of India, which has all along been the second-fastest growing G20 economy, perhaps best illustrates this down slide. Its near-term quarterly growth has fallen below 5%, and the rupee is falling to new lows. This situation in several other EMEs is similar.

Would these developments diminish the voice and impact of EMEs at the summit? The choice of the G20 fo-

rum as the new premier forum for international economic cooperation, taking over the baton from the G7, was largely on account of the prolonged economic boom in EMEs that accelerated the income convergence between advanced economies and EMEs. There is now a danger that G7 countries, who have been dragging their feet all along on the issue, may be

less willing to concede ground or to listen to the BRICS on matters raised by them on issues such as IMF governance reform and the new quota formula, especially since they have not got what they wanted on issues such as trade and climate change. While all the usual motherhood statements are likely to be repeated in the summit document, G20 camp followers would as usual need to delve deep into nuanced phrases and constructive ambiguities that are a masquerade for deep divisions within the forum.

It may be recalled that the G20 turned to addressing structural issues such as global imbalances (Pittsburgh), public debt management (Toronto), and development (Seoul) even before the global recovery had

stabilised. The G20 also branched out into a number of contentious areas with little relevance for the recovery.

It is not entirely clear how some of these items got into the G20 agenda even as it was engaged in fire fighting. The most plausible explanation is that, following up on the Heiligendamm process, this was an attempt by G7 countries to engage systemically important emerging markets directly across the table to close contentious negotiations stuck in larger multilateral fora like the IMF (exchange rate policies), the WTO (Doha Round), the UNFCCC (climate change), the UN-CAC (anti-corruption) and the ILO (labour laws). Some sort of grand bargain was probably envisaged, giving a greater share to EMEs in the governance of multilateral bodies such as the IMF, World Bank and the Financial Stability Forum. The timing of some of these interventions, such as green growth, stronger social protection, and now 'Base Erosion and Profit Shifting', is certainly strange as they can queer the pitch for boosting private investment and confidence—charging 'animal spirits'—that is necessary for a sustainable recovery.

Be it as it may, while it is difficult to get any item off the international agenda once it is on the table, there are two new issues on the G20 agenda in St Petersburg on which EMEs need to take a considered stand, since they stand to be hugely affected by both. The first issue relates to non-conventional monetary policies adopted by advanced economies, and the management of their public debt. The second issue relates to international tax matters. What stand they could take on these issues will be considered in the second part of this article. The extent to which they can influence the summit outcomes at this stage is, of course, another matter.

(Part II, on emerging issues, appears tomorrow)
The author is a civil servant.
Views are personal