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The G20: its role and challenges

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The G20: Its Role and Challenges

Summary

Global politics were recently graced with a new, influential steering committee. Since the global financial crisis, the leaders of the 19 most important industrial and emerging countries, as well as the EU, have been striving to stabilise the world economy. Nevertheless, there are many questions about their endeavours:

- What authorises the G20 to take a leadership role?
- What influence do emerging countries have on overall concepts regarding development policy?
- Are the members of this new group of states primarily interested in advancing their national goals, or are they also acting for the global common good?

Because the G20 represents only part of the world's population and a good 173 countries are not members, ways should be found to include the latter's concerns. On a positive note, it should be mentioned that the G20 is increasingly seeking to dialogue with developing countries. This occurs through invitations of regional organisations such as the Association of Southeast Asian Nations (ASEAN) and the African Union to G20 summits and individual members' advisory processes with neighbouring states. But the G20 is still just beginning to open itself to the concerns of civil society forces and non-governmental organisations.

Thusfar, the results of the G20's development policy have been very mixed. On one hand, the equal participation of up-and-coming powers of the Global South such as China, India, Brazil and South Africa ensures that issues of global

development are coming into focus. On the other hand, there is a danger that emerging countries will not be ready to make any adjustments to their development paths in the name of future viability.

The decisions at the G20 summit in South Korea in November 2010 point in this direction. In principle, the G20's adoption of a development policy programme that focuses on the development friendly design of global economic parameters is to be welcomed. But the Seoul Development Consensus's one-sided emphasis on growth portends regression for the international development agenda because issues of environmental sustainability are not addressed.

In preparation for the Rio+20 summit in 2012, it would be wise for the G20 to reorient itself and campaign for the climate- and environmentally-safe transformation of the world economy, instead of backing resource-intensive production and consumption patterns that already unduly strain global ecosystems. On the international level, another challenge for the G20 is the coordination of national economic policies in order to create global conditions for sustainable economic development. Because of differing interests, economic structures and economic situations among the individual G20 countries, a coordination of economic policies will be difficult to achieve, as shown by the experiences in the areas of global macroeconomic imbalances and currency policy. However, the G20 should address the global economy's big challenges, in order to jointly solve at least some of its problems.

The G20's beginnings

The finance ministers at the G7 summit in Cologne in June 1999 recommended founding the G20 in order to strengthen the international financial architecture. The G20 was subsequently established in December 1999 as a regular forum for finance ministers and central-bank governors. The G20 was valorised when the heads of state and government met for the first time at the G20 summit in Washington in November 2008 to deal with the global economic and financial crisis. The G20 thus became the key forum for the most important industrial and emerging countries to discuss major issues of international currency and financial policy, as well as other important global challenges.

Box 1: The G20's composition

The G20 is a group of finance ministers and central-bank governors and, since November 2008, the leaders of 19 countries: Argentina, Australia, Brazil, Canada, China, Germany, France, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom, and the USA. The European Union is the 20th member, represented by the Presidents of the European Commission and the European Central Bank. Some ex-officio members also take part in G20 meetings to support collaboration with international fora and institutions. These include the Managing Director of the International Monetary Fund (IMF), the Presidents of the World Bank and of the IMF's Economic and Financial Committee, as well as the joint World Bank-IMF Development Committee.

The G20's pressure for legitimacy

Representing approximately two-thirds of the world population, the G20 has considerable weight in the global economy, as its member countries produce about 90 percent of the global economic output and have a share of around 80 percent of world trade. Yet the G20's legitimacy is not unquestioned since 173 countries do not belong to the group. It remains to be seen how the interests of the non-members can be factored in; Norway's Foreign Minister, Jonas Gahr Støre, has described the G20 as one of the biggest setbacks for international cooperation since World War II.

The integration of regional organisations presents one way to consider non-members' interests. Against this background, the South Korean G20 presidency, like other earlier presidencies, invited ASEAN, the African Union, the New Partnership for Africa's Development (NEPAD) and the Singapore-led Global Governance Group (3G) to attend. Since invitations to the G20 are left to the host, there is no institutionalised framework for interaction with non-members. The same is true for the G20's interactions with civil society groups, the private sector and the United Nations.

The G20's role in the multilateral architecture

The G20's relationship to other formal and informal international institutions and its role in the multilateral architecture has thusfar remained unclear. Because the G20

amounts to bypassing legitimate international organisations like the United Nations, critics see in it a case of the 'law of the jungle'.

Decisions of the G20 are also often criticised for not being legally binding. Yet the G20 does not regard itself as a decision-making body, but rather as a platform for dialogue to facilitate the negotiation of compromises in various global policy areas – a kind of preliminary stage to more formal resolutions in legitimate global organisations such as the United Nations. One example of this approach was the governance reform of the International Monetary Fund (IMF) negotiated at the Gyeongju meeting of the G20 finance ministers and central-bank governors a few weeks before the Seoul summit in November 2010 – that was adopted by the IMF's executive board soon thereafter.

In this way, the G20 can contribute to identifying and prioritising global public goods while also taking into account development policy goals such as ending poverty and social exclusion. These would require the development of innovative sources of finance, such as through a financial transactions tax (taxing all cross-border finance streams) or the financial activity tax favoured by the IMF that focuses on 'excess' returns.

The G20's development policy mandate and performance

Development policy presents another important area of G20 duties that should help the G20 gain acceptance despite the fact that most of the developing countries are not members and the G20 thus lacks legitimacy as a global decision-making body. This is because in many respects, developing countries are significantly affected by G20 decisions. Beyond that, the developing and emerging countries that are not G20 members are steadily gaining importance, and in the long run, they have the greatest potential for growth.

Although the focus of the Seoul summit was clearly on trade and currency conflicts, the results of the meeting regarding development policy are noteworthy. The G20 countries endorsed a development agenda (the Seoul Development Consensus for Shared Growth) and a multi-year action plan, as well as measures to fight corruption. In addition, voting rights in the IMF were redistributed in favour of emerging countries.

The Seoul Consensus adds accomplishment of the Millennium Development Goals (MDGs) to the G20's obligations, but unlike the usual donors-dominated development-programme agenda, it aims to create favourable circumstances for the global economy instead of just the usual new aid packages. As envisaged in the Korean model, the G20 intends to encourage developing countries' growth prospects by concentrating on structural 'pillars' such as infrastructure, private-sector investment, human-resources development, financial inclusion, food security, mobilisation of domestic resources and knowledge sharing.

Alas, the Seoul Consensus action plan reflects the G20's one-sided orientation towards growth and its belief in the private sector's potential to combat poverty and promote inclusive development, and doesn't sufficiently consider environmental limits to growth. The G20's voluntary commitment to promote and implement international standards for sustainable investment is praiseworthy – yet these standards should also apply to the newly established advisory body for infrastructure financing.

The committee's work should be monitored with regard to effects on the environment and social ramifications. In this area, too, the Seoul Consensus's explicit renunciation of the long-held 'one size fits all' formula should be understood as a declaration of intent to consider individual countries' unique starting positions. Although widening the national scope regarding formation of development strategies should be hailed, it must not be misunderstood as a *carte blanche* for catch-up industrialisation at the expense of global sustainability. The emerging countries in the G20 should also orient themselves on the model of ecological and social sustainability developed at the United Nations over the last decades.

There is still work to be done on the aid architecture, including integrating all relevant players and eliminating the duplication of mandates by various institutions. Instead of competing with other multilateral actors, the G20 should take on additional tasks using a clear division of labour, so as to not further exacerbate the global system's institutional fragmentation. One central function of the G20 could be to negotiate compromises between member countries – for example, regarding global climate policy – that would then be relayed to multilateral institutions such as the United Nations. Another complementary achievement of the G20 could be the creation of open and flexible platforms where international actors would meet to share experiences and to coordinate their concerns, such as international water and energy policy, or financial market regulation. The G20 must not just pass along problems; it should also take responsibility for bringing together different actors and formulating collective approaches to solutions.

Problems and challenges

In addition to these challenges to implementing its development-policy mandate, one of the G20's most important challenges is to coordinate economic policy at the international level in order to provide the room for long-term sustainable economic policies. To facilitate balanced and sustainable global growth and development, the short-term economic goals of individual countries that reflect their narrow national interests should recede into the background.

At first, it seemed that the global financial crisis would make a positive contribution in this regard. In the face of the challenges posed by the global financial and economic crisis, the G20 appeared to be unusually united in November

2008 in Washington and in April 2009 in London, and was able to adopt a common position on crisis management – including, for example, an agreement on fiscal stimuli programmes to compensate for the fall in demand and abstention from protectionist measures. Yet obvious disagreements did come to light at the summits in Pittsburgh in September 2009 and in Toronto in June 2010. Because the crisis affected G20 countries differently and they subsequently pursued different economic policy approaches, it was not always easy to agree on a common position on issues such as financial market regulation or fiscal and monetary policy. Accordingly, the G20 communiqués only reflected the lowest common denominator.

Difficult subjects were relegated to other institutions and fora: A good example of the effort to coordinate with multilateral organisations was the commissioning of the Financial Stability Board at the Bank for International Settlements (BIS) to elaborate recommendations for regulating banks. The G20 is using the same approach for issues of the global macroeconomic imbalances that involve open dissent between the countries with trade surpluses and those with trade deficits. In order to tackle these at the Pittsburgh summit, the so-called Mutual Assessment Process (MAP) was initiated, in which the IMF is tasked to investigate if national economic policies are consistent with the G20's goal of balanced and sustainable growth for the global economy.

The subject of exchange rates was heatedly discussed in the context of global imbalances. For years, the US has been trying to get China to stop pegging its currency, the yuan, to the US dollar, and to allow it to appreciate. When, just before the Seoul summit, the US Federal Reserve announced a new round of expansionary monetary policy ('quantitative easing II') that was intended to prevent deflation, the US in turn was reproached for seeking to lower the dollar's exchange rate and for not honouring its responsibility as the issuer of the global reserve currency. Although the Seoul Action Plan declared among other things that G20 countries would refrain from competitive devaluation and work towards more market-determined exchange-rate systems, the G20 did not reach any true rapprochement – let alone agreement – on the currency controversy.

Some progress regarding global imbalances was made at the meeting of finance ministers and heads of central banks in February 2011 in Paris, where an agreement was reached on a catalogue of indicators to help identify and tackle economic imbalances as part of the MAP. Besides public debt, fiscal deficits, the private savings rate and private indebtedness, the indicators also include the external imbalance composed of the trade balance and net investment income flows and transfers, taking into account exchange rate, fiscal, monetary and other policies. But exactly how these indicators are supposed to be applied remains open.

The G20's role in responding to global economic challenges

Although the G20's declarations about preventing a currency war caused by attempts at competitive devaluation or its lack

of consensus about how to solve global imbalances might be disappointing, in view of their complexity it would be very unrealistic to expect quick, mutual solutions for these and other controversial problems. China and the US have been wrangling over the Chinese exchange-rate policy for a decade already. And in the area of financial market regulation, critical national interests are at stake – after all, the banks and financial centres of G20 members are in competition. National governments sacrificing the interests of their domestic financial industries is not on the cards, even though this would improve the stability of the global financial system.

Yet despite apparent differences, the G20 should continue to address such thorny issues. Commissioning organisations like the BIS and the IMF to formulate attempts to address difficult subjects can lead to cooperative and viable solutions, such as the

Basel Committee's recommendations for the development of rules on banks' capital requirements that were unanimously adopted by the G20 members at the Seoul summit in November 2010.

The G20's willingness to confront the big challenges to the global economy is evident in the ambitious agenda set for the year 2011 by the G20's French presidency. Besides reforming the global currency and reserve system and managing international capital flows, France also wants to tackle the volatility of international commodity and food markets. Given the existing differences among the G20 members, it would be unrealistic to expect rapid and comprehensive results. But to not even try would be tantamount to capitulating to the pivotal problems of the global financial and economic systems.

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