

The G20 Summit in Saudi Arabia: Expectations and Realities

Mustafa Metin Başbay



The 15th summit of the G20 will be hosted by Saudi Arabia on November 21st and 22nd.

Many expect the summit to lead to historic decisions with regards to the fight against Covid-19.

The G20 is expected to play an important role in confronting the global economic crisis, take steps towards restructuring developing country debts, and coordinate member responses to the Covid-19 pandemic. The Covid-19 pandemic, as a once-in-a-life-time crisis that has impacted the entire world, represents the ultimate test for the G20.

Introduction

The 2020 summit of the Group of 20 (G20) will be hosted by Saudi Arabia on November 21st and 22nd. Due to the ongoing Covid-19 pandemic, the leaders of the world's largest 20 economies will meet virtually. In [a statement](#) released by the summit's official host, King Salman bin Abdulaziz al-Saud, the central focus of the summit was announced as "protecting lives and restoring growth, by addressing vulnerabilities uncovered during the pandemic and by laying down foundations for a better future". Many expect the summit to lead to historic decisions with regards to the fight against Covid-19, which hold the potential to significantly mitigate human and economic damage caused by Covid-19 crisis.

The G20 is made up of the world's leading 19 economies and the EU. Collectively, [G20 countries account](#) for 80% of global production, 65% of the world's population, and 80% of international trade. Initially, the G20 was thought as a platform for finance ministers and central bank governors to coordinate macroeconomic and financial affairs. However, following the 2008 global financial crisis, the organisation became a more comprehensive economic institution and started to engage with other important issues such as economic development, energy security, trade relations, and global sustainability. The 2008 Washington summit was the first which was elevated to the level of state leaders. Since then, the G20 has become one of the main multilateral organisations, along with the World Bank and IMF, for developing solutions to most pressing economic and social problems at a global scale.

Due to the Covid-19 pandemic, the 2020 summit is expected to be historic. There are several issues that are expect-

ed to take centre stage. First, similar to the 2008 global financial crisis, the G20 is likely to play an important role in confronting the global economic crisis caused by the pandemic. Second, governments are expected to take significant steps towards restructuring developing country debts, which continue to put significant strain on some of the world's poorest nations. Third, the G20 is expected to play a central role in determining how countries around the world deal with the health consequences of the pandemic. Specifically, the organisation may play an important role in the effective distribution of a future Covid-19 vaccine. Lastly, Saudi Arabia will be on the spot as this year's host country. The country's human rights record and democratic gap vis-a-vis other member countries have already stirred up controversy.

The G20 has the potential to play an important role in the fight against the Covid-19 pandemic. A once-in-a-life-time crisis that has impacted the entire world represents the ultimate test for multilateral institutions and platforms such as the G20. With regards to the pandemic, the record of interstate cooperation thus far has been unimpressive to say the least. Specifically, the continuing confrontation between China and the US over trade issues and the blaming game for the Covid-19 outbreak, the discussions surrounding the World Health Organisation (WHO), disagreements between developed economies over debt restructuring of poorer nations, and certain member states' less than enthusiastic approach to financial cooperation are the main challenges. Perhaps most importantly, governments' weakening fiscal power, especially in emerging economies, since the 2008 global financial crisis could represent a major obstacle for dealing effectively with the economic crisis brought on by the Covid-19 pandemic.



(Metin Aktas - Anadolu Agency)

Table 1: G20 - Descriptive Statistics

	GDP nominal (billion \$)	GDP per capita (\$ at PPP)	Human Development Index	Population (thousand)	Area (thousand)	IMF classification
Argentina	450	22 947	0.83	44 939	2 780	Emerging
Australia	1 393	53 320	0.94	25 364	7 692	Advanced
Brazil	1 840	15 259	0.76	211 050	8 516	Emerging
Canada	1 736	51 342	0.92	37 589	9 985	Advanced
China	14 343	16 785	0.76	1 397 715	9 634	Emerging
France	2 716	49 435	0.89	67 060	641	Advanced
Germany	3 846	56 052	0.94	83 133	357	Advanced
India	2 875	7 034	0.65	1 366 418	3 287	Emerging
Indonesia	1 119	12 302	0.71	270 626	1 905	Emerging
Italy	2 001	44 197	0.88	60 297	301	Advanced
Japan	5 082	43 236	0.92	126 265	378	Advanced
Mexico	1 258	20 411	0.77	127 576	1 964	Emerging
Russia	1 700	29 181	0.82	144 374	17 098	Emerging
Saudi Arabia	793	48 908	0.86	34 269	2 150	Developing
South Africa	351	12 999	0.71	58 558	1 221	Developing
Korea	1 642	43 029	0.91	51 709	100	Advanced
Turkey	754	27 875	0.81	83 430	784	Emerging
United Kingdom	2 827	48 710	0.92	66 834	242	Advanced
United States	21 374	65 118	0.92	328 240	9 526	Advanced
European Union	15 593	46 467		447 512	4 233	

Source: World Bank

Economic Recovery

[According to the managing director of the IMF](#), Kristalina Georgieva, the Covid-19 crisis has led to one of the deepest economic crises in modern economic history. [The IMF](#) projects that global production will decline by 4.4% in 2020, a figure not seen since World War II (IMF, 2020). To put this into perspective, this is almost 50% deeper than the global recession experienced after the 2008 global financial crisis, when the world economy contracted by 2.9%. [According to the World Bank](#), two-thirds of all countries will experience a recession in 2020. An economic crisis of this geographical magnitude has not been seen since 1870. Such a high synchronisation of country recessions calls for cooperation between governments to tackle the crisis.

In 1999, the G20 was designed exactly for this purpose: as a channel to coordinate government responses to economic

crises. At the time, a series of emerging market crises were taking place in Latin America and East Asia, with damaging effects for developed economies as well. Former Canadian Finance Minister, Paul Martin, and then-Treasury Secretariat of the US, Larry Summers, are held to be the architects of the organisation. In the wake of the East Asian crisis of 1997, Summers and Martin realised that in an increasingly globalised world, unilateral action against financial crises was becoming increasingly ineffective. They decided to bring together the economic administrations of the largest 20 economies to coordinate state responses to financial collapse and recession. However, the birth of the G20 as we know it today took place following the 2008 global financial crisis. The US administration realised that the collapse was too big even for the US to deal with. In 2008, heads of state and government attended the G20 meeting in the Washington summit for the first time.

Figure 1: Global Recessions



Expectedly, along with the IMF and the World Bank, the G20 is currently seen as one of the pillars of multilateral action against the Covid-19 induced economic crisis. For instance, the G20 can provide a platform for coordinating fiscal stimuli packages by member states. Recently, [the IMF advised governments](#) to increase spending, especially on healthcare, social housing, digitalisation, and environmental protection, to support economic recovery and create jobs. Spending on renewable energy sources has also been suggested by many as an investment channel with long-lasting positive effects on the global economy and environmental sustainability. When they are enforced simultaneously, spending programmes by member states can create a larger multiplier effect on the global economy. The G20 can be instrumental in coordinating government fiscal action in this regard.

One significant challenge against an effective fiscal response to the current recession is that, since the 2008 crisis, many governments around the world have already largely exploited their fiscal and monetary arsenal. The scale of debt accumulation by major economies means there is less room for further spending. Especially in emerging market and developing countries, governments have fewer resources to mitigate the consequences of a slow-down in economic activities through spending, compared to the post-2008 period. Not to mention, already low-interest rates and swollen balance sheets restrict central banks as well. Again, coordinating government action can improve the influence of expansionary policies, and the G20 can provide the forum for such coordination.

Another significant mandate of the Group is to maintain financial stability. The G20 has already taken steps to open [central banks currency swap lines](#) between developed and emerging economies, through which developed countries provide their currencies in exchange for emerging market currencies. This is crucial considering that emerging economies are currently facing a dearth of foreign currency due to the collapse of international trade. In particular, as 90% of all international transactions involve the American dollar, the US Federal Reserve (Fed) has flooded the financial markets with liquidity in order to avoid a dollar shortage. Central Bank cooperation should continue in order to prevent a potential liquidity shock until the crisis is over.

Another one of the main responsibilities of the G20 is to ensure that major economic powers do not engage in disruptive cooperation in times of crisis. However, unlike 2008, this time around the G20 has largely failed to play this role. The world's two largest economies, China and the US were already in a face-off over trade relations. President Trump's tariffs on Chinese imports and increasing pressure on Chinese firms over intellectual property rights brought relations between Beijing and Washington to a head. With the pandemic, relations have only become more strained as President Trump has repeatedly blamed China for the spread of the virus. Even within the EU, member states found themselves in competition over critical health supplies. Regardless, the summit holds the potential to provide an opportunity to reconcile the parties and resolve disputes.



(Abdulhamit Topal - Anadolu Agency)

Debt Relief

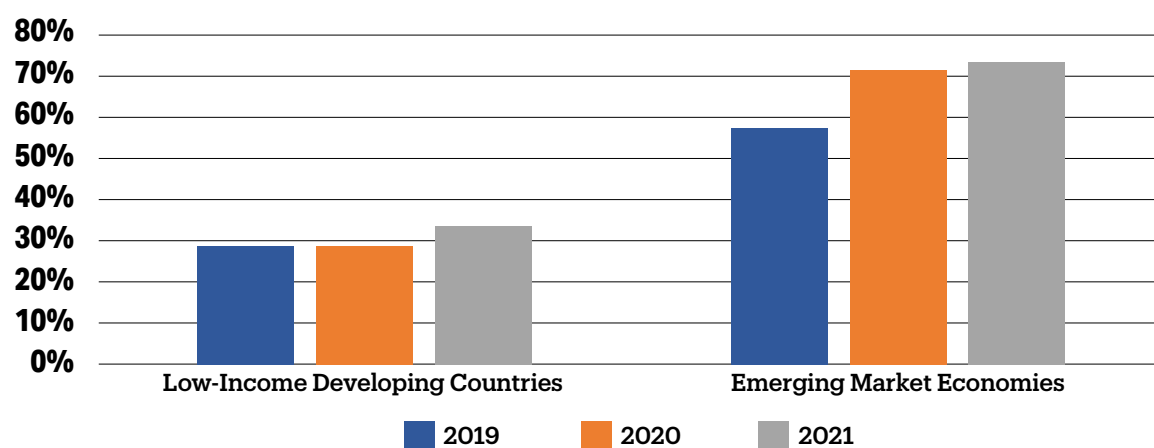
One very pressing issue for the G20 is [growing government debt](#) in developing and emerging market economies. [The IMF estimates](#) that under normal conditions, by the end of 2021, \$2.6 to \$3 trillion of public debt will have to be serviced. By the end of 2020, in countries that are categorised as advanced by the IMF, the average debt-GDP ratio is expected to rise by 20% and reach 125%, which means that government debt obligations on average exceed the annual output of the entire economy. In countries that are categorised as developing by the IMF, the same average figure is expected to rise by 10% and reach 65% by the end of 2020. As economic activities continue to stall due to the pandemic, debt sustainability is sharply and steadily deteriorating across the globe. Many expect the G20 to reverse this trend through a restructuring of developing country debts.

For most developed economies, rising debts may not pose a significant challenge because, unlike developing economies, they have space for increasing money supply when needed. Developed country currencies (e.g., dollar, euro, or sterling) are internationally acceptable; these countries can usually trade and borrow in their own currencies.

However, in less developed economies, which do not have the privilege of printing more money in the face of a liquidity crisis, rising government debt, combined with a slump in economic activity, can lead to financial disaster. Again, given the interconnected nature of the global economy, this is a source of concern for developed countries as well. A series of debt crises in emerging economies would potentially lead to a major global recession, with serious repercussion across the world.

Following [a UN call to action](#), the G20 finance ministers met on 15 April 2020 to coordinate their response to a potential debt crisis across developing countries. They agreed to suspend all government debt payments by the world's poorest seventy-seven countries (the so-called IDA countries) until the end of 2020. This means that around \$14 billion of debt due for payment has been suspended. [In October, debt payments have been extended](#) even further to mid-2021. Furthermore, in coordination with the IMF, the G20 extended credit lines to developing countries in need. It should be mentioned, however, that a substantial share of government debt (around \$3 billion for 2020 only) is owned by private creditors, who have not been willing to suspend debt repayments.

Table 2: Public Debt Service Costs (Principal payment + interest) / Government Tax Revenue



Source: IMF

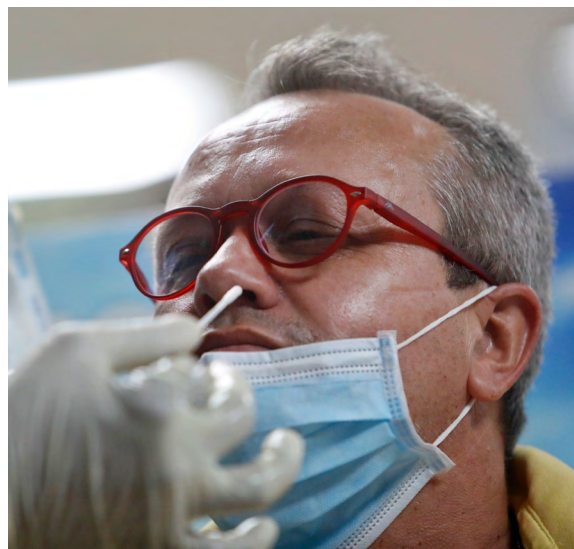
According to [UNCTAD estimates](#), developing countries' exports dropped by 18% in the second quarter of 2020. After a period of relief, as European economies enter a second round of lockdowns, developing countries face the risk of another period of contraction in export revenues. Moreover, UNCTAD estimates that remittances from developing country citizens living abroad will decline by 20%, putting further strain on the balance of payment of developing countries with the rest of the world. Under these conditions, most of these countries will be forced to take more and more loans denominated in US dollars. So far, low global interest rates have been a positive factor, however, additional loans will likely come at gradually increasing costs because of the increasing risk premium of borrower countries.

Therefore, the initial response of the G20 is not expected to suffice. [On 13 November, G20 member states met again](#) and agreed that more needs to be done by the G20 although there is still no specific plan. IMF Managing Director Kristalina Georgieva said African states alone have a \$345 billion financing gap until 2023. Recently, the Chief Economist of the World Bank, [Carmen Reinhart](#), warned that the developing countries may be facing another lost decade, similar to the one experienced after the Latin American debt crisis of the 1980s and said that wealthy countries should "be bold" in their approach to debt relief for developing countries. Indeed, a debt crisis may result in the loss of 30 years' worth of achievements in reducing global poverty. However, some countries, especially [China, which holds 63% of all debt owed](#) by African countries to G20 member states, seem less enthusiastic about an outright debt write-off than others.

Fighting the health crisis

A pandemic is by definition a global health crisis, which requires international cooperation to tackle. The World Health Organisation (WHO) is supposed to realise this function, however, the organisation currently requires unprecedented budgetary support to deal with the Covid-19 pandemic. [During the 26 March](#) meeting of the G20, Dr Tedros Adhanom Ghebreyesus, Director-General of the WHO, called on G20 countries to "fight, unite, ignite" against the global crisis. Following the meeting, the G20 declared that the Group is committed to "strengthen[ing] the WHO's mandate in coordinating the international fight against the pandemic." In his more recent official statement, King Salman said, "the G20 has contributed over \$21 billion to support the production, distribution, and access to diagnostics, therapeutics, and vaccines."

However, the more significant contribution the G20 can make in the fight against the health crisis arguably begins now. As potentially viable vaccines continue to emerge, discussions are starting to turn to how to manufacture and



(Yander Zamora- Anadolu Agency)

distribute any potential vaccines effectively. Rapid distribution of vaccines to 7.5 billion people around the world will require enormous financial and organisational capacity. G20 leaders are expected to commit to full funding of the WHO's strategic preparedness and capacity for the production and distribution of a Covid-19 vaccine. Poorer countries in sub-Saharan Africa, Latin America, or South-East Asia have very little spending capacity, thus, unless they get substantial support from developed countries, most of their citizens will not be able to access vaccines or any other effective treatment regardless of their existence.

It should also be remembered that the struggle to expand testing capacity in poor countries continues. Not to mention, most poor countries do not have access to other critical medical supplies from protective gears to ventilators. On 7 April, [a group of global leaders](#), including 3 former prime ministers of the UK, called on the G20 to lead the path and act quickly to boost healthcare systems in poor countries. In this sense, it can be argued that the G20 and other multinational organisations have not achieved the results many were hoping for. In some African countries, there have been [very few confirmed cases of Covid-19](#) simply because there is limited testing capacity. The distribution of tests and medical supplies to different parts of the world continues to be key for an effective global response to the pandemic.

Recently, hopes have been rising that the Covid-19 pandemic may soon end, and the world can slowly return to some sense of normalcy. However, the time-line of this scenario largely depends on common efforts to test extensively, manufacture and distribute vaccines, medicines, and other medical equipment to all parts of the world. If the world can effectively cooperate, everyone will benefit. The G20 is expected to take a leadership role in this endeavour. Furthermore, this also represents a leadership test for G20 and other multilateral institutions.

Saudi Arabia as the host country

This year's summit has also put the spotlight on host Saudi Arabia. Since its first participation in G20 meetings in 2008, Saudi Arabia has been considered as a key ally for energy security and financial stability. The country has the second-largest oil reserves and tenth-largest sovereign wealth fund in the world. However, especially with Crown Prince Mohammed bin Salman's increasing dominance in his country's politics, the Kingdom's position internationally and in multilateral institutions is increasingly being called into question by those concerned with the recent domestic and foreign policy record of the Kingdom.

Saudi Arabia's hosting of the summit has been criticised by [international human rights agencies](#) on the basis of the country's human rights record. The Kingdom's treatment of government critics and dissidents, as well as Mohammed bin Salman's increasingly aggressive domestic and foreign policies, have been widely criticised. Specifically, Saudi Arabia's disastrous intervention in Yemen has led to what the UN has called the world's worst humanitarian

crisis. The murder of Saudi journalists Jemal Khashoggi in the Kingdom's Istanbul consulate also created a global backlash and drew attention to the state of freedom of expression in the country. On 7 October, the European Parliament passed [a resolution condemning Saudi Arabia](#) for human rights abuses, especially the treatment of African migrants, in the lead up to the G20 Summit.

Saudi Arabia has also recently been criticised for its economic policies. In particular, Riyadh is blamed for destabilising an already unstable oil market by launching [a price war with Russia](#). With the pandemic, global oil demand has dramatically declined, leaving oil-exporting countries in a difficult situation. After negotiations to coordinate their strategies failed, Russia and Saudi Arabia (the first and second-largest global oil exporters, respectively) started cutting oil prices to maintain market share. Consequently, oil prices collapsed even further and caused a worldwide stock market sell-off on par with the 2008 global financial crisis. Other oil producers, including the American shale oil industry, took heavy losses as well. The oil price war with Russia reinforced Prince Mohammed bin Salman's image as an erratic and reckless decision-maker. Ahead of the G20 meeting, [this issue came to the headlines](#) again.



(The Kingdom of Saudi Arabia - Anadolu Agency)

According to some, given [the rising efficiency and capacity in renewable energy sectors](#) and the growing importance given to carbon neutrality by major economies such as China or the EU, Covid-19 has offered a glimpse into the future for countries that are dependent on oil revenues. In a world where oil is losing its importance, Saudi Arabia's place in the G20 and global affairs in general could be questioned altogether. Since oil prices collapse in late 2014, the country has failed to come up with a viable plan to reform the Kingdom's economy towards a more sustainable model based on industrial production and technology.

For that matter, Mohammad bin Salman's economic plan, [Vision 2030](#), is not seen as a realistic and promising project either. [Analysts note](#) that the plan depends mostly on massive government spending, which may no longer be viable given the sharp drop in oil prices, and optimistic projections about foreign direct investments. With the Covid-19 pandemic, the Kingdom's economy has taken another hit; country's GDP is expected to shrink by 2.3% (non-oil GDP to shrink by 4%) in 2020, which compounds the challenges facing the realisation of the reforms and expenditure levels required for Vision 2030. Many commentators agree that Vision 2030 needs serious re-evaluation and redesign. In this regard, the summit could be an opportunity for the Crown Prince to buttress his reputation both abroad and at home and effectively whitewash his economic record thus far.

The G20 Summit as an opportunity in the fight against Covid-19

The G20 summit represents an opportunity for the world's leading economies to coordinate their response against the Covid-19 pandemic. In an age of hyper-globalisation, Covid-19 has reminded everyone of the interconnectedness of lives across the world. It has also reminded us of the reason why we have multilateral institutions such as G20 in the first place. Health experts warn that only if we end the pandemic everywhere can we end the pandemic anywhere. In a way, the same is true for economic damage caused by the pandemic. A lasting recession in the wake of the pandemic could cost millions of lives and livelihoods around the world. Individual economies are unlikely to be able to escape the consequences of that no matter how strong their finances are. For an efficient and effective tackling of economic consequences of the Covid-19 pandemic, countries need to cooperate in macroeconomic and finance policies, precisely what the G20 is designed for.

The G20 collectively represents an enormous economic capacity. Many hope that leaders can come up with a strong fiscal plan to revive global supply chains and international trade. Spending plans could bring about stronger multiplier effects when they are enforced simultaneously and

in coordination. In this regard, [the IMF's call for increased government spending](#) could be a precursor to G20 action. Similarly, central bank cooperation is also essential for saving emerging economies from a liquidity crisis. As it stands today, most emerging economies are dealing with a contraction in foreign exchange earnings from exports and remittances due to the collapse of international trade and the shuttering of economic activities. Swap lines between central banks are crucial in this regard. Policies to keep the global economy afloat amid the continuing pandemic will be high on the agenda of the upcoming summit.

The economic impact of the pandemic has affected all countries, however, in developing countries, the damage has been deeper. Unless developed economies provide the necessary support, some of the poorest nations could soon find themselves in a debt crisis. Many fear that we could see a repeat of the 1980s debt crisis, which saw developing countries experience a lost decade of economic growth. If such a scenario materialises, 30 years' worth of achievements in poverty alleviation could be lost. While developed economies are expected to agree on a debt restructuring or even a debt cancellation of the poorest countries, disagreements between China, which holds the majority of developing country debts, and other developed economies have still not been resolved.

Last but not least, the G20 Summit represents a key platform for coordinating countries' health policy responses against the pandemic. In the coming months, cooperation in the production and distribution of vaccines, medicines, testing kits, and other medical equipment will be crucial for saving lives and helping the world return to a sense of normalcy. Much hope has been placed in the upcoming summit to provide the world with a viable plan for the fight against Covid-19 under the leadership of the world's richest nations. Failure to provide leadership and cooperation in a once-in-a-lifetime crisis will only feed into pessimistic expectations for future crises.