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Brazil G20 Summit 2024: The Global South Takes Centre Stage

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The G20 summit to be held in Rio de Janeiro on 18 and 19 November will struggle to find consensus one month after the BRICS+ summit in Russia and less than two weeks after the US elections. The rich economies face new challenges in the change of unbalanced power relations, and the Global South will play a more prominent role. Brazil's Lula da Silva is an experienced bridge-builder, and his diplomacy will seek pragmatic solutions.

- The G20 summit will be held in Brazil one month after the BRICS+ summit in Russia. It follows the previous G20 summit in India and comes on the heels of next year's in South Africa, after which the triad of BRICS G20 presidencies will be completed.
- The Global South is pushing the world order towards a multipolar organisation as it becomes more united. On the other hand, the wars in Ukraine and the Middle East as well as the US–China dichotomy have high economic and social costs for the world order.
- China's rise has fostered a tripolar interdependence with the EU and the US in terms of world trade, while in finance US unipolarity still dominates. Together with the weaponisation of the SWIFT system, this has led underdeveloped economies to seek an alternative to encourage de-risking from the dollar.
- The Global Alliance Against Hunger and Poverty initiative pushed forward by the Brazilian government should be a consensus among G20 members. However, climate change and a wealth tax on the ultra-rich could face resistance from the US and some EU countries.

Policy Implications

In the absence of confidence in the Bretton Woods and WTO organisations, initiatives from the Global South have offered solutions for underdeveloped economies without relying on the old practices of the World Bank and the IMF. The G20 summit could be an opportunity for the EU to find its way out of the US–China dichotomy and make concrete commitments to the Global South beyond trade in raw materials.

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Beyond the US vs. China Polarisation

"Do we believe that the old good world [of open trade] is coming back?" asked German vice chancellor Robert Habeck at a geoeconomics conference in October 2024 as Germany faced the problem of being the only country still respecting WTO rules, whose principles he believed should continue to be supported. He went on to say that Germany had switched from a high concentration of gas imports from Russia to Liquefied Natural Gas (LNG) imports from the US and asked the audience if this was a good thing, implying it probably was not. He added that the US was already forcing European companies to choose sides and not trade with China (Habeck 2024).

The German vice chancellor's words help us to understand the current labyrinth that the central economies are facing in the context of the US–China rivalry, where multilateral and international forums such as the G20, the WTO, and the Bretton Woods system have lost credibility (Chu et al. 2024). This means that the upcoming G20 summit in Brazil will take place at a complicated moment in international diplomatic relations, within an unfavourable scenario of conflict and tension.

On the other hand, the summit will take place just after the BRICS+ summit in Kazan, Russia, situated between the last G20 summit in India and the upcoming one in South Africa. It could be a sign that important decisions and leadership are taking place not only in the rich countries of the West, but that the Global South is increasingly claiming space and a voice in global affairs.

The Rise of the G20

In the early 1970s, finance ministers and central bank governors from the US, Germany, the UK, France, and Japan met informally to address structural issues in the global economy, such as the dissolution of the Bretton Woods fixed exchange rate system (1971) and the oil price shocks (1973 and 1979). This group became known as the Group of Five (G5). In 1977 the finance ministries of Canada and Italy were invited to join the group, which officially became the G7.

Changes in the global economic and political landscape led the G7 to reconsider its composition in the late 1990s. Key pressures included the growth of economies outside the group, the 1997 Asian financial crisis, and the increasing pace of global economic integration. In response, Russia joined the G7 to form the G8, and a formal invitation from the G8 in 1999 led to the creation of the G20.

The first G20 meeting was held in Berlin in 1999, with representatives from Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, the Republic of Korea, Mexico, the Russian Federation, Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States, and the European Union. In addition to the finance ministers and central bank governors of these countries, representatives from the International Monetary Fund (IMF), the World Bank, the International Monetary and Financial Committee (IMFC), and the Development Committee of the International Monetary Fund and World Bank (DC) also participated.

Over the years, the institutional structure associated with the G20 summits has seen a steady expansion. A historical milestone for the G20 was the US financial crisis of 2008. In search of solutions to the crisis, the US president at the time, George W. Bush, convened the heads of state of the G20 member countries, recognising that more than just finance ministries and central banks were needed to define global actions against the crisis. The so-called "Sherpa Track" was born out of this in 2008, working in parallel to the already existing Finance Track.

The Sherpa Track is led by the personal representatives of the G20 leaders, who oversee the negotiations, discuss the items on the summit agenda, and coordinate the work; it is led by foreign ministers, in contrast to the Finance Track, which is led by finance ministers and central bank governors and focuses exclusively on economic issues. The Sherpa and Finance tracks do not hold joint meetings, as they have separate dynamics, calendars, and management, but maintain an on-going dialogue to ensure the integration of their agendas. With the expansion of the governance structure, the G20 summits begun to be led by an annual presidency supported by the Troika (comprising the current, previous, and incoming presidencies). This new structure includes thematic working groups that convene for workshops and seminars, generating proposals and analyses. Ministers and heads of state then meet to review these outcomes and reach a consensus on key decisions.

In 2010 Engagement Groups linked to the Sherpa Track were created to propose ideas and have influence in the G20 compromises. However, they have neither a direct institutional role in the G20 nor complete autonomy in their management. The G20 presidency determines which Engagement Groups will be established each year and appoints the chairs for these groups.

The first meeting of the Engagement Groups took place in Canada in 2010, where 40 representatives of the world's largest companies met with finance ministers for what was called a "reality check" from the front lines of global trade. Following this meeting, the group remained organised and became known as the Business 20 (B20). In that same year, meetings were held with parliamentarians, eventually forming the Parliament 20 (P20), and with youth representatives, labelled the Youth 20 (Y20).

The country presiding over the G20 may invite other nations, multilateral development banks (MDBs), and international organisations to participate in summits and ministerial meetings. Recently, in 2023, the African Union joined the G20, addressing a historical deficiency in the representation of the African continent within the group.

Brazil Is Back: Three Key Innovations

Brazilian president Luiz Inácio "Lula" da Silva's first and second terms in government (2003–2011) were characterised by a bold and active foreign policy, rooted in multilateralism – principles that are being revived in Lula's third term (2023–present). This strategy is not only bolstered by Lula's ability to engage with global leaders but will also benefit from the opportunity for Brazil to chair the G20 in 2024 and host both the 30th UN Climate Change Conference (COP30) in Belém in November 2025 and the next BRICS+ Summit, the date of which is yet to be determined.

The Brazilian G20 presidency has introduced three major innovations. The first innovation is the Task Force for a Global Alliance Against Hunger and Poverty. Fighting hunger has long been a priority of Brazilian domestic policy and was a hallmark of Lula's first and second terms in office through the Zero Hunger (Fome Zero) programme. In line with this, the Brazilian presidency has introduced this task force, which will be formally launched in November.

Its aim is twofold: first, to provide technical support for the development of public policies against hunger through a policy basket – a collection of policy options tailored to different contexts – and, second, to facilitate the mobilisation and distribution of investments to implement these policies.

The Alliance, which is also open to non-G20 countries, additionally aims to unite currently fragmented efforts and re-establish the fight against hunger as a global priority in a high-level forum such as the G20. This topic is meant to act as the symbol of consensus for Brazil's presidency, demonstrating Lula's ability to gather Greeks and Trojans around a common interest. This could also boost enthusiasm for seeking consensus on the other topics.

The second innovation is the expansion of social participation through the G20 Social on the Finance Track with its culminating activity, the Social Summit, an initiative by the Brazilian government to broaden the inclusion of Engagement Groups within the official G20 structure. The G20 Social will bring together 50,000 participants from civil society, social movements, and Engagement Groups ahead of the Leaders' Summit.

For the first time, the Finance Track developed an ongoing dialogue process with Engagement Groups that were previously associated only with the Sherpa Track. This culminated in a meeting at which Finance Track representatives received recommendations from all Engagement Groups, creating a new platform for these groups within the official G20 programme and increasing the influence of Engagement Groups within the G20 final document.

The third innovation is the Task Force for Global Mobilisation Against Climate Change, which aims to unify the scattered efforts to address climate change and "convey the commitment of member states to restore trust in the international capacity to respond to the climate emergency" (G20 Brasil 2024: 1).

In the context of the climate crisis, these goals may seem modest, but it is the first time that the Sherpa and Finance Tracks have joined forces to address this issue and increase the commitment of central bankers and economic ministers to the climate agenda. The re-commitment to international agreements such as the Paris Agreement and COP28 is a strategic step to encourage key countries to secure or even renew their previous commitments and serve as a bridge to COP30, which will also take place in Brazil in 2025.

We can therefore expect to see movement on the part of multilateral development banks to mobilise funding for clean energy initiatives. This is an important topic for the Global South, as most pollution is a consequence of the unequal relationship between consumption and production, in which commodities and industries from the Global South supply the demand of rich countries in the North.

Tax the Ultra-Rich: North Divided, South United

Together with the other initiatives, one of Brazil's most pressing topics is the wealth tax on the ultra-rich. This initiative, led by Brazil's minister of finance, Fernando Haddad, relates to the reform of global governance and institutions. It proposes a 2 per cent tax on the estimated number of 3,000 ultra-rich individuals to reach a better distribution of wealth and reduce the unequal and accelerated impact of climate change. The tax has a chance of reaching consensus among the members, which might be a barometer for relationships among economies.

The pursuit of a minimum tax for the ultra-wealthy is an initiative seeking to reduce international tax evasion, in which billionaires and companies abuse grey areas within the financial system to avoid fulfilling legal duties, such as offshore financial institutions. Despite some improvements in recent years, such as the minimum 15 per cent tax levied on multinational corporations, many ultra-wealthy people and corporations avoid paying taxes by operating via companies in countries that do not tax dividends (Alstadsaeter et al. 2023).

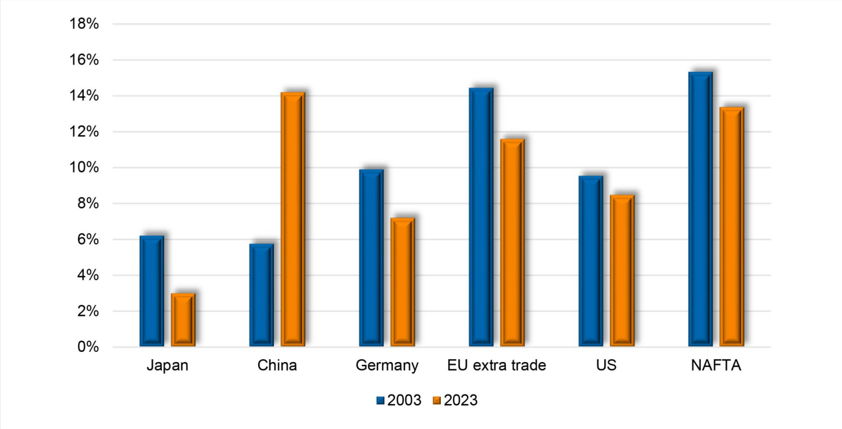
What has been called the "exorbitant tax privilege" is the use of offshores by multinational companies to maximise profits by avoiding tax. According to estimates, Ireland, Luxembourg, the Netherlands, Singapore, and Switzerland, well known as tax havens, are responsible for 47.7 per cent of the direct investment income received by the United States, 22 per cent for EU countries, and 14.5 per cent for other OECD countries (Wright and Zucman 2018).

On 16 August 2024 progress was made on this topic: the draft terms of reference (ToRs) for a UN framework convention on international tax cooperation was approved by a majority in the second session. While 110 countries voted in favour and 44 (including France, Germany, and Italy) abstained, 8 countries voted against: Australia, Canada, Israel, Japan, New Zealand, South Korea, the United Kingdom, and the United States. All the BRICS members voted in favour, together with most of the Global South – which, in the UN, comprise a clear majority. The UN voting could be a proxyfor what to expect from the voting on the wealth tax in the G20 Summit, as the measure is expected to face resistance from Australia, Canada, the US, the UK, South Korea, and Japan, who benefit the most from tax havens and fiscal evasion.

China Jumped onto the Stage of Trade, but the US Still Directs Finance

According to the WTO, in 2003 China accounted for about 6 per cent of world exports of goods, the same as Japan, while Germany and the US each accounted for almost 10 per cent. By 2023 China's share had more than doubled to 14 per cent, surpassing that of the US with 8 per cent and Germany with 7 per cent.

Figure 1. Share Merchandise, Exports



Source: WTO (2024).

Notes: EU extra trade refers to trade of EU merchandise with countries outside of the EU. NAFTA stands for North American Free Trade Agreement and includes data from Canada, the US, and Mexico.

With the opening policy implemented by China since the 1980s, companies have moved their production chain to that country, seeking better market opportunities and aiming to maximise profits. Consequently, US and European companies increased imports and trade of products made in China, creating some degree of interdependency (Marques and Schutte 2024). According to the Harvard Growth Lab, in 2021 more than 20 per cent of US and 30 per cent of European imports came from China. But the opposite is also true: the US accounts for 16 per cent and European countries for 22 per cent of Chinese exports. This means that China and major Global North economies are interdependent, so there is less power asymmetry regarding trade relations than previously assumed.

In recent years, the US and EU have moved into a "trade war" with China as part of a strategy to de-risk and diversify supply and manufacturing from China. But they are facing difficulties for two reasons: first, more than 40 years of investing in industries and services in China comes with an accumulated sunk cost, difficult to reorient in the short term; second, and perhaps most saliently, it is simply still very profitable to do business in and with China.

In trade, the world has become shaped by the tripolarity of the US, EU, and China; but in finance, things look different.

In May 2024 the US dollar represented 59.42 per cent of international payment transactions (excluding payments within the Eurozone), while the euro represented 13.09 per cent and the Chinese yuan only 3.12 per cent. The dollar's dominance has increased recently, whereas the yuan's power has also grown, though this increase has mainly been concentrated in intra-Asia commerce (SWIFT 2024).

Moreover, data for foreign exchange market turnover, which is frequently used as an indicator of the internationalisation of a currency, shows that in April 2024, the US dollar represented almost 80 per cent of foreign turnover, the euro approximately 30 per cent, while the yuan did not even reach 5 per cent, keeping with a falling trend (McGuire, von Peter, and Zhu 2024).

Maintaining its dominance over finance since the post-WWII era, the US is capable of imposing financial sanctions on rivals, as it has done with North Korea, Chile, South Africa, and Iran, among others. Now it is using its exorbitant privilege to weaponise the SWIFT payment system in the conflict with Russia (Cipriani, Goldberg, and La Spada 2023). The overconcentration of dollar power led the world to a dollar dependency, and the use of the currency as a threat is moving countries to search for alternatives, creating a strategy for de-risking from the dollar, in the same way that the EU is trying to de-risk from trade with China. The BRICS, which are all members of the G20 group, may be a viable alternative in this scenario.

In search of multipolarity and bringing more prominence to the Global South, the BRICS+ organisation has taken the important steps of de-risking from the dollar in trade among its members and agreeing to build an alternative for the SWIFT system. In this context, a de-concentration of the use of the dollar for cross-border payments is expected, even though the dollar remains dominant (Perez-Saiz, Zhang, and Iyer 2023).

The Global South in the Spotlight

The G20 is not an international organisation or implementing body; it does not have the status of an intergovernmental treaty, statutes, votes, or legally binding decisions. Its functionality is therefore directly linked to its ability to formulate, propose, and persuade. To fulfil its purpose, the G20 as a forum must strive to enhance its legitimacy and effectiveness (Hilbrich 2022; Slaughter 2019; Stone 2015).

The Brazilian G20 presidency has put some very important issues on the agenda, such as the fight against hunger, the energy transition, sustainable development, and the global tax on the “ultra-rich.” It has also promoted an innovative initiative to give space to civil society and social movements. Lula wants to be a bridge-builder, bringing a voice to the Global South while opening dialogue with the Global North and supporting multilateralism with sovereignty. But as he said at the BRICS+ summit, he would not accept “simplistic dichotomies,” meaning, political and economic decisions must transcend ideological polarisation.

At the recent BRICS+ summit in Russia, the Brazilian delegation vetoed the inclusion of Venezuela and Nicaragua but supported Cuba’s and Bolivia’s inclusion. The Kazan summit also demonstrated that, contrary to some expectations, the BRICS did not take any radical decisions in favour of Russia’s interests, evidence that Brazilian diplomacy in BRICS continues to seek to strengthen relations across the Global South while avoiding trouble with the Global North. Within the diversity of the group, the BRICS members are finding a path of common and shared interests, seeking to expand the number of members, promote intra-bloc trade, and build an alternative payment system, all while avoiding putting the interests of one member above those of the others.

Given this, we can expect one of two scenarios from the upcoming G20 Summit in Rio de Janeiro: one of fragmentation and division between the G7 and the rest of the world, or, one in which the G7 countries see the Brazilian presidency as an opportunity to take concrete steps towards a positive common agenda with the Global South. The second scenario could help rich countries and institutions such as the IMF and World Bank regain credibility by making commitments to the Global South and seeking cooperation and conflict resolution. This is an opportunity for the EU to find its own way, away from the US–China dichotomy and towards improved relations with the Global South.

In the end, we might not be able to return to the "old good world" that Germany's vice chancellor spoke of, but we might be able to build a new world with the Global South.

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