G20 pledges $5 trillion to defend global economy against COVID-19

Part of: GS Prelims and GS-II- IO

In a show of crisis unity, leaders commit to implement and fund all health measures needed to stop the virus's spread.

Leaders of the Group of 20 major economies pledged to inject $5 trillion in fiscal spending into the global economy to blunt the economic impact of the coronavirus and "do whatever it takes to overcome the pandemic".

Showing more unity than at any time since the 2008-2009 financial crisis that led to the G20's creation, the leaders said they committed during a video conference summit to implement and fund all necessary health measures needed to stop the virus's spread.

G-20

- About
  - The G20 is an informal group of 19 countries and the European Union, with representatives of the International Monetary Fund and the World Bank.
  - The G20 membership comprises a mix of the world’s largest advanced and emerging economies, representing about two-thirds of the world’s population, 85% of global gross domestic product, 80% of global investment and over 75% of global trade.

- Headquarter
  - The G20 operates as a forum and not as an organisation. Therefore, it does not have any permanent secretariat or management and administrative structure.

- Origin
  - 1997-1999 Asian Financial Crisis: This was a ministerial-level forum which emerged after G7 invited both developed and developing economies. The finance ministers and central bank governors began meeting in 1999.
  - Amid 2008 Financial Crisis the world saw the need for a new consensus-building at the highest political level. It was decided that the G20 leaders would begin meeting once annually.

- Members
  - The members of the G20 are Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States, and the European Union.
  - One nation holds the Chair every year, known as 'G20 Presidency'. Argentina chaired the G20 summit of 2018 and Japan for 2019.

In a statement containing the most conciliatory language on trade in years, the G20 leaders pledged to ensure the flow of vital medical supplies and other goods across borders and to resolve supply chain disruptions.

As many countries enact export bans on medical supplies, the G20 leaders said they would coordinate responses to avoid unnecessary interference. "Emergency measures aimed at protecting health will be targeted, proportionate, transparent, and temporary," they said.
The G20 leaders also expressed concern about the risks to fragile countries, notably in Africa, and populations such as refugees, acknowledging the need to bolster global financial safety nets and national health systems. "We are strongly committed to presenting a united front against this common threat," the G20 leaders said in a joint statement following their 90-minute call.

**Saudi Arabia, the current G20 chair**, called the video summit amid earlier criticism of the group's slow response to the disease. It has infected more than 500,000 people worldwide and killed more than 23,000 - and is expected to trigger a global recession.

Saudi Arabia's ruler, King Salman, in opening remarks, said the G20 should resume the normal flow of goods and services, including vital medical supplies, as soon as possible to help restore confidence in the global economy. The group committed to national spending measures totalling $5 trillion - an amount equal to that pledged in 2009 - along with other large-scale liquidity, credit guarantee schemes and other economic measures.

**World Health Organization Director General Tedros Adhanom Ghebreyesus** was to address the G20 to seek support for ramping up funding and production of personal protective equipment for health workers amid a global shortage. "We have a global responsibility as humanity and especially those countries like the G20," Tedros told a news conference in Geneva on Wednesday. "They should be able to support countries all over the world."

In his remarks to the group, **United States President Donald Trump** shared details of the $6 trillion in support the US is making available through legislation and increased Federal Reserve liquidity, including $2 trillion in fiscal spending. Trump also spoke in support of multilateral action and coordination. "He talked about working together, and sounded more supportive of multilateral coordination than ever before," said one source who observed the meeting.

The meeting was not marred by acrimony, as was feared given the on-going oil price war initiated by Saudi Arabia-led OPEC, and a war of words between the US and China over the origins and handling of the pandemic, who was not authorised to speak publicly. Tedros told G20 leaders that the pandemic is "accelerating at an exponential rate" and urged them to ramp up production of protective gear for health workers and remove export bans.

"Everyone realises that it is essential to preserve jobs, and to maintain trade flows, not disrupt the supply chains," said one Brazilian government official with knowledge of the video conference discussions. No country advocated "total confinement", mainly because most of the countries in the G20 are not implementing such moves, the official added.

Several participants called upon the G20 to play the same role that it played in overcoming the 2008-2009 global financial crisis, when member countries pledged to inject massive fiscal stimulus and financial liquidity into the economy, the Brazilian official said.

**IMF resources**

The G20 leaders also asked the International Monetary Fund (IMF) and the World Bank Group "to support countries in need using all instruments to the fullest extent".

**IMF Managing Director Kristalina Georgieva** plans to ask the Fund’s steering committee on
Friday to consider doubling the current $50bn in emergency financing available to help developing countries deal with the virus, a source familiar with the plans told Reuters news agency.

To boost global liquidity, Georgieva also asked G20 leaders to back a Fund plan to allow member countries to temporarily draw on part of its $1 trillion in overall resources to boost liquidity. The IMF made a similar move in 2009 with a $250bn allocation of Special Drawing Rights (SDR), its internal unit of currency.

Georgieva gave no specific number in her statement, but observers to the G20 meeting said an SDR allocation of up to $500bn could be needed.

On the health response, the G20 leaders committed to close the financing gap in the WHO's response plan and to strengthen its mandate as well as expand the manufacturing capacity for medical supplies, strengthen capacities to respond to infectious diseases, and share clinical data.

**Before this G20**

Recently, the ministers and central bankers from the world’s largest economies participated in **G20 meeting** held in **Riyadh (Saudi Arabia)**.

- It was **presided** by **Saudi Arabia**. **Saudi Arabia** is the first Arab nation to hold the G20 presidency.
- The 2020 G20 Presidency will focus discussions, forums, working groups and Ministerial Meetings under the **theme of “Realizing Opportunities of the 21st Century for All”**.

**Key Points**

- **Global Economy:**
  - The global economic growth remains slow and downside risks due to the geopolitical and remaining trade tensions, and policy uncertainty.
  - Though the economic growth is expected to increase in 2020 and 2021 due to loose monetary policy and an easing of trade tensions.
- **IMF’ Views at the Meeting:**
  - It projects a “V-shaped, rapid recovery” for the global economy, but it warns about the uncertainty around the spread of the coronavirus (COVID 19).
  - The **IMF** also warned about other risks including rising debt levels in some countries as well as climate change.
- **Demand for Global Taxation System:**
  - It discussed ways to achieve consensus on a global taxation system for the digital era by the end of 2020.
    - It aims to allow governments to tax digital companies where they do business, rather than where they are registered for tax purposes.
  - India has also demanded closer collaboration between international revenue agencies to investigate tax affairs of offenders who cross borders for escaping tax investigation.