Indian Council
of World Affairs

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Indian Council of World Affairs
Sapru House, New Delhi

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MULTILATERALISM, THE GLOBAL ECONOMY AND THE RISE OF THE G20*

Multilateralism has its roots in modern European history. It evolved as a pragmatic mechanism to avoid mutually assured destruction of multiple militarily matched states. From the twentieth century, multilateralism and globalization have fed off each other. Global peace and prosperity have been the major spinoffs. Both were weakened during interludes of heightened nationalism. These dynamics are at work to this day. There have been two major phases of multilateral cooperation. The first was dominated by political cooperation, beginning with the Treaty of Westphalia-Munster and followed by the Concert of Europe. The political dimension of multilateralism dominated the first phase. Economic cooperation dominated the second phase, as its range expanded beyond Europe to encompass the globe. This cooperation began with the reconstruction of war-ravaged economies, to repair the International Monetary System and to revive international trade. It was later extended to address anthropogenic climate change through the UNFCCC. The Bretton Woods system's focus also shifted from advanced to developing countries.

The postwar crisis of multilateralism can be traced to the slowing of growth in advanced economies as growth in Asia, particularly China, accelerated. Advanced economies were increasingly disenchanted with globalization, after having once being its strongest advocate. The failure of the Bretton Woods Institutions to adjust to shifting weights in the global economy made them lose relevance and legitimacy. Multilateral trade and climate negotiations reached a standstill as Advanced Economies were loath to extend special carve-outs negotiated by developing countries prior to their rise. The weakening of multilateralism elicited two opposing responses: first the rise of plurilateralism, and second an attempt to revive multilateral economic cooperation through the G20 in the wake of the Global Financial Crisis. After its initial promise, the G20 appears to be becoming dysfunctional as suboptimal plurilateral alternatives gather steam.

Looking ahead, there is no getting away from globalization, despite short-term retreats, that is slowly but surely undermining the Westphalian notion of Nation-State. The future of multilateralism is likely to be shaped by the resolution of four frictions, namely the harmonization of pressure groups within the G20 so that globalization is seen to be working for all major stakeholders; the accommodation of China in global governance; how basic ideological differences are harmonized in the process of such accommodation; and multi-stakeholder multilateralism that goes beyond the Westphalian notion of sovereignty based on the Nation-State.

* A briefer version of this paper was presented by the author at the ICWA Conference on 'Advancing Reformed Multilateralism in the Changing World' held virtually on 10 December 2020.

1. ORIGINS AND THE FIRST PHASE OF MULTILATERAL COOPERATION

Multilateralism, or a rule-based international order based on cooperation between a community of sovereign nations, is a late entrant to the toolkit of the ways in which countries interacted with each other through history. There were no agreed rules governing relations between them till less than half a millennium ago. Might was right, and military adventurism informed relations between States. The law of the jungle prevailed. Countries tried to impose their will on others through a mix of war and diplomacy.

Diplomacy allowed weaker States to coexist with stronger ones, on terms set by the latter, or for equally matched States to coexist peacefully as long as the conditions underlying the balance lasted. Peace was based on mutual fear rather than on agreed rules. Diplomacy was mostly bilateral, but it could on occasion facilitate a number of States to enter into alliances to take on a bigger foe, or other similar alliances of States. Such alliances were temporary, unstable and not governed by any set principles. Indeed, in these circumstances diplomacy was no different from war. It was in such a world that the renowned philosopher of war, General Carl Von Clausewitz, described war as simply the continuation of diplomacy through other means *(Clausewitz 1989)*.

It was the urge to institutionalize balance of power that lay behind the birth of rule based multilateral cooperation. The conditions favouring the rise of multilateralism first arose in Europe following the breakup of the Holy Roman Empire that led to a multiplicity of militarily matched small States. They were for a long time constantly in a state of war as they could not impose their will on each other for any long period of time. Since Church and State were inextricably intertwined this frequently took the form of religious conflict, such as the crusades between the eleventh and thirteenth centuries, and later the intra-Christian denominational wars within the Holy Roman Empire during the sixteenth and seventeenth centuries, culminating with the Thirty Years War of 1618-48.

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The constant bleeding of resources, men and rulers ultimately resulted in the Treaty of Munster-Westphalia (Kissinger 2015) in 1648 involving about 300 princes. The immediate outcome of the Treaty was the acceptance that States were free to choose their official religions without outside interference. Over time this principle seamlessly morphed into acceptance of 'Westphalian sovereignty', or the inviolability of international borders and non-interference in the internal affairs of other States. This marked the beginning of the age of large empires in Europe and the birth of Nation-States *(Farr 2005)*. Modern international relations and the idea of multilateralism are thus commonly traced back to the Treaty of Westphalia.

The first success notched up by multilateralism was thus the peace dividend. Wars did not cease, but the religious and political frontiers of central Europe agreed under the Treaty of Westphalia nevertheless remained mostly unchanged for a century thereafter. Some States merged through alliances and grew in size and power, such as France, Prussia, Austria and Russia. The peace of Westphalia was shattered by the Napoleonic Wars towards the end of the eighteenth century, but this only served to spread revolutionary ideas of liberty that only spawned more Nation-States and weakened the notion of multi-ethnic, multi-cultural and multil-linguistic empires. The Concert of Europe following the defeat of Napoleon restored peace and stable borders through the balance of power between the major States, namely, England, France, Russia, Austro-Hungary and Prussia *(Lascurettes 2017)*.

This multilateral cooperation deriving from the Treaty of Westphalia was confined to Europe. It did not extend to areas outside Europe. This was the period of Europe's rise on the back of a revolution in ideas (the Enlightenment) and technology (the Industrial Revolution) that was paralleled by the spectacular decline of the two colossal eastern empires, China and India that had dominated the global economy over at least two millennia. As late as 1000 AD there was little difference in per capita GDP growth across countries, the size of economies being largely the function of population. China and India taken together were about six times the economic size of Western Europe, Japan and what were later to be 'Western Offshoots'. Technological advances in Europe subsequently reduced this income gap, as it grew at an average annual growth of around 0.14% per capita between 1500 and 1820, compared to just 0.02% in the "Rest" (all other countries). In 1820, the economic size of Asia was nevertheless still 1.7 times the size of Europe and its Western Offshoots *(Maddison 2001 & 2004)*.

With a yawning technological and military gap opening up between Europe and other parts of the world, there was a scramble for resource rich colonies, that doubled up as captive export markets for industrial products, by major European powers in the Americas, Asia and Africa, even as borders remained stable in Europe through multilateral cooperation. These colonies were integrated into an emerging world system centred on the transatlantic, with the Europeans seizing control of the flourishing Indian Ocean, from the southeast coast of China to the Horn of Africa via the Indian coastline, that had for long dominated the global economy, and from which Asia derived its prosperity. Enforced globalization through seizure of physical and human resources, along with the imperialism of free trade pushed up the share of trade in global GDP from an estimated 2-10 percent in the period before 1800 to 30 percent by 1912, a level not exceeded again till the 1970s. The economic imprint of Asia in the global economy now shrank sharply, with Europe and the Western Offshoots becoming 3.8 times bigger than Asia by 1950 *(Ortiz-Ospina & Beltekian_U; Maddison 200: 175)*.

Enforced globalization through seizure of physical and human resources, along with the imperialism of free trade pushed up the share of trade in global GDP from an estimated 2-10 percent in the period before 1800 to 30 percent by 1912, a level not exceeded again till the 1970s.

The Concert of Europe ultimately succumbed to the Thucydides Trap and the rising tide of nationalism. After maintaining peace in Europe for a century, the Concert failed to accommodate new strong powers in the ascendant, namely Germany and Italy following unification, and Japan. It was also unable to handle imperial rivalries outside Europe, especially those arising out of a collapsing Ottoman Empire, from spilling over into Europe. The iniquitous Treaty of Versailles that sought to alter the balance of power through force by impoverishing Germany eventually led to a Second World War within two decades.

The Concert was a conservative force that tried to keep the rising forces of liberalism and nationalism at bay. These forces ultimately undermined the Concert, and the two World Wars that followed completed the process of formation of nation states begun in the aftermath of the Treaty of

Westphalia and the Napoleonic wars. The colonial dominions of the European powers also became free and independent nation states. Their demand for independence was derived from the Westphalian concept *(Kissinger 2015)*. These states were now incorporated into the multilateral system which had so far been limited to Europe.

2. THE SECOND PHASE OF MULTILATERAL COOPERATION

The post-war period heralded the second phase of multilateral cooperation in which the peace dividend was overlaid with a prosperity dividend based on multilateral economic cooperation. The United Nations system, mirroring the League of Nations that unsuccessfully tried to maintain peace in the wake of the First World War, was set up to enforce a rule-based global political order through its flagship Security Council comprising the major world powers, namely the US, China, Russia, France and the United Kingdom. The follies of the Treaty of Versailles that contained the seeds of another war down the road were avoided, with an honourable peace negotiated between the victors and the vanquished where the former took upon themselves the responsibility for getting the latter back on their feet. The United Nations nevertheless struggled to manage an uneasy peace in a world splintered between the NATO and the Warsaw Pact countries in the cold war era.

While the driving force of the first phase of multilateralism lay in the desire of peaceful coexistence of evenly matched States, the driving force of the second phase of multilateralism was economic cooperation necessitated by accelerated globalization.

While the driving force of the first phase of multilateralism lay in the desire of peaceful coexistence of evenly matched States, the driving force of the second phase of multilateralism was economic cooperation necessitated by accelerated globalization. Greater global integration had begun during the first phase through 'enforced free trade' by way of European colonization of Asia, Africa and the New World. Merchandise Export/GDP ratios that had always been under 5 percent right through human history topped 30 percent on the eve of WWI, a level that was recouped only in the mid-1970s. Globalization retreated sharply during the interwar period on account of war and resurgence of nationalism in the wake of the Great Depression of the 1930s that led to cascading protectionism triggered by the Smoot-Hawley Tariffs passed by the US Congress.

The Bretton Woods system was the initial platform for postwar multilateral economic cooperation. The United Nations system also expanded over the years to move beyond international security to dealing with issues of livelihood, effectively becoming part of the Bretton Woods system. The original impulse of this system was, first, economic reconstruction of the infrastructure devastated during the Second World War; second, getting the broken international monetary system back on its feet, as major economies had retreated from the time-tested gold standard; and third, restoring international trade that was disrupted by the creation of high tariff barriers in the wake of the Great Depression. The dominant western powers pushed aggressively for the revival of international trade and lowering of tariff barriers for greater market access as this had greatly benefitted their economies in the pre-war period. The former colonies, given their experience with free trade under colonialism were reluctant liberalizers, preferring inward looking models of economic growth.

3. THE ARCHITECTURE AND DIVIDENDS OF POST WAR MULTILATERALISM

Post-war multilateralism was supported by several pillars. There was, first, the United Nations system that over time moved beyond issues of security to address livelihood concerns through bodies such as WHO, FAO, UNDP.

Second, there were the Bretton Wood twins, the IMF and the World Bank, set up even as the war had formally ended, to address issues relating to the international monetary system and post war reconstruction.

Third, GATT, later to morph into the WTO, attempted to get international trade back on track by breaking down tariff barriers. The process of decolonization was not propitious for international trade on account of the former colonies' experience with enforced free trade and consequential deindustrialization and underdevelopment.

Fourth, over time there was a proliferation of a number of functional international organizations (IOs) set up to deal with multilateral cooperation in specific areas, such as BIS, FSB, MIGA, IOSCO, UNFCCC.

Fifth, a number of regional and plurilateral bodies were set up over the years, such as the ADB, AfDB, IsBD, IADB, EU, ASEAN, CMIM, EMU, EBRD, NAFTA, NDB, AIIB, etc. There were seven major global powers that oversaw and dominated both political and economic cooperation, constituting themselves into an informal steering group of the global economy, popularly known as the G7 (US, UK, France, Germany, Italy, Japan and Canada) that met regularly at summit level, reminiscent of the old Concert of Europe. There were free and frank discussions amongst the Leaders, and consensus forged on major global issues, both political and economic, without these in any way being legally binding.

While all countries were members of the institutions through which cooperation took place, there remained a North-South divide on most issues reflecting developmental imbalances. This resulted into two quite distinct models of cooperation.

Sixth, in view of the geopolitical divide of the Cold War, capitalism and liberal democracy – the 'Washington Consensus' *(Williamson 2004-2005)* – also became a cornerstone of post war multilateral economic cooperation. This was a departure from the Westphalian notion of indifference to the internal system prevailing in a nation state. The challenge to this consensus disappeared with the end of the Cold War consequent on the collapse of the Soviet bloc and China's shift to what was virtually a capitalist model minus liberal democracy. The Soviet Bloc countries were accommodated within the Bretton Woods system.

The major areas of multilateral economic cooperation in the post-war era centred on the international monetary system (IMF), development (the World Bank system), international trade (GATT and later WTO) and climate change (UNFCCC). While all countries were members of the institutions through which cooperation took place, there remained a North-South divide on most issues reflecting developmental imbalances. This resulted into two quite distinct models of cooperation. Model 1 comprised institutions where the shareholding pattern reflected the global order prevailing at the end of the Second World War. Decision making in such institutions, such as the World Bank and the IMF, was dominated by the US and European countries – the G7. They provided most of the resources for these institutions, putting them in the position of donors.

The other set of institutions, comprising Model 2, such as WTO and UNFCCC were more democratic, with each country having equal voice and weight. Decision making was more difficult in these institutions because of differing North-South perspectives, as a result of which there were special carve outs for developing countries, including differentiated responsibilities calibrated to levels of development. The implicit understanding underlying these differentiated responsibilities and rights was that the former imperial powers bore some responsibility for the underdevelopment of their former colonies, and that their greenhouse emissions had used up the global commons, leaving developing countries little space to grow from the environmental angle.

3.1 BRETTON WOODS SYSTEM: THE INTERNATIONAL MONETARY SYSTEM AND DEVELOPMENT

One of the first tasks of the Bretton Woods conference was to repair the international monetary system following the breakdown of the gold standard during the Great Depression and the Second World War. It pegged all major currencies to the dollar, and the dollar to gold. The dollar thus replaced the British pound sterling as the de facto global reserve currency. It evolved a contributory quota and shareholding system, calibrated to the relative size of economies at the end of World War II when it was set up, to address balance of external payments problems that might arise.

In 1971 the United States went off the gold standard effectively ending the original Bretton Woods system. The external imbalances of advanced economies were now adjusted through shifts in the market exchange rates of currencies that floated against each other in what came to be known as Bretton Woods Mark II.

In 1971 the United States went off the gold standard effectively ending the original Bretton Woods system. The external imbalances of advanced economies were now adjusted through shifts in the market exchange rates of currencies that floated against each other in what came to be known as Bretton Woods Mark II. The Emerging Markets and Developing Economies (EMDEs) on the other hand mostly retained various versions of the dollar peg. Since external imbalances

were not concurrently adjusted they were now exposed to balance of payment crises from sudden stops when the pegged exchange rates became highly overvalued in relation to market rates or expectations. But Bretton Woods II also enabled some EMDEs, particularly those in Asia, to keep their exchange rates competitive and undervalued and embark on a strategy of export-led growth. The IMF quotas were now mostly used as an insurance mechanism for EMDEs. Since the bulk of the quotas belonged to the advanced economies, they effectively became donors who set stiff macroeconomic conditionalities to protect their interests as lenders.

The World Bank system had its origin in the post-war reconstruction of war-ravaged Europe and Japan. These economies recovered relatively quickly as the efforts of the World Bank were supplemented by the well-funded Marshall Plan, and since the human resources of these countries were already highly developed. Only capital was required to rebuild destroyed infrastructure and get productive investment going again. By the 1970s the World Bank's focus had turned to addressing the huge developmental needs of EMDEs. Once again the resources on lent were predominantly those of the advanced countries that were the major shareholders of the bank, and these were made available at a spread above the cost of capital, and with sovereign guarantees from borrowing governments, to protect the interests of the donor countries, topped up with relatively modest amounts of outright International Developmental Association (IDA) grants.

Thus over time the Bretton Woods system evolved from being agents of post-war reconstruction of ravaged developed economies to aid giving institutions for poor developing countries. The 'two gap' model *(Adelman & Chenery 1966; Ezaki 1975)* formed the macroeconomic basis of this re-orientation, as a shortage of capital and foreign exchange was considered to be binding constraints for developing countries as their access to international capital markets was limited. The IMF addressed the foreign exchange gap, while the World Bank supplemented their limited savings.

3.2 INTERNATIONAL NEGOTIATIONS: INTERNATIONAL TRADE AND CLIMATE CHANGE

As a result of the disruption of international trade in the interwar period, and then collapse on account of the cascading effect of the protectionist Smoot Hawley Tariffs in the wake of the Great Depression of the 1930s, international trade fell from 30 percent of global GDP on the eve of WWI to 10 percent within two decades. In the post war period the General Agreement on Tariffs and Trade (GATT) was reached in 1947 to reduce tariffs, quotas and subsidies on internationally traded merchandise goods. GATT was later folded into WTO that included services and Intellectual Property Rights as well. Trade GDP ratios started rising again, recovering to 30percent by the mid-1970s and peaking at just above 60 percent in 2008 *(Ortiz-Ospina & Beltekian_U)*. The growth rate of the global economy increased in tandem with the growth in international trade.

Acceleration of global growth led by EMDEs led to growing concerns that human activities were generating irreversible anthropogenic climate change. These concerns led to the Earth Summit in Rio de Janeiro in 1992 where a new multilateral body, the United Nations Framework Convention on Climate Change (UNFCCC) was negotiated and signed by all countries. The Kyoto protocol was subsequently agreed under the auspices of the UNFCCC in 1997, and came into force in 2005, under which emission targets were set for advanced economies countries based on the principle of common but differentiated responsibilities (CBDR). This protocol was superseded by the Paris Agreement in 2016 where developing countries signed up to take greater responsibility for limiting global temperature rise to within 1.5-2 percent of pre-industrial levels.

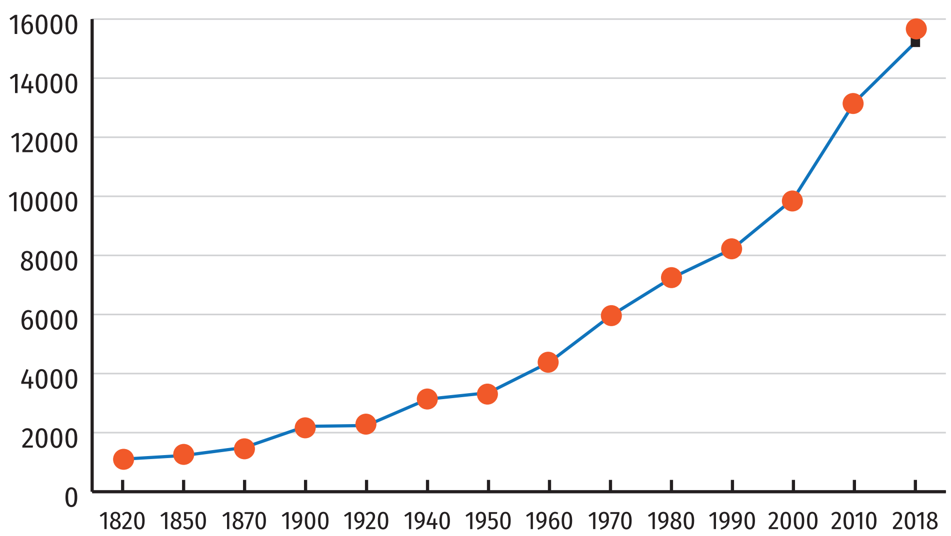
3.3 THE DIVIDENDS OF POST-WAR MULTILATERALISM

The two major components of post-war multilateralism were security and economic cooperation. Like the former League of Nations during the interwar period, the UN Security Council was dysfunctional from the very beginning, with South America and Africa unrepresented, and with the world splintered into two by the Cold War that followed the end of World War II hostilities. With the NATO and Warsaw pact countries checkmating each other through the use of the veto, the Security Council was reduced to a grandstanding Council and enforcing peace agreed between warring parties with peacekeeping forces. While there was no negotiating table like the Concert of Europe, the balance of power between the two plurilateral arrangements of the NATO and the Warsaw pact nevertheless ensured that global peace largely held, despite regional conflicts.

While global peace held despite the failure of multilateralism on the security front, it was economic cooperation that dominated post-war multilateralism, expanding far beyond the original Bretton Woods arrangement of 1944 as pointed out in the preceding section. This paid rich dividends in the form of global prosperity.

While global peace held despite the failure of multilateralism on the security front, it was economic cooperation that dominated post-war multilateralism, expanding far beyond the original Bretton Woods arrangement of 1944 as pointed out in the preceding section. This paid rich dividends in the form of global prosperity. Global growth that had averaged roughly 2 percent per annum between 1870 and 1950, doubled to around 4 percent between 1950 and 2000 AD *(Maddison 2001[2])* . Global GDP per capita that had trebled over 130 years between 1820 and 1950, increased five-fold in the last 70 years since 1950. This was facilitated by the spectacular growth in global trade. (Graphs 1 and 2)

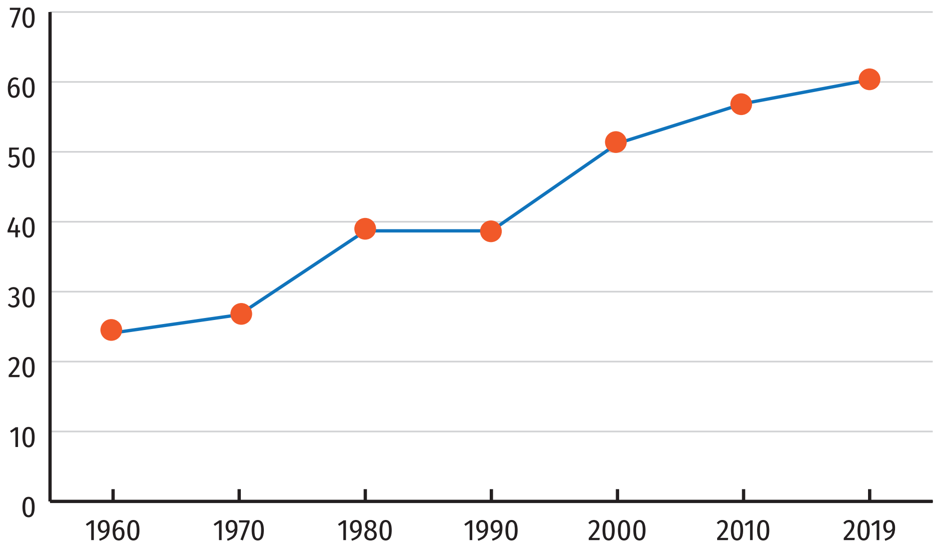
Graph 1 **GLOBAL GDP PER CAPITA IN 2011 CHAINED DOLLARS**



(GGDC 2020)

Graph 2

GLOBAL TRADE/GDP



(World Bank_U2)

4. THE CRISIS OF POST-WAR MULTILATERALISM

During the pre-war era of enforced free trade, globalization had worked in the favour of the imperial powers, widening the income gap between them and their colonial dominions. Given their experience with cross border trade when the colonies regained their sovereignty in the post war period, their instinct was to turn inwards by setting up protective walls denied to them by their imperial masters to grow their infant industries. It was only after the collapse of Bretton Woods Mark 1 in the 1970s, and the emergence of floating and discretionary exchange rates, that some former colonies changed tack by opening up their economies and exporting their way to hyper-growth. The growth in international trade now led to increasing income convergence with the former imperial powers.

Both global growth and trade accelerated in the post-war period, but this acceleration became increasingly skewed in favour of Emerging Markets and Developing Economies (EDMEs), as Advanced Economies (AEs) aged and slowed down.

Both global growth and trade accelerated in the post-war period, but this acceleration became increasingly skewed in favour of Emerging Markets and Developing Economies (EDMEs), as Advanced Economies (AEs) aged and slowed down. Overall, growth in OECD countries was higher or at the global average till 1995 – except in the seventies – following which non-OECD countries started growing faster *(World Bank_U)*. The trend peaked during the global boom of 2002-07 preceding the Global Financial Crisis (GFC) of 2008, when EMDEs grew almost three times faster than AEs. While growth has slowed across the board in the period since the GFC, EMDEs are still growing about two and a half times faster than AEs.

This differential growth has sharply altered the relative weights of AEs and EMDEs in the global economy. OECD countries comprised about 80 percent of the global economy in 1960, and this remained fairly stable till around 1990 *(World Bank_U)*. Table 1 shows that over the last three decades, the share of EMDEs increased by 20 percent, although their rise was initially masked by undervalued exchange rates that tended to keep their share stable at market exchange rates. By the time of the GFC of 2008, AEs and EMDEs had equal shares in the global economy when measured at purchasing power parity. AEs currently account for about 40 percent of the global economy, only slightly higher than Emerging and Developing Asia (EDA) at one third. Almost the entire gains within EMDEs have accrued to EDA, especially in the wake of China's entry into WTO in 2001.

In the post-war period the advanced (and former imperial) economies had pushed aggressively for globalization, while the former colonies were reluctant liberalizers. Over time, however, the disproportionate gains from globalization and income convergence in the period after the collapse of Bretton Woods Mark 1 gradually led to disenchantment with globalization in AEs.

In the post-war period the advanced (and former imperial) economies had pushed aggressively for globalization, while the former colonies were reluctant liberalizers. Over time, however, the disproportionate gains from globalization and income convergence in the period after the collapse of Bretton Woods Mark 1 gradually led to disenchantment with globalization in AEs. There was a feeling that EMDEs, especially those in Emerging and Developing Asia (particularly China) that had cornered most of the gains (Table 1), had unfairly used the discretionary exchange rate mechanism to enhance their competitiveness under Bretton Woods II to capture western markets leading to large-scale deindustrialization and loss of blue-collar jobs. Mounting global imbalances, inequality, unemployment and stagnant real wages in AEs were increasingly attributed to unfair trade and globalization. This made AEs less willing to accept the special carve-outs for the more developed EMDEs in both trade and climate change negotiations, and also hampered their ability and willingness to increase the resources of the Bretton Woods Institutions, and the concessional windows within them, especially when they were coming

TABLE 1

Economic Growth and Trade: Average Annual Growth					
Years	World	AEs	EMDEs	Trade	
1980-90	3.2	3.1	3.3	4.8	
1990-00	3.3	2.9	3.8	7.1	
2002-07	4.8	2.6	7.2	7.7	
2011-19	3.6	1.9	4.8	3.7	
Share of the Global Economy at Market Exchange Rates					
	1980	1990	2000	2010	2020
AEs	75.7%	77.9%	79.1%	65.5%	59.4%
EMDEs	24.3%	22.1%	20.9%	34.5%	40.6%
EDA	6.7%	4.8%	6.9%	14.7%	25.1%
Share of the Global Economy at Purchasing Power Parity					
AEs	62.7%	63.2%	56.7%	46.3%	42.5%
EMDEs	37.3%	36.8%	43.3%	53.7%	57.5%
EDA	8.8%	12.4%	16.6%	25.6%	32.4%

Key:

AEs Advanced Economies
EMDEs Emerging and Developing Economies
EDA Emerging and Developing Asia

(IMF 2020)

under increasing fiscal pressure arising out of declining trend of growth and ageing populations. Financial support for livelihood of the poorest with aid administered through various subsidiary organisations like UNDP, WHO, FAO, etc. also declined. This in turn led to stalemates both in the WTO under the Doha round of trade negotiations, and in the UNFCCC over emission targets and the funding for climate change mitigation and adaptation.

The Bretton Woods institutions, and the two-gap model informing them, became increasingly irrelevant for the bigger EMDEs who started exporting capital to AEs by running big current account surpluses, and accumulating large amounts of foreign currency reserves that exceeded the firepower available with the IMF. EMDE central banks currently hold about $ 7.5 trillion of reserves, compared to the total firepower of

$ 1 trillion of financing available with the IMF *(Arslan and Cantu 2019; IMF 2021b)*. Between 1996 and 2020 these economies had a cumulative current account surplus of about $ 4.5 trillion, with capital flowing uphill from EMDEs to AEs (IMF 2020). When IMF resources were finally enhanced from $ 250 billion to $ 1000 trillion through New Arrangements to Borrow (NAB) and bilateral agreements following the GFC, almost 25 percent of the former, and fifty percent of the latter, was contributed by EMDEs. China was the third biggest contributor (after the US and Japan) to NAB, and the biggest lender under the bilateral arrangements *(IMF 2021b)*. The share of BRICS in total contributions to the United Nations system have also risen, from 5.6 to 18.4 percent between 2008 and 2020, even as those of the G7 have fallen from 69 to 52 percent. In 2020 China was the second largest contributor to the UN, after the United States *(GPF_U)*.

Rapid income convergence between the Asian EMDEs, particularly fast-growing China, also meant that the voice and representation in the Bretton Woods institutions that reflected the relative economic weights prevailing at the end of World War II became increasingly misaligned.

TABLE 2

Voice and Representation in Bretton Woods Institutions

	IMF Quota Shares		World Bank Voting Power	Economic Weight IMF Formula	
	2007	Current		2008	2016
G7	45.30	43.36	40.65	42.905	35.746
BRICS	11.49	14.80	13.2	15.989	21.178
China	3.99	6.39	4.69	7.917	12.855
US	17.66	17.40	15.66	16.987	14.734

Source: IMF and World Bank websites

Despite quota reallocations, the voting power of China remains far lower than its economic weight even by the yardstick of the IMF's own formula.

The genesis of the post-war crisis of multilateralism lay in the loss of legitimacy of extant institutions of governance arising out of the reluctance of the G7 dominated multilateral governance to adjust to shifting economic weights in the global economy; in the reluctance of EMDEs to give up their special privileges of 'shared but differentiated responsibilities/treatment' in both trade and climate negotiations; and in the growing irrelevance of the Bretton Woods institutions for fast growing Asia in particular. This loss of legitimacy led to the emergence of alternative EMDE institutions that attempted to mimic the G7 (BRICS), IMF (CMIM) and the World Bank (NDB, AIIB, BRI), and culminated with a new governance structure of multilateral economic cooperation in the twenty first century, the G 20.

5. THE G20 AND MULTILATERAL ECONOMIC COOPERATION

As long as EMDEs remained relatively small in relation to the economic size of the AEs, and most trade and financial flows remained within AEs themselves, the G7 countries did not really need the cooperation of EMDEs. Economic and financial crises could be handled through their domestic macroeconomic policies, and the regulation of international financial markets that were dominated by the G7 countries. The multilateral organization that addressed issues of international finance was the Financial Stability Forum, while the OECD coordinated economic policies and cross border taxation related matters. When crises occurred in AEs these tended to spill over into EMDEs. The external financial needs of EMDEs arising from such spillovers were taken care of by the Bretton Woods institutions.

With EMDEs growing in relative economic size, however, their share in global trade and financial flows increased exponentially. Economic and financial crises tended to become more global in scope. The Asian financial crisis that erupted in Thailand in June 1997, spread to Indonesia, Korea, Russia, Brazil and also engulfed the United States with the collapse of hedge fund Long-Term Capital Management. There was now a sense that the extant G7 dominated order of multilateral economic cooperation could no longer provide economic financial stability in a new world of globalizing finance. As a result, the G20 was constituted as a new multilateral grouping at the

With EMDEs growing in relative economic size, however, their share in global trade and financial flows increased exponentially. Economic and financial crises tended to become more global in scope.

level of Finance Ministers and Central Bank Governors at the turn of the twenty-first century *(Kirton 2013)*. Subsequently, the G7/G8 summit in Heiligendamm, Germany in June 2007 established a thematic dialogue with China, India, Brazil, South Africa and Mexico on the side lines of G7 summits. The so-called "Heiligendamm Process" was an attempt by the G7/G8 members to respond to the Group's perceived lack of representativeness and effectiveness.

The governance structure of the G20 took cognizance of the tectonic shifts that had taken place in the global multilateral order in the post-war period to include extant systemically significant countries, comprising both developed and developing countries, which together accounted for 70-80% of global income, trade and financial flows, carbon emissions and population. This forum was elevated to leaders level in the wake of the Global Financial Crisis in 2008. By this time the biggest bilateral global imbalance, identified by the G20 itself as one of the two ultimate roots of the 2008 GFC involved China that was outside the G7 *(G20 IC_U1)*. The flipside of this was large cross border capital flows between AEs and EMDEs. The IMF had earlier flagged these imbalances as unsustainable and as a major concern and source of instability in the global economy *(IMF 2007)*. It had however been unable to do anything about it as it never had the trust and confidence of developing countries, being perceived as an instrument primarily of the G7 rather than as a neutral umpire. The G7 could impose their will through 'conditionalities' only on countries that approached the IMF for funds. The major Asian economies were however self-insured against external crises and sudden stops through their extensive foreign currency reserves and did not need to go to the IMF anymore.

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G20 leaders at their third summit in Pittsburgh elevated the G20 as the premier multilateral forum for global economic cooperation, effectively superseding the G7 as the steering group of the global economy operating through the Bretton Woods institutions and other thematic agencies

1 See the G 20 Leaders Statements at the first five summits at Washington DC, London, Pittsburgh, Toronto and Seoul.

such as the WTO and the UNFCCC. These continued to function as before, but now under the overall guidance of the more inclusive G20 instead of the G7.

The G20 is a model 2 multilateral institution like the WTO and UNFCCC where all members are on an equal footing. Also, like the G7 and the Concert of Europe, it is a compact informal forum for global leaders and their personal representatives (Sherpas) to interact informally one on one at summit level. They issue statements based on consensus, but these are not legally binding unlike the agreements reached in model 2 institutions like the WTO and UNFCCC. The agreed flexible procedural process of the G20 has a clear advantage over issue based multilateral fora, and chances of greater success than specific issue ad hoc summits that do not have a prior framework, in handling emerging global crises because the issues it can take up are not defined *(Lascurettes 2017)*.

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The first G20 Summit was held in Washington DC in the shadow of the GFC of 2008, and G20 leaders now meets annually. The proximate provocation to elevate the G20 Finance Ministers and Central Bank Governors (FMCBG) group to leaders' level was to coordinate economic policies to address the fast-developing GFC of 2007-08 when it appeared that the world was staring down the barrel of the worst economic and financial crisis since the Great Depression of the 1930s *(Eichengreen and O'Rourke 2010)*. Although there were no legally binding commitments at the Summits, the policy coordination on monetary, fiscal, trade and financial policies was nevertheless effective in blunting the emerging crisis. The major EMDEs were more engaged in the G20 than what they had been in the Bretton Woods institutions as they were now saw themselves as equal stakeholders in multilateral economic governance. The G20 moved to increase the voice and representation of the bigger EMDEs in the Bretton Woods institutions, and also make other institutions of multilateral economic cooperation reflect the governance structure of the G20, such as the G7 dominated Financial Stability Forum which was restructured as the Financial Stability Board by including all G20 countries as members.

By the time of the third Summit at Pittsburgh held on September 24-25 2009, the leaders could announce in their statement that their economic policy coordination had "worked". Having staved off a second Great Depression, the G20 now turned its attention to addressing the major structural fault-lines in multilateral economic institutions such as trade, climate change and the antiquated governance structure of the Bretton Woods institutions. There was an expectation that since AEs and EMDEs were now equal stakeholders in the new multilateral economic architecture, the old North-South divides would be blunted and a new consensus would emerge in areas where multilateral cooperation had stalled in the existing institutions, such as further trade liberalization under the Doha round, the UNFCCC climate change negotiations, and global imbalances. The remarkable consensus in coordinating macroeconomic policies and reforming global finance augured well for the future.

The G20 has however had less success in resolving long-standing issues, giving the impression that it is more effective as a crisis fighting mechanism when countries are inclined to temporarily put aside their differences, than as a forum for multilateral economic cooperation in normal times. The old North-South fault lines have however proved to be more persistent within the G20. The EMDEs were more than willing to engage in the G20 on issues dealt with in the Bretton Woods (Model 1) institutions, where they were in a subordinate position. They were however less willing to engage on issues dealt with in the Model 2 institutions, such as trade in the Doha Round of the WTO, and on climate change within the UNFCCC. The parent forum remained their negotiating forum of choice in such matters, as they had negotiated special carve-outs through alliances in these institutions. With the major EMDEs incorporated as equal stakeholders it became more difficult for them to claim, and for the G7 countries to accept, special privileges on such issues in the G20. G7 continued to operate as a pressure group within the G20 by informally coordinating their positions, despite some disagreements between the United States and the European Union on issues such as financial regulation and fiscal prudence. The major EMDEs also conferred with each other on the sidelines of G 20 meetings.

Mutual trust bridging old divides will take some time to develop, as there is a feeling amongst EMDEs that G7 countries are trying to roll back their negotiated gains on trade and climate change through the G20 process. Nevertheless, internal differences on specific issues within AEs and EMDEs are now aired in a common forum that at least in theory has an equitable governance structure. Thus, the US and the EU differed on financial regulatory reform, trade and fiscal policies. The US also pushed more aggressively on the reform of the governance of the Bretton Woods institutions than the EU. The interests of China and other EMDEs are also not convergent on trade and exchange rate policies. The airing of such differences in a common forum tends to foster greater trust. A sense of mutual responsibility should also evolve over time as members of the G20 are all middle to high income countries and need to take into account the interests of the poorer, especially African, countries that are underrepresented in the steering committee.

China and Germany (proxying the EU) have gained the most in geopolitical stature from the rise of the G20, as these countries along with the US have emerged as the major players who need to be on board for any major G20 initiative to be effective. While the US and the EU were part of the G7, the accommodation of China that has a marginal role in the Bretton Woods institutions to the status of a major power in the premier institution of multilateral economic cooperation constitutes a major shift in its governance structure. China's leadership claims have been enhanced by the COVID-19 pandemic that they seem to have handled better than the West, its aggressive Vaccine diplomacy and by its robust economic recovery even as the rest of the world flounders.

6. CHALLENGES AHEAD: THE CONTINUING CRISIS OF POST-WAR MULTILATERALISM

With the rise of the G20 it appeared that the post-war crisis of multilateralism had been attenuated through a more inclusive, post-Bretton Woods structure of global economic governance. The new steering committee of the world staved off a possible second Great Depression and nurtured globalization during a period of crisis when countries tend to retreat behind protective nationalist walls. Leaders of all systemically critical economies now sat informally around the fireside each year forging a consensus on the most urgent problems of the day, issuing Statements that provided guidance to all major multilateral bodies, including the Bretton Woods institutions.

In recent years however, much of these gains appear to have been rolled back. After the initial standstill agreements, global trade has retreated. This retreat has been exacerbated by the disruption and realignment of global supply chains and cross border movement of labour on account of the COVID-19 pandemic. President Trump of the United States declared war on globalization. While the new Biden Presidency has signalled its intent to return to multilateralism, the ground realities have not changed. The trade war with China continues, as does the trans-Atlantic schism on several international issues. Brexit has weakened multilateralism in Europe. The two countries that had underwritten the post war international order seem to be undermining multilateralism.

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Plurilateralism, a sub-optimal response to globalization, rather than multilateralism has become the order of the day through arrangements such as the Comprehensive and Progressive Agreement on Trans-Pacific Partnership (from which the original architect, the US, backed out), the proposed Transatlantic Trade and Investment Partnership (TTIP), from which the original proponent, the US, once again withdrew, the Regional Comprehensive Economic Partnership (RCEP) in Asia from which the second biggest Asian economy, namely India, has stayed out, the BRICS sponsored New Development Bank (NDB) and the Chinese Belt and Road (BRI), Chiang Mai Initiative Multilateralization (CMIM), and the Asian Infrastructure Investment Bank (AIIB) initiatives. These are responses to a faltering multilateralism. None of these initiatives include both the US and China, the largest economies in the world. With a long dysfunctional UNSC, the growing confrontation between the world's extant superpower and a rising one in the South China Sea raises dystopic visions of a new cold war, with the world splintering into a US-led alliance of faltering democracies, and a China-led alliance of Strong States *(Rachman 2021)* in a classic illustration of the Thucydides trap. It is however unclear whether Europe would even come on board on such an alliance.

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The G20 has been reduced to platitudinous statements repeated from Summit to Summit, with the focus shifting to high profile bilateral meetings on the sidelines. The last summit in Riyadh was a virtual summit. There remains the possibility that unless the major G20 countries see value in face-to-face meetings each year, the informal meetings of the Concert of Europe kind might become irregular. The G20 could even be downgraded to below summit level. A growing Transatlantic schism under the Trump Presidency also prevented a reversion to primacy of the G7 global governance model. Does this presage the dawn of a new era with countries hunkering down behind protective, nationalist walls?

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The anti-globalization trend and the retreat of liberal democracy is reminiscent of the economic nationalism that brought the colonial era to an end, culminating with the unsustainable high cost 'Import Substitution Industrialization (ISI)' model of growth. It was the East Asian Tigers, and then China, who returned to the welfare enhancing embrace of international trade. History seems to have turned full circle with the former colonies defending globalization, even as the original proponents turn their back on it. There is a history lesson in this. A low growing, high-cost economy is the inexorable outcome of turning back on globalization.

The march of history however is rarely linear. The origin and persistence of globalization, and its bounce back with renewed vigour each time it retreated *(Sheel 2008)*, lies in the undeniable case for the welfare effects of trade made over two centuries ago by the economist David Ricardo. Its expansion has been accompanied by robust growth, and its retreat, with stagnation. Its welfare benefits outweigh short-term disruptive effects. The future is unlikely to be any different, the current tide against globalization notwithstanding. The decline of globalization is in any case exaggerated *(Tett 2020; Sheel 2017)*. Human ingenuity has long been inventing new infrastructure that facilitates closer global integration. Production has become more global and interlinked through global value chains. Services are increasingly traded across borders. Social media is spawning a global civil society. Rapid strides in information technology are forging new virtual relationships, cosmopolitan identities and communities that compete and conflict with those forged within the confines of the Nation State. The world awaits statesmen who can effectively articulate the case for, and harness the benefits of, globalization to their constituencies.

WHERE DO WE GO FROM HERE, AND CAN HISTORY BE A GUIDE?

First, in its present form, the G20 works as a coalition of pressure groups such as the G7, BRICS and MIKTA (Mexico, Indonesia, South Korea, Turkey and Australia). Only the G7 has a sense of shared responsibility. The BRICS still argue for "common but differentiated responsibilities" that continues to puts the onus on the G7 for equitable and optimal global outcomes. The rising powers are united not through any G7 notion of "shared beliefs and responsibilities" but through opposition to extant hegemons as they all compete for the pole position in the new order. African and low-income countries, such as those in the G30 and G77, are critical of the G20 not only on account of their exclusion, but more so of the rising powers within it for not adequately representing their interests after having joined the high table of global economic governance while remaining members of multilateral developing country blocs. The old powers believe in open and liberal societies, but now seem disenchanted with globalization as it appears not to be working for them anymore. Civil society in G7 countries increasingly sees itself as a victim of globalization, rather than as its original beneficiary. For multilateralism to succeed, globalization should be seen to be working for everyone.

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Second, the G20 is primarily a system for global economic governance. It is not at all clear whether the G20 is the optimum grouping if the compact, informal great powers Concert of Europe is to be the model of overall multilateral governance going forward. A reversion to the more compact G7/8 model is likely to be more effective, provided it is restructured. Since ejecting a member is almost impossible in multilateral bodies, and developing a consensus on including new members exceedingly difficult, establishing an altogether new multilateral body is a more feasible proposition. The experience with Germany in the late 19th and early 20th centuries is a warning from history regarding the perils of not accommodating rising powers within institutions of global governance. The likely great power candidates for such a grouping, based on their economic size and military capability, are the US, EU (represented by Germany?), China, UK, Japan, Russia, India, Brazil and a representation out of Africa.

Several rising powers such as China, India, Russia and Brazil, while believing in keeping international markets open are illiberal and nationalistic. Their agnosticism towards the internal systems of Nation-States is consistent with the original notion of the Westphalian State, even as the overall consensus in the dominant Advanced Economies (AEs) has evolved towards adherence to a set of basic principles.

Third, pre-war multilateralism accommodated the major powers irrespective of differing ideologies in the Westphalian tradition of being agnostic regarding the internal systems of nation states. Post war multilateralism however, was based on a consensus of liberal values, dominated by powers that believed in open markets, open societies and internationalization (G 7 1975[2]). There was an alternative rival system of fundamentally different values, but instead of being harmonized into a unified system of global governance on Westphalian principles, the two systems were at cold war till one collapsed.

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2 "We came together because of shared beliefs and shared responsibilities. We are each responsible for the government of an open, democratic society, dedicated to individual liberty and social advancement. Our success will strengthen, indeed is essential to, democratic societies everywhere."

a second cold war is to be avoided, two fundamentally different ways of organizing society would need to be harmonized in a unified system of multilateral governance. Whether this would entail a reversion to the old Westphalian notion of being agnostic with respect to the internal policies of nation states, therefore a major departure from the extant model of post war multilateral governance remains to be seen. In the Middle-East, the Westphalian idea itself is at war with radical Islam that rejects it. As Henry Kissinger has noted, while all major centres of power practice elements of the Westphalian system, its principles are also being attacked from all sides, and none considers itself the natural defender of its principle *(Kissinger 2015)*. The growing realisation that internal policies of Nation States in an increasingly connected world can impose significant negative externalities on the rest of the world through climate change, pandemics, refugees etcetera is likely to bring the Westphalian concept of Nation State increasingly under pressure, thereby strengthening multilateral cooperation going forward. This could lead to a third phase of multilateralism to contain negative external spillovers of internal policies of Nation States.

Fourth, there may be a need to look at a new multi-stakeholder multilateralism that goes beyond another Westphalian notion of sovereignty being the exclusive preserve of Nation-States. Conventional war between nation states has declined, yielding place to conflict involving non-state actors. There are contradictions between the growing clout of trans-national actors (TNCs) and sovereigns with conflicting objectives surfacing in trade, labour, infrastructure and financial sector policies. Even as TNCs endeavour to disseminate international trade and modern technology seamlessly to every flag on earth, the compulsions of domestic politics periodically impels Nation-States to turn inwards and behave nationalistically. The reach, resources and influence of some big Non-Governmental Organizations and non-state actors now match and exceed those of several Nation States (Mathews 1997). The G20 has had to acknowledge this reality of splintering sovereignty by evolving processes that take inputs from civil society organizations.

The resolution of these four frictions is likely to shape the future of multilateralism.

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