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ECONOMIC
POLICY



SOCIAL POLICY



REGIONAL
INTEGRATION



GOVERNANCE

THE G7 SUMMIT

Written by Charukeshi Bhatt

The recently culminated 45th meeting of the G7 in Biarritz, France had raised some hopes, with its stated objective of 'Combating Inequality' along with a focus on Climate Change and Biodiversity, given the ongoing forest fires in the Amazon and an increasing global concern over the rate of climate change. Sadly, it turned out to be yet another meeting of political leaders that ended without a substantial road map to tackle the problems that it had set out to discuss.

Recent global interactions between world leaders have increasingly involved mention of the impending climate crisis, and yet there has been little or no result from them. However, when the world's 7 greatest economies set their objective out as being one to discuss Climate Change, it did promise a meaningful deliberative session. After all, the 7 economies taken together, represent more than 62% of the global net wealth.

But why does the G7 matter? And what role does it play in giving direction to the international currents?

The Group of Seven, more popularly known as the G7, was founded in 1975. The idea was to engage world leaders in matters related to global economy. The first meeting of the G7, which until then did not include Canada (which joined in 1976) and Russia (joined in 1998) was attended by leaders from USA, West Germany, UK, Italy, Japan and France to discuss a way out to save the crumbling global economy that had succumbed to the Oil Crisis and the collapse of the Bretton Woods fixed exchange rate system. A year later, Canada joined the group making it G7. From the 1980s, the group also began deliberating and consulting on issues of global security and foreign policy. Under Mikhail Gorbachev, Russia too was included into the group in 1998, making it the G8. The leaders met annually, with the presidency of the group being decided on rotational basis. EU was first invited to the summit meeting in 1977 and since then Presidents of the Economic Council and European Commission attend the meeting making it an extended group.

The Presiding Officers of the Summit have used their discretion and invited other leaders from outside the group to the annual meetings, making the engagement more rigorous and substantial.

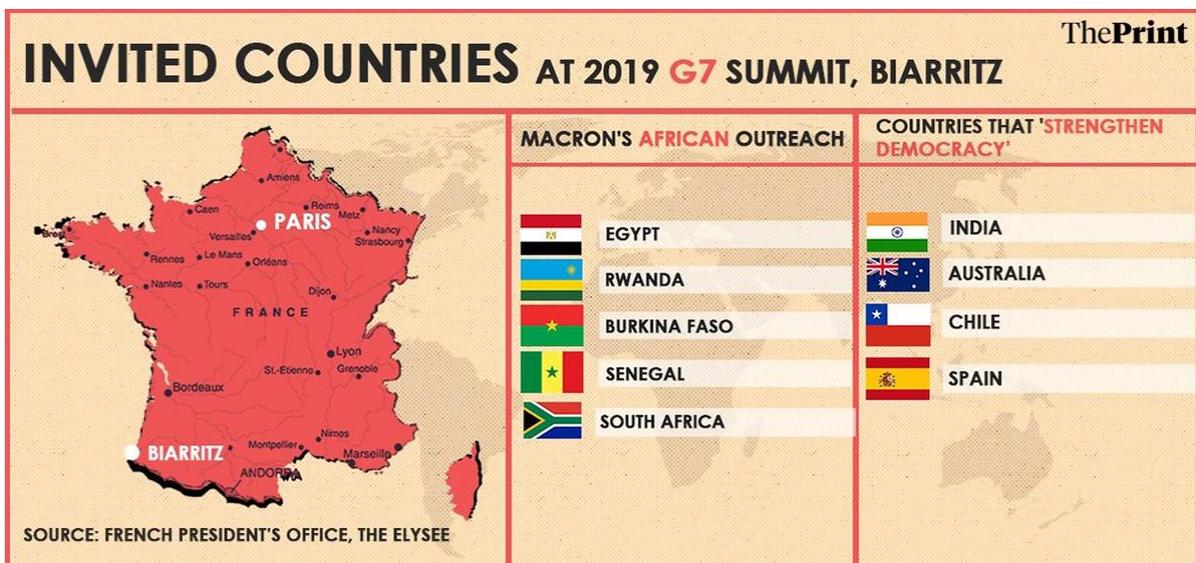
In 2014, after Russia's annexation of Crimea from Ukraine, its membership from the group was withheld making it G7 again. The other members claim that this move by Russia is a violation of the territorial integrity of another state, and against the ethos of democracy, which the other member states are committed to. All subsequent meetings of the group have been held without Russia.

The Promise-

The meeting of G7 was attended by nine other invitees of French President Macron. These included leaders of African nations of Rwanda, Burkina Faso, Senegal, Egypt and South Africa, and democracies from across the world including India, Chile, Spain and Australia.

Macron in his presidency of the G7 intended to encourage meaningful discussions. As a step towards that, the practice of issuing a joint communique has also been done away with. As he himself clarified- "The role of leaders is to veer away from their historic positions, to take liberties, to decide, and to give instructions to their administrations."

As explained by President Macron's Office, the invitation to the African nations was because their role in combating inequality globally cannot be denied and their involvement in any fight against global inequality is necessary. Their participation would also be helpful in discussing health, education and finance in the Sahel region.



The invitation to India, Chile, Australia and Spain was extended to strengthen the commitments to the 'fundamental freedom'. On the face of growing Populism, cultural nationalism, and democratic authoritarianism, Macron found it important to explicitly demonstrate his commitment to democratic freedom of the people across the world. Interestingly, Macron himself is facing widespread opposition from his own citizens who are demanding him to step down.

President Macron's office released this statement further clarifying their intent-

"With these four major democracies, we will work to strengthen the protection of fundamental freedoms at a time when digital technology and artificial intelligence are developing. We will propose tangible measures to protect the planet, focusing on protection of biodiversity, the climate and the oceans."

The statement also mentioned that the engagement of the African Leaders was to encourage sustainable economic development in the region which could create jobs for the youth and also encourage women's entrepreneurship.

However, it isn't hard to see that all the countries invited also serve strategic interests apart from keeping up with Macron's democratic commitments. Most African leaders invited for the g7 2019 hold significant posts and are either heading currently or have headed in the past, associations of regional or international stature. For example, while Burkina Faso's President Roch Marc Christian Kabore is chairing the 2019 Sahel G5 summit, Egypt's President Abdel Fattah al-Sisi is currently the head of the African Union. Senegal's President Macky Sall is chairing the state or government orientation committee of the New Partnership for Africa's Development (African Union development agency NEPAD). Rwandan President was the President of the African Union in 2018.

The Challenge-

Every year the G7 meeting is faced with vocal opposition all over the world for paying lip service to the real issues and only being a caricature of a multilateral body. This year too, the G7 saw widespread protests from various groups. Firstly, there has been a growing dissatisfaction inside France, with Macron's pro-elite policies. Protesters who identify themselves as 'The yellow vests' have flocked the summit venue amidst police retaliating with tear gas and water

Cannons. The protesters have also claimed that the group is non representative as it has no member from Africa or the Middle East.

Another challenge came as the group appeared divided on the issue of readmitting Russia in the circle. While Trump seemed adamant on Russia's inclusion, for at least discussing issues concerning North Korea and Iran, the other members believe that its actions on Ukraine does not allow its admission to the group.

Yet another point of concern was the session on climate change and the much talked about Trump's absence from it. For an ambitious Macron who had envisaged the G7 to come up with a substantial policy on climate change, the lukewarm response of the US President signifies how the issue is still not being given the necessary importance. Later Trump also dismissed the issue as being one where he does not intend to spend his nation's 'wealth'. Although, the G7 has agreed to allocate logistics and financial aid of \$20 Million for battling the Amazon fires, there has been a rather discouraging statement by the Brazilian President who claimed that this displayed a colonial mind-set of the European leaders. Further, the aid by the G7 has been called 'Chump Change' as it diverts attention from the real cause of the forest fires which is over consumption of meat and dairy products in the UK and other countries, as explained by Richard George, the head of forests for Greenpeace UK.

The Result-

There are some significant deals that have been finalised during the course of the G7.

1. There appears to be a possibility of a resolution of the US- Iran Nuclear deal conflict in the coming weeks. The two nations are expected to attend the UN General Assembly in September and Trump has expressed a willingness to hold talks with Iranian Leaders 'under the right circumstances. He however declined an unplanned meeting with Iranian foreign minister, whom Macron happened to have invited suddenly. Macron also tweeted that Iranian President Rouhani has agreed to hold talks with his US counterpart.
2. In the session on economy and trade, Trump welcomed the statement by Chinese Vice Premier Liu-He, who had said that China was willing to resolve tensions in a calm way and not further any trade tensions. This came amidst the G7 leaders collectively voicing their concerns over the spiralling effect of the US- China trade war on the world economy.
3. The meeting between President Trump and Indian PM Narendra Modi on the side lines of the G7 included deliberation on the recent Kashmir move and the subsequent tension between Pakistan and India. PM Modi clarified India's stance which considers the issue to be a bilateral one, and therefore does not wish to involve any 'third' party. President Trump emphasised on the need of dialogue between India and Pakistan and the role that India could play in talks with Afghanistan.
4. On the ongoing protests in Hong-Kong, all the G7 members called for an end to violence and recognised the importance of the Sino-British Joint Declaration of 1984. Any clear message however was not given as to whether they extend support to the cause of the protesters or the Chinese Government. However, it is clear that given the concerns of the G7 regarding the consequences of a prolonged trade war between the US and China, they have kept the criticism to a minimum so as to not infuriate China.
5. Trump signalled the signing of a crucial trade deal with the UK after its withdrawal from the European Union. UK Prime Minister Johnson, also discussed funding girls' education and amazon forest fires with Trump.
6. Another important trade deal has been finalised between US and Japan that aims to secure market access for several American agricultural goods. Japan has agreed to increase purchase of Corn from US.

The Road Ahead-

The G7 has opened up possibility of talks over two most significant political crises that the world is seeing currently involving the US, China and Iran. However, it has also buttressed the opinion of many across the globe that climate is still not a priority for the world leaders, and their focus continues to be on Trade agreements. With the UN General Assembly scheduled next month, it is yet to be seen how the second and the third world react to the impending and deepening climate crisis. As of now, the G7 has failed to deliver positive results in the domain of its stated objective.

Finance Ministry's Gift to the Economy

On 23rd August, 2019, Nirmala Sitharaman announced a set of reform measures to boost the slumping Indian economy which is grew at 5.8% in the June Quarter, the lowest in six years. Further, she pointed out the Global Economic conditions are responsible for the slowdown and India is performing better than other counterparts. Companies have already started laying workers down and lowering prices, in such a scenario, whether these reforms will be helpful are something the time will tell.

Rolling back the additional surcharge on FPI's which was earlier introduced in the budget.	Development of Credit Default Swap market in India in consultation with RBI and SEBI.
Clearing all the pending Tax notices by 1 st October.	An Inter-Ministerial panel be setup to expedite investments in infrastructure.
Pending GST Refunds be cleared within 30 days. All future GST Refunds will be paid within 60 days.	BS-IV vehicles purchased till March, 2020 will be allowed to run on the roads for the duration of registration.
NHB will be given Rs. 20,000 crores to lend to HFC's to stir housing demand.	All the vehicles brought till March 2020 will undergo a 30% depreciation rather than the present rate of 15% in order to revive the commercial vehicles segment.
Capital Infusion of Rs. 70,000 crores into PSB's. Banks asked to pass on the rate cuts to consumers.	Government departments, which were earlier not allowed to replace old vehicles, have been asked to actively replace them.

RBI's SURPLUS FUND TRANSFER AND BIMAL JALAN COMMITTEE

Written by Tanisha Sukhija

On August 26, RBI's central board announced its decision to transfer Rs 1.76 lakh crore to the government of India. The surplus constitutes of two fragments namely: Rs 1.23 lakh crore surplus for the year 2018-19 and the remaining Rs 52,637 crore excess provisions that was available according to the economic capital framework of the Bimal Jalan Committee. The contingency fund is now at the lower band of 5.5- 6.5 per cent, this gives RBI little ability to manoeuvre in the future.

The RBI's reserves constitutes of mainly four segments: Currency and gold revaluation account (CGRA), the investment revaluation account (IRA), the asset development fund (ADF) and the contingency fund (CF). The CGRA is the major contributor of the RBI's reserves, and has escalated at a compounded rate of 25%. The CF is a specific provision that has been made to meet unforeseen contingencies from monetary policy decisions.

The CF makes up for one-fourth of the reserves. The IRA and ADF contribute to a comparatively smaller portion of the reserves. The IRA is further divided into two components: IRA-foreign securities (IRA-FS) and IRA-rupee securities (IRA-RS). The IRA-FS constitutes of the unrealised gain or loss from foreign securities and the IRA-RS is on marking rupee securities. The ADF on the other hand is made to meet internal expenditure.

Bimal Jalan committee was set-up to make recommendations to the RBI relating to the amount of reserves to be transferred to the government.

The amount of surplus transfer by RBI to the government is based on the realized equity and economic capital. The realized equity is referred to as the Contingent Risk Buffer (CRB), and is made from provisioning of retained earnings. This is one of the major components of the CF. According to the panel's recommendations, the CF should be maintained within a range of 6.5 per cent to 5.5 per cent of the RBI's balance sheet.

Prior to the fund transfer, the CF stood at 6.8 percent of the RBI's balance sheet. Taking into account the committee's recommendations, the central bank decided to keep the CF at the lower threshold of 5.5 percent, and so Rs 52637 crore of excess CF was included in the transfer amount. For the maintenance of realized capital, the panel suggests to keep the CGRA within 20- 24.5 percent of the RBI's balance sheet. The CGRA stood at 23.3 percent, and hence RBI's entire net income of Rs 1, 23 lakh crore was decided to be transferred to the centre along with the above amount. So, as a result, a total of Rs 1.76 crore has been transferred to the centre by the RBI.

This move by the RBI has stirred up several controversies and debates. Just like a coin has its two sides, people are split into two parts on the basis of their opinions on this move. Some people believe that this action was detained since long, and is necessary to provide stimulus to the plunging economy. On the contrary, others believe that such moves purloin the central bank of its autonomy.

Asian Development Bank president Takehiko Nakao stated that this transfer will help stimulate the economy significantly. But what the government needs to ensure is that it cannot depend on such transfers in the long run. Thus, this surplus should be put to invigorating the economy, without compromising on the fiscal deficit.

Thus, the government needs to be astute in making use of these funds so that it can act as an anchor to the deteriorating economic growth.

The **Centre of Policy Research and Governance (CPRG)**, India strongly believes that in the 21st century an India deprived of gainful opportunities, necessary for the flourishing of a young and emergent India, will prove to be an impediment in the development of human capital and preservation of global security. CPRG thus works towards providing gainful opportunities in an effort to promote the involvement of young people in policy making and politics.



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