



THEIR VIEW

MINT CURATOR

The bar for Delhi's G20 Summit may have been set in Bengaluru

The absence of a joint communique suggests more attention must be paid to behind-the-scenes diplomacy ahead of meetings



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The first meeting of Group of 20 (G20) finance ministers and central bank governors (FMCBG) under India's presidency was held in Bengaluru on 22-25 February 2023. The finance ministers reached agreement on a wide range of economic issues, including, *inter alia*, support for Turkey and Syria following a devastating earthquake, the global economy, climate finance, reform of multilateral development banks, sustainable finance, debt relief, safety nets, etc. However, what grabbed global media headlines was the group's inability to issue a communique at the end of the meeting.

The news filtering down from those at the meeting is that G7 countries were adamant on using strong language to condemn Russia's actions in Ukraine, including specific use of the word 'war', which was opposed by Russia and China. Indian Prime Minister Narendra Modi avoided referring to Ukraine at all in his opening comments. This may be understandable, since the G20 FMCBG is an economic forum, and India is sandwiched uncomfortably between the G7 and Russia. But there was nothing to prevent finance ministers from discussing geopolitical issues that also have deep economic and financial ramifications.

In the end, the chair was unable to pilot an agreed document and a communique could not be issued. This is the second time this has happened. The first occasion was at the FMCBG meeting under the last—Indonesian—presidency, on the same issue of Ukraine. A chair's summary was issued instead. The Indonesian presidency was widely criticized at the time for diplomatic failure, and there was speculation whether the Indonesian presidency would be able to get all G20 countries to sign up on an agreed communique at the Bali Summit of G20 leaders. This is a risk that most non-G7 presidencies of the G20 face on account of their limited geopolitical clout.

At Bali, however, President Widodo of Indonesia finessed differences between G20 countries through deft diplomacy, which led to agreed language that strongly condemned the war in Ukraine and aggression by Russia. A communique was issued and that summit was considered a success. Prime Minister Modi was also given some credit for that, with the phrase 'today's era must not be of war' attributed to him.

It is not clear why the language used in the Bali Leaders' Declaration on Ukraine was not adopted in Bengaluru to resolve differences. It is an unstated convention in the G20 that language adopted in previous communiqués is not objected to in subsequent communiqués. The Russian foreign minister who represented Putin at the summit left Bali before the issue of the Bali Declaration as he felt cornered on Ukraine.



India was perhaps unwilling to antagonize a close ally. But while disagreement over Ukraine (paragraph 3 of the chair's summary) might have been expected, what was surprising was the unwillingness of some G20 countries to sign up on the anodyne paragraph 4 with no reference to Ukraine. This simply reiterated general principles of international cooperation littered across previous G20 documents and other multilateral agreements on which one would have thought there is longstanding global consensus:

"It is essential to uphold international law and the multilateral system that safeguards peace and stability. This includes defending all the Purposes and Principles enshrined in the Charter of the United Nations and adhering to international humanitarian law, including the protection of civilians and infrastructure in armed conflicts. The use or threat of use of nuclear weapons is inadmissible. The peaceful resolution of conflicts, efforts to address crises, as well as diplomacy and dialogue, are vital. Today's era must not be of war."

It is not clear whether the G20 absence of consensus on paragraph 4 (cit. above) reflects diplomatic failure or a breakdown of global consensus on fundamental values. The latter would be deeply troubling. The former raises questions regarding India's ability to pilot an agreed Leaders' Declaration at the New Delhi Summit. No G20 summit has ended so far without an agreed Leaders' Declaration, so a chair summary would be a new low. The bar to judge the success of the New Delhi Summit has perhaps been set.

As it happens, India has publicized its G20 presi-

dency quite aggressively domestically. Hundreds of meetings have been lined up, and a large number of hoardings are coming up in these cities. While most governments do leverage the group's rotational presidency domestically, this is unusual for G20 meetings where officials meet behind closed doors, with only their communiqués and reports made public. The South Asia news editor and deputy bureau chief of AFP news agency in Delhi posted on his Twitter handle that he saw 63 hoardings with big pictures of India's Prime Minister during a 5km drive to the venue of the FMCBG meeting. He later elaborated that there were actually well over 150 pictures if those on both sides of the road were counted. Whatever their impact in India, such hoardings are bad press in democracies overseas.

Judging from the outcomes in Bengaluru, it is not clear whether adequate attention is being given to quiet behind-the-scenes diplomacy ahead of G20 meetings to forge an agreed agenda and consensus on which a successful summit, geopolitical gains and soft power ultimately rest. While FMCBG meetings are regular fixtures under all G20 presidencies, other ministers are optional, and the prerogative of the chair. It is difficult to fathom what India hopes to achieve by convening a meeting of G20 foreign ministers at this juncture (scheduled shortly from now) when it could not even consensus language on Ukraine at Bengaluru. While the FMCBG forum has a large economic and financial agenda to discuss, what would foreign ministers discuss other than Ukraine? Unless the necessary groundwork has been laid, India risks another ministerial without an agreed communique.

MY VIEW | A VISIBLE HAND

Adam Smith's works should outlast blinkered readings

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The year 2023 marks the birth centenary of Adam Smith, the Scottish economist who has had a significant impact on the world. It seems only appropriate, given the title of this column, 'A Visible Hand', that I evaluate Smith's contribution and place it in today's context. It also strikes me as an imperative because while he is among the most cited in economic conversation, his works are among the least read. Adam Smith was born in 1723 in Kirkcaldy (pronounced Kirkcaldy), Scotland. The young Adam grew up in a market town that was known for its fishing, salt harvesting, mining and trade. Throughout his life, Smith was a keen observer of human beings and the way they went about their economic behaviour in society. Smith was a polymath who joined Glasgow University at the age of 14 and studied under the philosopher Francis Hutcheson. His interests and ideas spanned philosophy, theology, astronomy, law, ethics and the political economy. Even though Smith is remembered for econom-

ics, what makes him relevant even today is that he deliberated upon and asked timeless questions about the human condition.

Adam Smith wrote two books, an uber-famous one and the other less so. The two books are meant to be read together. Unfortunately, few have even heard of Smith's first book, let alone read it. Smith's basic psychological curiosity led him in 1759 to write *The Theory of Moral Sentiments*. The very first word in this book is 'sympathy', a word that the 'number of characters restricted' social media world of today would not associate with Smith. In the book, Smith is concerned with the great questions of moral philosophy: Is humankind selfish or benevolent? What does a sense of propriety mean? What should be the nature of reward and punishment? What is the influence of luck? What constitutes a sense of duty? Can virtue be equated to prudence, propriety, or benevolence? If Smith had written only this book, he would have been considered in the same class as John Locke, Immanuel Kant, Jean Jacques Rousseau, Voltaire or David Hume. In fact, Hume was Smith's closest friend and intellectual sparring partner.

It was not until 1776, the year of Hume's death, that Smith would publish the now famous book, *An Inquiry into the Nature and*

Causes of the Wealth of Nations. And it is the ideas in this book that we must look to for Smith's contribution to economics.

Interpreting these ideas without the full context of Smith's book on moral sentiments allowed many subsequent economists to draw not-managed threads that suited their individual purpose. And so it was that the University of Chicago, particularly led by George Stigler and Milton Friedman, 'hijacked' the idea of an invisible hand and broadcast it as an ultimate defence of individualism and *laissez-faire* market economics.

Stigler's ideological belief in small government and free markets and Friedman's charismatic ability to market that idea led to a situation where Adam Smith became synonymous with the Chicago school characterization.

The term 'invisible hand' appears in Smith's book only a couple of times, and even then, only in passing. For instance, in Book 4, Chapter 2, Smith says "Each individual generally, indeed, neither intends to

promote the public interest, nor knows how much he is promoting it... He intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention." A simple interpretation of this means that there are some unintended consequences, in many cases positive, of individuals acting in their own interest. Stigler and Friedman picked upon the importance of price as the mechanism by which this so-called 'positive externalities' would benefit the overall market. Smith was the first to expound on the theory of price and illustrate that in an analytically rigorous way.

Adam Smith himself would probably have been appalled by this narrow interpretation of his work. In context, Smith was against cronyism, against corporate monopoly, against imperialism (though mainly from the point of view of the imperialist), and for

individual action and responsibility, for workers and for greater harmony among the rich and poor. Smith recognized that great wealth brought great power, he valued the free market as the best motivator of individual effort, but was equally clear that the responsibility of civilized society was to ensure that wealth should not be achieved at the expense of humanity. Donald Winch, an economic historian described Smith as "infuriatingly balanced and mesmerizingly mundane."

Much of the commercial context, particularly the mercantilist orientation, in which Smith wrote those books does not hold today. But the timeless questions that he raised still do. For India, as for the rest of the world, Smith's strongly worded ideas against cronyism and unchecked corporate power should sound a note of caution. Smith's ideas about decentralization are still as valid today as they were back then.

Most importantly, Smith's ideas about individual responsibility and focus on markets that are 'fair' as much as free remain paramount.

"P.S.: A nation is not made wealthy by the childish accumulation of shiny metals, but it is enriched by the economic prosperity of (all) its people," said Adam Smith.

Vedanta must take care not to sound like India's next Adani

Its global bonds have flagged and New Delhi links are under watch



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The credit rating of Anil Agarwal's Vedanta Resources has been under pressure

Highly leveraged Indian tycoons are having a rough time. Gautam Adani's \$236-billion infrastructure empire has shrunk by more than three-fifths in a month. But while his relentless rise and spectacular fall hog headlines, a smaller storm may be brewing for another magnate. Anil Agarwal's once-London-listed Vedanta Resources has a pile of debt, including a \$1 billion bond due January. Yet, his most recent attempt to trim the lead has upset the one partner he can't afford to annoy: New Delhi.

Around this time last year, when the US Fed was still to begin raising interest rates to tame inflation and Russia's war in Ukraine had started to send commodities surging, Agarwal was toying with the idea of merging debt-laden Vedanta Resources with its cash-rich India-listed unit Vedanta Ltd. That plan didn't go anywhere. However, Vedanta Resources did manage to shed its net debt burden from almost \$10 billion in March last year to a little under \$8 billion. With the listed unit declaring a dividend last month, its parent and majority shareholder is "highly likely" to meet its obligations until September 2023, according to S&P Global. So far, so good. But it was when Agarwal tried to secure the finances for \$1.5 billion in loan and bond repayments between September this year and January 2024 that he hit a roadblock.

What was supposed to be a quick dash to the ATM has become an uncertain enough adventure for Vedanta Resources bondholders to drive the price of the August 2024 note below 70 cents on the dollar. The next few weeks would be crucial for fund-raising. If it fails, the issuer's B+ credit rating, already deep in the junk-bond category, could come under pressure. S&P said, Adani's net debt pile of \$2.4 billion may be three times as large as Agarwal's, but his bonds are still rated at the lowest rung of investment grade.

What happened to get everyone worried was this: Hindustan Zinc, which Agarwal had started buying from the Indian government two decades ago in a privatization deal, has a cash pile of \$2 billion. Plus, the miner garners between \$300 million and \$600 million ebitda every quarter. So Vedanta Ltd, which owns 65% of the firm, decided in January to offload THL Zinc Ltd, Mauritius, to Hindustan Zinc. That cash deal, representing mining interests in South Africa and Namibia, was valued at about \$3 billion in phases over 18 months. Since Vedanta Ltd is 70% owned by Vedanta Resources, it would have taken care of the latter's liquidity needs.

Except there was one problem. New Delhi, which still owns about 30% of Hindustan Zinc, balked at the transaction. "We would urge the company to explore other cashless methods for acquisition of these assets," the Indian government said in a 17 February letter, threatening to explore legal avenues if Hindustan Zinc still decided to go ahead with the purchase.

This presents two problems for the magnate. First, unless China's economic revival turns things around, the post-pandemic era of supernormal commodity prices could be over. If Agarwal can't take Hindustan Zinc's cash up to his privately-held Vedanta Resources, his ability to pay down debt may be impaired, forcing him to borrow more. But with the Fed going no indication that it's done raising rates and Vedanta Resources bonds losing value, he might struggle to raise fresh money at a reasonable cost.

Agarwal's second challenge is political. If he tries to force the asset sale and incur the government's displeasure in the process, his ambition to partner with Taiwan's Foxconn for a \$19 billion semiconductor factory might come under a cloud. Already, that project is being watched closely by opposition politicians who have slammed its last-minute relocation from Maharashtra to Prime Minister Narendra Modi's home state of Gujarat. Besides, taxpayers will bear half the cost of chip-manufacturing units, and India's general elections are due next year. Influential voices, such as Raghuram Rajan, have questioned Vedanta's involvement, citing its lack of chip-making competence. "I simply do not understand how these players are being picked," he said.

Seven years ago, Agarwal's creditors were even more jittery than now. Back then, the zinc miner offered a special dividend. New Delhi didn't mind because the firm then had over \$5 billion in cash and as a minority shareholder, it also got its share of the bounty. This time around, though, Agarwal seems to have overreached.

Short-seller Hindenburg had accused the Adani group of stock-price manipulation and accounting fraud, allegations Adani denied even as its stocks got pummeled. With that scandal putting the Modi administration under scrutiny over entanglement of public purpose with private profit, Vedanta's stock priority should be to stay out of the news headlines.

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