GLOBAL GOVERNANCE AND EMERGING ECONOMIES --

AN INDIAN PERSPECTIVE

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Global Governance and Emerging Economies - A Perspective from India

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Introduction

The first decade of the twenty-first century has witnessed an unprecedented transformation of the international political, economic and security landscape. The post Second World War order, presided over by the United States and its Western allies, is now undergoing rapid change and its eventual outcome remains ambiguous and uncertain. The dominance of the global economic and security architecture by one pre-eminent power and the location of political and economic ascendancy in a cluster of Western democracies, is now giving way to more diffused and fluid structures which have yet to crystallize, let alone stabilize. The intellectual and ideological underpinning of Western dominance, which appeared to represent a universal value (and, therefore, the "end of history" as Francis Fukuyama described it), came to its apogee in the aftermath of the end of the Cold War in 1990. Free markets and open economies fused together with principles of liberal democracy, came to represent the inescapable drivers of both material as well as human progress. The G-7 Summit in Houston in 1990 observed with satisfaction the increasing recognition of "the principles of open and competitive economy" and that "freedom and economic prosperity were closely linked and mutually reinforcing". (G7 Houston Economic Summit). A year later the G-7 Summit at London was billed as the first of the post-Cold War period and an occasion to "celebrate(s) the resurgence of democracy and free markets around the world". (G7 London Economic Summit).

Two decades later, the celebration appears to have been premature. In fact, this subsequent period has witnessed a steady and, since the global financial and economic crisis of 2008, an accelerated erosion of Western domination of the institutions of global governance. This has coincided with serious questioning of what appeared to be self-evident at the G-7 Summit at Houston – the mutually reinforcing link between economic prosperity and liberal democracy. The financial and economic crisis, originating at the very heart of the capitalist world, the United States, has shaken the world's faith in the self-regulating and self-sustaining character of the free market system, its ability to deliver steady economic growth and its universal application to economies at different stages of development. The unprecedented and even dramatic success of China, would also seem to indicate that there is no inevitable or necessary link between liberal democracy and the ability to deliver economic prosperity. The role of the state in the economy has made a significant comeback reversing the trend which began with the dawn of the Reagan-Thatcher era in the early 1980s.

The past two decades represent an era of growth and consolidation of the global economy. There has been impressive economic growth, both in absolute and relative terms, in a number of major developing economies, most notable being India and China. This trend has coincided with their rapid integration into the global economy. The consistently high growth trajectories achieved by these two continental size economies has been largely responsible for the shift in the centre of gravity of global economic power from the trans-Atlantic to Asia. The latter's share of global output was 16% in 1950. It was 34% in 1998, and is expected to rise to 44% by 2030 (Tellis).

However, it is not only India and China which are leading the shift of economic power away from the West. There are other significant emerging economies as well, including Brazil, South Africa, Mexico and, more lately, Indonesia. They join countries like South Korea, which have, in the meantime, consolidated the impressive economic gains they have already made over the past several decades. With the rapid accretion of economic capabilities has come increasing technological sophistication as well as acquisition of greater military capabilities. The world of today is, therefore, populated by a cluster of major powers, deploying significant and growing economic and security assets, though there still remain considerable asymmetries in the distribution of power among them.

The diffusion of economic and military power among a larger set of major international actors, has been paralleled by another significant feature of the current international landscape. This is the increase in the number and salience of cross-cutting, transnational challenges, which are not amenable to national or regional solutions. These include international terrorism, maritime piracy, drug trafficking, global pandemics, climate change and water security, to name just a few. In dealing with them as also in managing what have come to be called the "global commons", the role of the major emerging economies is indispensable. Global interconnectedness and interdependence are now a compelling reality, whose management requires several hands at the helm, working in tandem.

The situation is complicated by the fact that the newly emerging economies display a significant dichotomy in their economic structures. Both India and China would qualify as major economies in overall GDP terms, in terms of their weight in the global economy and trade and their overall technological and military capabilities. However, they would continue to be classified as developing countries, in terms of their per capita income levels, the continuing though declining, incidence of poverty, disease and illiteracy. This leads to considerable ambivalence as these countries aspire to a role for themselves in the emerging architecture of global governance. They need to contribute to global public goods but they also feel entitled to non-reciprocal benefits from global regimes to help deal with their still considerable developmental challenges. In this respect, they represent a different breed of major powers compared to the historical norm. Most developed countries today saw progress in their domestic economic and social indices go hand in hand with their overall GDP growth and rising international profile. This is not the case with the emerging major powers like India, China, Brazil, South Africa, for example, who may be labelled as "premature powers" (Saran). This makes global governance in the contemporary world a complex and difficult challenge.

This introductory background would not be complete without addressing another important aspect of global governance. This is the asymmetry between institutions of global economic governance and those related to political and security related issues. While there has been a steady, even though limited democratization of the global economic architecture, there has been virtually no change in the political and security architecture. The UN Security Council continues to reflect the power pattern that emerged from the Second World War and has remained frozen in time. In fact, one could argue that even the limited influence of the general membership of the United Nations, as it resides in the General Assembly, has become progressively diluted, as more and more of the activities of the UN and its specialized agencies rely on programme funding from donor countries. Since assessed contributions are barely enough to cover administrative and establishment expenses, the reliance on donor funding ensures that it is the priorities of a small number of developed, affluent countries, which are reflected in the orientation and activities of the U.N. Thus, even if the institutions of global economic governance are restructured towards giving the major emerging economies a greater stake and, therefore, influence in decision-making, there will be an increasing disconnect with an outdated and increasingly dysfunctional political-security architecture at the global level.

Historical Background

The post World War-II institutions of global governance, the United Nations and the Bretton Woods twins, the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD or World Bank as it is now generally known), were conceived of , structured and managed by the victors of the war, most prominently by the United States. While the United Nations observed the principle of universality in its membership, its Security Council of permanent members, each with veto powers, represented a Council of victorious allies, including the then Soviet Union. The Bretton Woods institutions were structured to manage the global market and the financial economy. The I.M.F administered a regime of fixed exchange rates with reference to the US Dollar. The IBRD became the channel for funding the reconstruction efforts of the war-ravaged European economies. At a later stage in 1947, the General Agreement on Trade and Tariffs (GATT) was established to manage international trade flows. The Soviet Union as a socialist, planned and non-market economy did not participate in these institutions and remained outside, until the successor state, Russia, became member of the I.M.F and World Bank in 1992. It has still not been able to join the World Trade Organization (WTO), the successor to GATT.

After the initial focus on economic rehabilitation and recovery of the war ravaged economies of Western allies, the I.M.F and World Bank turned their attention to the economic development of newly developing countries. This coincided with the sharpening of the Cold War and the need to win allies and friends among the new constituency of newly independent developing countries. The United States, given its massive economic and financial resources, comprehensively dominated these institutions for several decades and even now retains decisive influence.

The post war global terrain eventually came to be dominated by two over-arching and, at several points, intersecting divides :

(i) an East-West divide between a US led alliance of non-Communist countries, but with free market Western democracies at its core and a Soviet Union led alliance of Socialist countries, with the Warsaw Pact of East European countries at its core .

(ii) a North-South divide bringing an affluent West into an unequal confrontation with the newly independent, but poor and developing countries in Asia, Africa and Latin America, with the South generally rejecting taking sides in the East-West ideological and security "Cold War".

The aspirations of the South centred on consolidating and underpinning their newly won political emancipation with a degree of control over their own economic destiny. The Bandung Conference of 1955, which led to the birth of the Non-Aligned Movement in 1961, was paralleled on the economic side, by the emergence of G-77 in 1964 at the first UN Conference on Trade and Development (UNCTAD). Both represented the collective determination of the newly emerging countries to pursue a political agenda that rejected the East-West divide, sought the completion of the decolonization process and aspired to create a more equal and fair global economic and trade order centred on development. The Soviet Union and its socialist allies remained on the sidelines, although they extended support to the South on issues in the North-South agenda, particularly those which put the North on the defensive. For several developing countries the State-led, planned economic model which the socialist countries represented, also offered an attractive alternative to the free-market principles espoused by the West, although foreign policy and security imperatives often led the latter to support authoritarian regimes which practiced a form of "State Capitalism" (Malone and Thakur). In this early post-war phase, the main issues of global governance for developing countries were the following: mechanisms to obtain larger flows of overseas development aid (ODA), non-reciprocal and unfettered access for their products (mostly commodities) to developed country markets, recognition of their right to protect their own industry and agriculture through both higher tariffs as well as quantitative restrictions and measures to improve the terms of trade in their favour, thereby earning stable and fair prices for their commodity exports.

Efforts by developing countries to play a role in the framing of rules, standards and norms for their participation in global trade and financial markets achieved only marginal results. Both in political and economic terms, all the cards continued to be in the hands of the developed mature economies of the West, led by the United States. There was little incentive to respond to the impassioned plea from the developing world for a voice in global economic governance.

The first significant development in the North-South dialogue came in the wake of the first oil crisis of 1973-1974, when a group of oil exporting countries formed a cartel, the Organization of Oil Producing and Exporting Countries, or OPEC, and imposed a significant rise in crude prices, despite strenuous Western resistance. For the first time, Western economies were seriously impacted by decisions taken by a group of non-Western, developing countries. This represented, though only temporarily as it turned out, a shift in the balance of power between developed and developing economies, compelling some accommodation of the concerns and aspirations of the latter in structures of economic governance. Despite being themselves hit by high oil prices, non-oil exporting developing countries maintained solidarity with the OPEC, in the hope that the latter's new-found leverage could be used to launch a substantive North-South dialogue on a "New International Economic Order" (NIEO), which would right old wrongs and promote the interests of developing countries.

This accretion of new found bargaining power among the developing countries, with OPEC at its core, led to the search for a coordinated response from the industrialized countries of the West. An informal consultative mechanism had already emerged in 1973 with the so-called "Library Group" comprising US, UK, France and Germany. The G-6 was established in 1975 with the inclusion of Italy and Japan and the first Summit was held in Rambouillet, France. Canada joined the second Summit at San Juan in 1976 and the European Economic Community began attending the Summits as an invitee since 1977.

The agenda of the early G-7 Summits were dominated by economic issues. They were fashioned originally as economic summits and the early communiqués were billed as Economic Declarations. The first few summits focused on economic recovery, tackling inflation triggered by oil price rise, energy security, including the search for non-oil alternatives, the maintenance of an open and liberal trading regime and economic relations with developing countries. It was not until the 1978 Summit in Bonn that a Political Declaration was also issued for the first time. Over the subsequent years, however, the G-7 began to deal with a much wider range of political, security and economic issues, in effect the entire global agenda. But in 1975, it was clearly a creature of crisis, centred on an immediate economic challenge.

It was at the Rambouillet Summit that a decision was taken to respond positively to the developing countries' demand, reflected in the Declaration of the UN 7th Special Session on Development and International Economic Cooperation, for undertaking multilateral negotiations on a New International Economic Order, at the Ministerial level. The Conference on International Economic Cooperation was convened in Paris in December 1975 and continued for a period of 18 months, until its conclusion on June 3, 1977. Twenty-seven countries took part in the conference, 19 from among the developing countries, mandated by the group of 77, and 8 developed countries, including the European Community[1].

A preparatory group met in October 1975 followed by the first Ministerial meeting in December that year. It was decided to set up four Commissions to negotiate on some of the key issues.

(i) Commission on Energy, which would deal with the importance of ensuring energy availability and supply and the promotion of renewable energy.

(ii) Raw Materials and Trade, including international cooperation on marketing and distribution of primary commodities.

(iii) Development

(iv) Financial Affairs, including a larger role for developing countries in international financial institutions.

Each of these Commissions was composed of 15 members, 5 from the North and 10 from the South, with two co-chairs, one from the North and one from the South. Despite very intensive work by the Commissions, there was eventually neither a new deal nor a new order. The developed countries were at best prepared to tinker with the existing system and make some marginal concessions, but not acquiesce to a wholesale restructuring of a regime dominated by them. They also wanted to use the conference to make oil availability and prices a matter of international concern and tried to lure the non-oil exporting developing countries to their side in pursuing these tactics. On the stabilization of prices of primary commodities and improving the terms of trade for developing countries, they were not

[1] The 19 developing countries were Algeria, Argentina, Brazil, Cameroon, Egypt, India, Indonesia, Iraq, Iran, Jamaica, Mexico, Nigeria, Pakistan, Peru, Saudi Arabia, Venezuela, Yugoslavia, Zaire and Zambia. The developed world was represented by Australia, Canada, EEC, Japan, Spain, Sweden, Switzerland, the United States.

prepared to go beyond the already agreed Integrated Programme for Commodities under UNCTAD. A marginal increase in the voting rights of developing countries in the IMF was conceded and a commitment made to contribute US $1 billion to a Special Action Programme to meet the urgent needs of the least developed countries. There was also a reiteration of the commitment to increase Overseas Development Assistance (ODA) to 0.7% of developed country Gross National Income (GNI).

The developed countries were assisted by the growing strains in the relations between OPEC and the non-oil exporting developing countries who were now facing a deepening balance of payments crunch due to rising crude prices. Their current account deficit deteriorated from $11 billion in 1973 to nearly $38 billion in 1975 (United Nations). Furthermore, prolonged recession in the developed countries led to a flattening of demand for oil, while the recycling of petro-dollars from OPEC through western banks back into the industrialized economies, reduced the impact of high crude prices. Thus, by the time the Conference entered its final phase, the leverage which developing countries had thought they had, seemed to evaporate quite quickly[2].

The need for continued North-South dialogue and the restructuring of the global economic and trade regime to make it more responsive to the concerns and aspirations of developing countries, continued to be a part of international discourse, but it would be several years before the latter gained any real leverage in bargaining with the North. The year the Paris Conference ended saw the setting up of the Brandt Commission, an independent body chaired by former German Chancellor, Willy Brandt, with the objective of setting an agenda for a renewed round of North-South dialogue, aimed at eradicating global poverty, managing global interdependence and achieving a more equitable distribution of the world's resources.

The Commission's report was published in 1980, entitled "North South: A Programme for Survival" (Brandt). It provided the backdrop for the convening of the Cancún Summit in 1981 with Canadian Prime Minister Trudeau and Mexican President Portillo as co-chairs. The Cancún International Conference on Cooperation and Development was attended by twenty-two countries, eight from the industrialized world and the rest fourteen from among developing countries[3]. Unfortunately, this gathering, too, failed to adopt any

[2] For a good account of the Conference on International Economic Cooperation and its results, see Amuzegar, Jahangir. "A Requiem for the North-South Dialogue." *Foreign Affairs*. October 1977.
[3] The eight developed countries were US, UK, France, Germany, Japan, Sweden, Canada and Austria. The developing country participants were: Algeria, Saudi Arabia, Guyana, India, Venezuela, Ivory

substantive decisions. Its deliberations were dominated by the US President Reagan and the British Prime Minister Thatcher, who rejected the very notion of significant resource transfer to developing countries. They saw no argument for improving the terms of trade for the latter. Their prescription for development was the adoption of free market principles and to open their economies to global competition. The Reagan-Thatcher era had arrived and far from restructuring the current global economic regime there was a reassertion of its efficacy in delivering development and prosperity if only developing countries would enable the magic of the market place to operate. Reagan spoke of the need for developing countries to "lift themselves up from their boot straps". This led Indira Gandhi, the then Indian Prime Minister, to observe that those who had no boots to wear could hardly be expected to lift themselves by their non-existent bootstraps.

The Reagan-Thatcher era coincided with the resumption of growth in industrialized economies. By the time these new leaders came to the helm of affairs in their respective countries, inflation had been brought under control, unemployment was decreasing and economic growth had resumed. At the G-7 Summit in London, the assembled leaders were already expressing satisfaction at the strength of recovery in the Western economies, based on declining inflation and gains in employment. This trend continued throughout the decade of the eighties and the lowering of interest rates and a steady fall in oil prices, added further impetus to economic expansion. This did not necessarily mean better economic and trade environment for the developing countries. The problem of indebtedness of non-oil exporting developing countries became increasingly acute and the austerity measures enforced upon them by international financial institutions made the situation worse. The experience of Mexico, which declared insolvency in 1982 under a mountain of debt to Western banks, is a case in point. Other major Latin American countries, including Brazil and Argentina, found themselves in a similarly vulnerable situation. This meant that in the multilateral deliberations in 1986, preceding the launch of the new round of global trade negotiations, known as the Uruguay Round, the major developing countries found themselves with little bargaining leverage vis-à-vis the developed economies. Despite their strong opposition and several rear-guard battles, they were compelled to acquiesce in a US imposed agenda, which introduced services, trade-related investment measures and intellectual property within the ambit of the negotiations, which were hitherto confined to trade in goods.

Coast, Yugoslavia, Mexico, Philippines, Tanzania, Bangladesh, Nigeria, China and Brazil. China attended such a conference for the first time.

The Uruguay Round marked a significant inflection point in North-South relations. Despite its inequities, the post World War II trade and economic regime acknowledged that the development of developing countries must be at the centre of the global trade regime (UNCTAD: Basic Documents). There was recognition that developing countries were entitled to non-reciprocal access to developed country markets and that they could legitimately take measures to safeguard and develop their indigenous industry and protect their agricultural sector through both tariff and non-tariff measures. The Uruguay Round marked the abandonment of these principles and the replacement of a non-reciprocal development oriented regime, by a reciprocity based regime with minimal differential and favourable treatment of developing countries. In the new economic orthodoxy now taking hold, the key to the development of developing economies was encouragement to capital and technology flows from developed countries, for which an open and liberal investment regime with strong intellectual property protection was essential. Exposure of local industry and agriculture to global competition would promote growth while protection would lead to inefficient resource allocation.

The decade of the eighties also saw the emergence of some new but as yet incipient trends. For example, the G-7 Summit in Toronto in 1988 saw the first reference to the impact of the Information Technology revolution and its potential for raising productivity in industrial economies. One also finds an increasing recognition that the newly industrializing economies of Asia-Pacific, were beginning to acquire a higher profile in the global economy and that it was necessary to engage with them in achieving, for example, exchange rate stability.

As the decade of the eighties come to a close, the mood among the developed countries, members of the G-7, was one of renewed confidence, a restoration of faith in free markets and the virtues of unfettered entrepreneurship as drivers of sustained economic growth, with the State occupying a progressively shrinking space in economic governance. The approach to developing countries became increasingly prescriptive and even the half-hearted attempts towards dialogue on global economic and financial issues, were simply not followed through.

The Non-Aligned countries persevered with their economic agenda and their Summit in Harare in 1986 decided to set up a South Commission to examine the challenge to the South in the emerging global economic environment. The former President of Tanzania, Julius Nyerere, chaired the Commission, who's Secretary-General was Dr Manmohan Singh, the current Prime Minister of India. The Commission worked for 3 years and submitted its report in 1990 entitled "The Challenge to the South" (South Commission). The report examined the achievements and failings of the South in pursuing development. It recommended self-reliant, people-centred development strategies and solidarity among developing countries to be able to negotiate a better deal from the North in global trade, finance and access to technology. It noted the growing interdependence among economies of both North and South and saw in it a fairer chance for developing countries to escape poverty and enjoy sustainable development.

But it was already clear that the global political and economic environment was no longer conducive to such reports receiving a fair hearing among developed countries. Already in 1989, the Non-Aligned Summit in Belgrade had decided to set up a G-15 grouping of developing countries, both to pursue South-South Cooperation, but also serve as a coherent and united interlocutor for dialogue with the North.[4] Four of the G-15 leaders travelled to Paris to meet with G-7 leaders on the eve of the latter's "Summit of the Arch" and issued a Joint Press Statement on July 13, 1989.[5] In this they referred to their consultations with the G-7 and declared that "it is now a propitious moment to initiate a process of regular consultations between developed and developing countries, at the Summit level." However, despite President Mitterrand's cautious commitment to consult his G-7 partners on this proposal, no such Summit, in fact, took place, until some developing countries leaders were invited to an outreach meeting with the G-8 at Evian in 2003, a full 14 years later.

The dramatic collapse of the Soviet Union in 1990-1991 and the birth of new democracies in Eastern Europe, the concurrent weakening and increasing irrelevance of the Non-Aligned Movement, the victory of the U.S. led coalition in the first Gulf War in 1990, all these events combined together to reinforce the sense of triumphalism in Western capitalist democracies. Political democracy, free markets and private enterprise- driven economy became the new universal mantra, applicable to countries across the board, irrespective of their stage of development, their social or cultural particularities and their respective historical backgrounds. President Bush Sr. declared the Houston Summit in 1990 as the first of the post Cold War period and said it "celebrates resurgence of democracy and free markets around the world".

[4] Further details about the G-15's goals are available on the official website, http://www.g15.org/
[5] Press Release from Presidents Abdou Diouf, Hosni Mubarak, Carlos Andres Perez & Prime Minister Rajiv Gandhi.

This then was the new international political and economic order and the orthodox status of the values and principles underlying it was progressively reinforced during the last decade of the 20th century and beyond. These collectively came to be known as the Washington Consensus. These principles were fully embraced by the Bretton Woods institutions, which extended their mandate to enforcing these principles on developing countries, as part of the conditionalities for extending economic and financial support to them. Thus the "structural adjustment" programmes of the IMF, imposed on countries seeking balance of payments support and longer-term assistance from the World Bank, included conditionalities such as less State intervention and regulation, greater integration with the global market economy and openness to private foreign investment flows among others.

The Washington Consensus had found it difficult to reconcile its main tenets with the East Asian miracle, where the leading role of the State was an obvious factor in the success of the East Asian economies. However, the Asian economic crisis of 1997 provided an opportunity to question the efficacy of the East Asian model and saw the ruthless imposition of the principles of the so-called Washington consensus, on the hapless victims of speculative assaults on national currencies. The pain and dislocation that were the inevitable consequences of the structural adjustment policies imposed upon the Asian economies, were justified as necessary and unavoidable. They were the best antidote, it was argued, to financial profligacy and institutional rigidities that were said to be behind the crisis. The answer was a further retreat by the State and creating an environment where markets could deliver their magic. The sharp contrast with what the developed countries have prescribed for themselves in the aftermath of the current global financial and economic crisis rooted also in financial profligacy, is of course, glaringly apparent.

The point to be noted here is that throughout this period, there was little patience for any arrangement whereby developing countries could be engaged as stakeholders in the management of the global economic and financial system. This Western ascendancy on the economic side was matched by its reinforced domination of the international political and security order as well. While espousing liberal democracy and free markets as universal principles, the Western powers adopted an increasingly prescriptive approach at the United Nations and other multilateral institutions, which they now dominated both because of the collapse of the Soviet Union as well as due to their own emergence as their main source of funding. The reform of the United Nations and its specialized agencies, as contemplated by the Western countries, were less in the direction of democratic governance and more towards making it into an effective instrument for imposing discipline on recalcitrant members. There were, of course, global summits and international conferences on a whole range of issues. The Millennium Summit of the United Nations was one such meeting. However, in most cases, these multilateral gatherings served more as a means to endorse approaches already determined by the most influential countries, rather than as truly interactive processes through which to evolve broad-based consensus. An example of this was the 1995 NPT Review Conference which made the treaty permanent without any tangible assurance from the nuclear weapon states to deliver on their own commitment to nuclear disarmament enshrined in the treaty.

The horrific tragedy of September 11, 2001, just as a new millennium had dawned, engendered serious consequences for the US led Western ascendancy over the global political and economic order. In the first place, it dramatically exposed the vulnerability of even the most powerful country in the world to asymmetric security threats from non-state actors. Secondly, the often draconian security measures put in place thereafter, both in the U.S as well as other western countries, meant that the appeal of liberal democracy, with its stress on individual freedom, lost much of its ideological sheen. Free markets and private enterprise continued to be dominant themes but to a significant extent, security considerations began to impinge increasingly upon the free flow of commerce, in the form of non-tariff barriers. The widespread surveillance of global financial flows, in particular, to and from non-Western economies, in the name of curbing terrorist financing, meant that the era of multiparty democracy and free market economies, began to look very different from the values and principles celebrated by the G-7 Summit in 1990 (G7 Houston Summit). While the US may have encountered little resistance from its allies, friends and adversaries to the launch of the "War on Terror" in Afghanistan in 2001, the subsequent war in Iraq, to recast the map of the Middle East, saw the beginning of serious questioning of US policies even among allies notably Germany and France. It was only a matter to time before this security over-stretch resulted in an unsustainable financial over-stretch as well. This was masked for a time by the US ability, as the world's largest and strongest economic power, to access virtually unlimited and cheap credit internationally.

In tandem with the trends noted above, there were now other developments in the global economy which were beginning to command international attention. Three decades of uninterrupted and accelerated growth had positioned China, at the turn of the millennium, as a major economic power, both as an industrial powerhouse and an exporting giant. Its global profile had risen with an expanding security footprint and military capabilities, especially in the Asian-region. But China's emergence was only one aspect of the changing global landscape. With its economic reform and liberalization programme initiated in 1991, India, too, was enjoying accelerated and uninterrupted growth in its continental sized economy. Other countries were also joining the ranks of middle powers, including Brazil, Mexico, South Africa, and South Korea and potentially Indonesia (see Table 1). The oil crisis of 1973-1974, had temporarily catapulted oil exporting countries into the role of arbiters of global economic health. While it lasted, this had underpinned developing countries' call for a New International Economic Order. This previous effort was short-lived, but the emerging economies of the new millennium were acquiring a more enduring and expanding profile in the global economy. Their claim to a stake in the institutions of global governance, was therefore, more credible.

Table1: GDP of Developing Countries

(Constant 2000 US $ billion)

Countries	**1980**	**1990**	**2000**	**2008**
Brazil	430.4 (2.4)	501.8 (2.1)	644.7 (2.0)	853.8 (2.1)
China	182.9 (1.0)	444.6 (1.8)	1198.5 (3.7)	2602.6 (6.5)
India	157.6 (0.9)	270.5 (1.1)	460.2 (1.4)	817.9 (2.0)
South Korea	128.0 (0.7)	295.6 (1.2)	533.4 (1.7)	750.8 (1.9)
Mexico	345.6 (1.9)	413.3 (1.7)	581.4 (1.8)	701.0 (1.7)
South Africa	95.5 (0.5)	110.9 (0.5)	132.9 (0.4)	183.2 (0.5)
World	17782.6	24214.1	32036.6	40231.9

Note: Figures in parentheses are percentages of World GDP
Source: World Bank

The aftermath of the Asian Economic Crisis of 1997 saw the birth of the G-20 Finance Ministers and Central Bank governors' forum. For the first time, representatives of both developed and emerging economies gathered on the same platform, to consult and coordinate policies relating to international financial markets and exchange rate stability. The first such meeting was held in December 1998 in Berlin, followed by the second in Montreal in October 1999. The G-20 became institutionalized thereafter, convening annually at the time of the Fund-Bank annual conference in Washington. The G-20 membership is regionally balanced and includes most of the industrialized democracies as well as emerging economies[6].

The scope of this G-20 was necessarily limited to a fairly narrowly focused agenda. However, it did promote some key reforms of the international financial system such as increasing the voting power of developing countries in the IMF, evolving consensus on Basel rules relating to risk management in bank lending and promoting exchange rate stability. (The circumstances in which this G-20 was upgraded to the Summit level and its emergence as the premier forum for international economic governance, will be dealt with later.)

It was becoming apparent, however, that a broader canvas was required to manage growing interdependence inherent in increasingly globalized trade and investment flows and more integrated regional and international markets. However, the role of the emerging economies was seen more in terms of co-opting them in a largely Western dominated system, ensuring that they played by the rules already established by the dominant players. If the global economic architecture was undergoing change in response to the transformation of the global economy, the change was still driven by the Western, industrialized economies with little by way of agenda setting by the emerging economies. The existing architecture was sought to be retained even while accommodating new players. More tenants occupied the building, but the landlord, who set the house rules, remained the same.

The pursuit of the broader canvas may be said to have been inaugurated with the G8 Summit in Evian in 2003, when the French hosts invited a number of leaders of developing countries for a new round of North-South dialogue[7]. However, this encounter appeared to be more in the nature of the symbolic gesture of inclusion towards the developing world, rather than the commencement of a substantive dialogue. In any event, the presence of a

[6] The current membership includes South Africa; Argentina; Brazil and Mexico; US and Canada; China, Japan and south Korea; India; Indonesia; France, Germany, Italy, Russia and the U.K.; Saudi Arabia and Turkey; and Australia.

[7] These included Algeria, Brazil, China, Egypt, India, Malaysia, Mexico, Nigeria, Saudi Arabia, Senegal and South Africa.

fairly large number of leaders gathered together for a brief round the table interventions, meant that there was hardly any scope for a productive and structured exchange of views. The developing country participants themselves came with no common agenda or theme: there were no consultation among them before the summit. It was hardly a surprise that Evian did not come up with any tangible result with respect to a more democratic governance of the global economy.

The host of the next G-8 Summit, Japan did not even think it was worthwhile to follow the French example and confined its invitations to the members of the group. It was with the Gleneagles Summit of 2005 that a more structured interaction began between the G-8 and what came to be known as G-5[8]. While the agenda continued to be set by the hosts, there began the practice of pre-summit consultations between the representatives or sherpas of the G-5 leaders and the sherpa of the host G-8 country. For example, in preparation for discussion on the theme of Climate Change, there were a number of sherpa level meetings, to evolve a broad consensus on tackling a cross-cutting issue of global concern. This also led the sherpas of the G-5 countries, themselves, to consult closely with each other in separate meetings among themselves but also through email exchanges. A G-5 communiqué at Gleneagles was the result of these deliberations. There was a separate meeting among the G-5 leaders on the sidelines of the summit and a substantive exchange of views on the role G-5 could and ought to play as well as on the items on the G-8 summit agenda. It was agreed that the leaders would express coordinated views on global economic and political issues as well as other issues on the international agenda such as climate change.

The G-5 continued to participate in subsequent four summits on invitation, even through the hosts invited other developing country participants as well, according to their choice. The G-5 were present at the St. Petersburg, Heiligendamm, Toyako and L'Aquila G-8 Summits and in each case, their sherpas coordinated their positions which were articulated in their leaders' communiqués, separate from the G-8 declarations. By L'Aquila, therefore, the G-5 had acquired an identifiable personality and a certain legitimacy as the spokesman for the emerging economies, if not the entire developing world. Their declarations reflected a somewhat different world view from that of the G-8 partners[9].

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[8] Brazil, China, India, Mexico and South Africa

[9] G-5 declarations may be accessed at the G-5 website maintained by the Mexican Foreign Ministry. http://www.groupoffive.org/

At the plenary meetings with their G-8 partners, the G-5 leaders had the opportunity to put forward their own assessment of global economic trends, multilateral trade and the way to tackle global issues such as climate change, global pandemics, poverty in Africa, among others. While there is little evidence to show that the views of the G-5 influenced G-8 deliberations or decisions in any significant manner, there is no doubt that both in terms of achieving a degree of coherence and common understanding among the key leaders of the emerging economies, and in providing an opportunity for both formal and informal interaction with the G-8 leaders, the G-8 + G-5 summit was beginning to evolve into a useful forum.

The G-5 leaders were conscious of the fact that the G8 + G5 summit continued to relegate them to a different ranking order than the G-8 leaders, including in comparison with decidedly less weighty members such as Italy and Canada. Before the Heiligendamm summit, both the Indian Prime Minister, Dr. Manmohan Singh, and President Lula of Brazil had remarked that the G8 + G5 Summit did not go beyond having a cup of tea with the G8 leaders and then going home. There was still no sense of real participation and substantive exchange of views on topical issues. As a result of such sentiments, shared by other G-5 leaders, at the Heiligendamm summit, a joint G8/G5 decision was adopted to launch the Heiligendamm process (G8 Summit 2007). This was billed as a policy dialogue among the 13 partners aimed on strengthening mutual understanding in areas of common interest and to produce tangible and substantive recommendations. Chancellor Angela Merkel of Germany played a key role in this regard.

The four areas selected for joint G8/G5 initiatives were Development, Energy, Innovation and Investment. There is some parallelism with the four Commissions set up by the Conference on International Economic Cooperation in 1975 – Energy, Raw Materials and Trade, Development and Financial Affairs. At least two of the themes, Energy and Development, are common.

It was agreed that work in these four areas would be overseen by a Steering Committee composed of the sherpas of all the 13 countries. Each theme would be dealt with in a working group with co-chairs drawn from the G-5 and the G-8 respectively. It was also agreed that the nature of the deliberations would not constitute substantive negotiations but rather help to promote common understanding and cooperation. This would facilitate reaching agreement on important issues in the appropriate multilateral negotiating fora. The

Organisation for Economic Cooperation and Development (OECD) was designated the secretariat for the process.

The Heiligendamm process (HP) was given a two year mandate and was expected to submit its report to the G8 and G5 leaders in 2009 at the L'Aquila G-8 Summit. The HP process submitted an interim report to the 13 Heads of State/governments in Toyako on the occasion of the G-8 Summit in Japan. It was in L'Aquila, Italy that the Concluding Report was submitted (G8 Summit 2009).The Report contained a summary of the deliberations on the four items on the agenda but made only general recommendations for future G-8/G-5 cooperation. There were few specific areas of agreement except on broad issues such as avoiding trade protectionism, assisting Africa through synergistic trilateral North-South and South-South cooperation and the need to pursue ecologically sustainable energy security policies. This was more a wish list rather than a Programme of Action.

While taking note of this Report, and finding it useful, the leaders of the 13 countries decided to continue the process, which now come to be known as the Heiligendamm – L'Aquila process (HAP), for a further period of two years. The agenda remained the same though flexibility was granted to the Steering Committee to alter or expand the agenda.

The first meeting of the Steering Committee was held only in January 2010 in Mexico City, several months after the L'Aquila Summit. Even before this meeting, some time in November 2009, it was already clear that the Canadian hosts of the next G-8 Summit in 2010, had decided not to invite the G-5 on grounds that the G-20, upgraded to the Summit level, had already emerged as the principal institution for global economic governance at the G-20 Summit in Pittsburgh in June 2009. The Steering Committee decided to discontinue with the HAP since it derived its mandate from the G-8 + G-5 Summit, which no longer existed. Germany and France appeared to favour its continuance, perhaps by bringing in additional developing countries, members of the G-20. This did not find favour with any of the G-5 members and most of the other G-8 countries as well.

As for the recommendations made in the Concluding Report submitted to the G8+G5 in L'Aquila, it was agreed that the G-20 could take cognizance of them in their deliberations if it so wished. The G-5 sherpas met informally before the meeting of the Steering Committee and took certain key decisions:

Firstly, they took note of the fact that Canada was unlikely to continue with the practice of inviting the G-5 to the G-8 Summit. They agreed that the HAP process, flowing from the G8+G5 Summit, should therefore be discontinued.

Secondly, they agreed that there should be no organic link whatsoever between the G-8 and the G-20 processes and that it was preferable to focus on the G-20, where developing countries had equal status with developed countries, rather than continue in any form, the G-8 + G5 process, where they had a second class status.

Thirdly, while no formal decision was taken to discontinue the G-5 process, this was implicitly the consequence, particularly since no decision was taken for the G-5 leaders to meet on the sidelines of the forthcoming G-20 Summit, which would be held back to back with the G-8 Summit in Canada in June 2010.

While the G-5 has disbanded, the G-8 continues as a grouping though with a somewhat diminished agenda. There are no indications that it may be eventually subsumed in the G-20. Some analysts predict that the "smaller forum (G8) would take the role of a caucus group within the broader framework of the G-20". It could perhaps serve as "a preparatory group of like-minded countries nested within the G-20 that sits at the apex of G-Summit community" (Grant and Schmucker).

The G-20 Summit Process:

The Group of 20 met at the Summit level for the first time in Washington in September 2008 in the immediate aftermath of the global financial and economic crisis. It was convened by the President of the United States, a country which unexpectedly emerged as the epicentre of the deepening crisis. Since then three more Summits have been held in London (April 2009), Pittsburgh (September 2009) and Toronto (June 2010) . This new process was motivated by the realization that unless the major economies of the world were seen as working together, and at the highest level, to deal collectively with the crisis, there was every danger of a collapse of the global financial and economic system. The crisis provided a rare opportunity for major emerging economies to play a role as equal stakeholders in the management of the global economy. In the 1970s, the oil crisis and the North-South deliberations that followed, yielded marginal results and virtually no change in the dominance of the instruments of economic governance by the developed market economies. In the case of G-20 some tangible gains are already apparent.

One, the developing countries are equal members in the G-20 and participate fully in agenda setting and preparatory work. They are no longer “Outreach Countries” as they were in the G8+G5.

Two, since the newly constituted Financial Stability Board, which has replaced the earlier limited membership Financial Stability Forum, includes all the members of the G-20, it gives India, along with other developing countries, a role in supervision of global financial markets.

Three, since the Basel Committee, which deals with banking reform and the regulatory framework, has also been expanded to include all G-20 members. India and the emerging economies will have an opportunity to participate actively in the framing of new standards, rules and regulations.

Four, in the reform of the international financial institutions, India and other emerging economies will gain through an increase in shares and voting power already agreed upon in the G-20, although this is still limited in scope.

The G-20 Summit process is still relatively fluid and will take time before it evolves into a stable institution. It is, however, moving in the right direction:

(i) It has been agreed that the Summit will take place annually on a stand-alone basis and not linked to any other summit e.g. the G-8.

(ii) Chairmanship will be by rotation among the G-20 members and it has already been decided that the subsequent Summits will be hosted by South Korea (2010), France (2011) and Mexico (2012).

(iii) The membership is now agreed upon and closed though Summit hosts may invite “a limited number” of countries to participate. It is likely that the Chair of the African Union and the Chair of NEPAD may continue to be invited to forthcoming Summits since Africa is under-represented.

During the first four summits, the agenda of the G-20 could be agreed upon without much controversy since the main preoccupation was crisis management in the global financial sector, the reform of institutions of economic governance and the drawing up of fresh rules and regulations to permit orderly markets. This more limited agenda is likely to dominate for some time and may even be reinforced if there are follow-on crises in the major economies. However, once the crisis phase recedes, it is likely that the G-20 agenda may be expanded. Already at Toronto, development has been added to the agenda and that itself is a major item. Even the first Summit at Washington had, in its communiqué, a commitment to "addressing other critical challenges such as energy security and climate change, food security, rule of law, and the fight against terrorism, poverty and disease." There have been attempts to introduce climate change issues in G-20 deliberations, but developing countries have resisted this, pointing to the United Nations Framework Convention on Climate Change (UNFCCC) process as the legitimate forum. Similarly, global trade issues have also hovered on the periphery of the Summits, but here again, the developing countries' preference is to keep them within the ambit of the WTO negotiations. Nevertheless, there is a possibility that the G-20 agenda may expand incrementally to include a number of the global, cross-cutting economic and social issues. This process may have already begun.

It is more debatable whether the G-20 may also begin, at some point. to deal with political and security related issues. The reference to the "fight against terrorism" in the Washington Communiqué (G-20 Summit), would seem to keep open such a possibility. The G-8 process also began as a purely economic forum but gradually, its agenda expanded to cover virtually every aspect of global governance. This process began in 1978 with the issue of the first Political Declaration at the Bonn Summit, which contained a "Statement on Air-Hijacking.", but gradually more and more such statements began to emerge from subsequent Summits. In a sense this was predictable since when top leaders gather together, there will always be deliberations on topical political and security issues. Something similar could well happen in the G-20. This may defer the urgently needed reform of the United Nations and particularly the Security Council and this needs to be factored into the calculations of the emerging economies who are seeking permanent membership of the Security Council. These include India, Brazil, and South Africa.

While the G-20 is an international institution of members with equal status, it nevertheless comprises a very diverse and in many ways, asymmetrical group of countries. The influence each member is able to deploy will obviously be related to its real economic strengths and capabilities. There is still a very real North-South divide reflected at the G-20 and the preoccupations of the developing countries represented in the group, even those who represent large, emerging and expanding macro-economies, will not be the same as industrialized countries. The emerging economies display a dichotomy which is difficult to reconcile. On the one hand they already enjoy a significant profile in the global economy and, therefore, they should be included in any institution of global governance. On the other hand, they continue to confront major domestic challenges of poverty eradication and economic and social development. Reconciling the two will be a complicated task for them. What is significant is that they have, for the first time, the opportunity to leverage their macro-economic strengths to promote their domestic development goals. In this sense, this new round of North-South dialogue and international economic cooperation, may be materially different from the earlier, mostly infructuous exercises.

It is also likely that just as G-8 expects to function as a caucus within G-20, promoting the interest of industrial democracies, similar coalitions are likely to emerge among the developing country members as well. At the G-20 Finance Ministers' meetings, a BRIC (Brazil, Russia, India and China) group has emerged, which meets on the sidelines and tries to coordinate positions on key issues. This group has carried over into the G-20 Summit, but at the Pittsburgh Summit, the BRIC caucus was expanded to include Mexico and South Africa. The G-5 was, therefore, subsumed within this larger group. In Toronto, Indonesia also joined this informal group to make it 7. In addition, it is likely that there will be shifting coalitions among both developed and developing countries, depending upon the issue under consideration.

Main Conclusions of the Paper

This paper traces the evolution of North-South dialogue and efforts to design a more inclusive and democratic economic governance structure in the post-World War II era. The demands for such a "New International Economic Order" from developing countries of the South came up against overwhelming dominance of the global economy, international trade, financial markets and the post-war institutions of governance, by the industrialized democracies of the West led by the United States. The G-8 has been a manifestation of this dominance.

The oil crisis of 1973-1974 and the establishment of the Oil Producing and Exporting Countries (OPEC) as a cartel, provided the first substantive bargaining leverage to developing countries and forced the North to focus on the major concerns of the South viz. worsening terms of trade, the volatility and uneconomic prices for commodities and raw materials produced by developing countries, the need for large scale resource transfers to the South to enable rapid development and a greater role in the institutions of economic governance, in particular, the IMF and the World Bank. The Conference on International Economic Cooperation in 1975-1977, attempted to give substance to the aspirations of developing countries for a New International Economic Order. However, this trend soon lost traction, although sporadic attempts continued to be made to resume North-South dialogue and cooperation, such as the Cancún Summit in 1981.

With the end of the Cold War and the dawn of the new millennium, new trends became visible on the international landscape. A cluster of new and major economies began to emerge, with a steadily rising profile in the global economy and in global trade. Most notable among these have been India and China. Concurrently, a whole host of global, cross-cutting challenges have emerged that are not amenable to national or regional solutions and require governance structures that accommodate the newly emergent economic powers. These challenges include international terrorism, drug- trafficking, maritime security, climate change, food security and energy security, among others.

In response, the existing governance structures have tried to accommodate the newly emerging countries, partly through their limited association and partly through ad hoc consultations. The G8+G5 arrangement between 2005-2009 is one such example but it did not accord the developing countries an equal status and voice in governance. However, the global economic and financial crisis of 2008 has had a major fallout in (a) demonstrating the intimate interconnectedness; and interdependence of the global economy, which makes coordinated response to crisis situations indispensable and demands collective discipline from all major economies (b) the relative profile and influence of the major developing economies has further strengthened as they display greater resilience and dynamism in coping with the crisis. They have now become critical to global economic recovery and resumption of growth. It is against this background that the G-20 has emerged, where for the first time, major developing economies enjoy equal status and decision making power. In a sense, this new international economic order fulfils to some extent the South's aspirations embodied in the earlier version of the NIEO.

The G-20 process, just as the G-7 and the earlier attempts at North-South dialogue, is a creature of crisis, but is already moving from an ad hoc crisis management group to becoming a more enduring instrument of global economic governance. Its agenda is still somewhat narrowly focused on financial issues, but new items are being introduced, such as development. As the grouping stabilizes, it is likely to take on a wider range of global issues. If the G-7/8 experience is any guide, there may be a further evolution towards addressing even political and security issues, particularly if the UN political- security structure remains frozen in its 1945 mould.

While the major developing countries have acquired a seat at the high table, they face many challenges in consolidating their role.

One, there is still a significant asymmetry in resources and capabilities between the industrialized democracies and the emerging economies.

Two, the practices, procedures and even the traditions of the world's monetary, financial and trading networks continue to be dominated by the Western countries. This infrastructure of economic governance will change only slowly, even while the emerging economies continue to raise their profile.

Three, the emerging economies are "premature powers" in the sense that their larger global economic profile co-exists with continuing domestic development challenges, manifested, for example, in relatively modest per capita incomes. This imparts a certain ambivalence to their role in global economic governance, where they need to reconcile their growing macro-economic weight with continuing domestic imperatives of economic and social development. On balance, it may be in their interest to emphasize the continuing global development deficit, in particular, the urgent need to ensure the achievement of the Millennium Development Goals on schedule by 2015. The forthcoming Seoul Summit could be the launch pad for this refocusing of the G-20 agenda.

Four, while there are expectations of continuing accelerated growth of major developing economies and a relative decline of the mature, industrialized economies of the West, such projections may be dramatically altered by as yet unforeseen developments. The institutions of global governance will not remain unaffected by them, particularly if the G-20 fails to crystallize and consolidate its influence in the meantime.

Five, on balance, G-20 represents a rare and welcome opportunity for countries like India to play a useful role in helping shape the emerging global economic and eventually the political-security architecture and leverage their membership to promote a global environment which is supportive of their economic and social developmental aspirations.

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