



# BULLETIN

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## New Role of G20 in the Global Economic Governance

by Artur Gradziuk

*At the Pittsburgh summit a decision was taken to designate the G20 as the premier forum of international economic cooperation. The group, which since 2008 has been meeting at a heads-of-state level, is to work on major issues relating to the global economy. The elevation of significance of G20, besides being a response to complaints about non-representativeness of G8, addresses the need to strengthen cooperation among the world's most important economies. Poland has no prospect of becoming a G20 member, yet it could influence the group's activity by playing an active role in the process of working out the European Union's position.*

**Original G20 Formula.** G20 as a forum of finance ministers and central bank governors was established in 1999, drawing on the formula of meetings of leaders of the world's largest economies (G7) held regularly since 1975. At the September 1999 meeting, the G7 finance ministers resolved to establish "a new mechanism of informal dialogue in the framework of the Bretton Woods institutional system, to broaden the dialogue on key economic and financial policy issues among systemically significant economies and promote cooperation to achieve stable and sustainable world economic growth." The principal reason for the establishment of G20 was to find a common response to the 1997 financial crisis. At the same time, the changes underway in the structure of the world economy and the growing importance of the emerging markets made modification of global economic governance necessary, in particular in the context of mounting allegations that G7/G8 was non-representative. The G20—comprising 10 industrialized economies (the G8 states, Australia and the European Union) and 10 emerging markets (Saudi Arabia, Argentina, Brazil, China, India, Indonesia, Mexico, the Republic of Korea, the Republic of South Africa, Turkey)—was more diversified geographically and economically than G8, its members representing jointly close to 90% of the world's GDP and 75% of the global population. While no formal criteria for inviting states to join G20 were set up, a principle was adopted that the members should be systemically significant to the global economy and that the composition of the group should be regionally balanced. With four EU members belonging to G7 joining G20, other European states were excluded to avoid an over-representation of Europe. However, invitations were issued to the European Union represented by a country holding its presidency and to the ECB, so as to offer smaller EU states indirect participation in the G20 meetings.

The operation of G20 was patterned after that of G7. The group had no permanent secretariat, no charter, no voting on issues, and it did not adopt binding decisions. Its meetings had the character of an informal dialogue conducted with the main objective of arriving at a consensus on certain issues important to the global economy on which no agreement had been reached on other forums. Initially meetings were focused on the prevention of financial crises and the mitigation of their consequences. This approach resulted, among other things, in support for the dissemination of international standards to improve the transparency of financial system institutions. The dialogue conducted on the G20 forum helped in curbing the financing of terrorism, money laundering and tax evasion, contributing to furthering the process of reforming international financial institutions. Despite its informal character, the G20 filled an important place in the global governance, influencing the work programs not only of the institutions which participate *ex officio* in the group's meetings (the IMF, the World

Bank, the International Monetary and Financial Committee, the Development Committee) but also of other international institutions.

**Increased Rank of G20.** In November 2008, after nearly a decade of meetings at the level of ministers and central bank governors, the group members met for the first time at the level of heads of state and government. The financial crisis, which by the second half of 2008 had an impact not just in the country of its origin (the U.S.) but throughout the global economy—warranted elevating the rank of G20. The spread of the financial crisis, reflected in plummeting demand, international trade and some commodity prices and in the outflow of capital from the emerging markets and the developing countries, was felt hard even by many countries with stable banking systems. The scale of the crisis and its global nature called for an unprecedented coordination of actions. The G20, which—unlike the G8—includes also major emerging economies, was recognized as the most appropriate forum on which to decide on ways to bring recovery and to prevent the recurrence of crises in the future.

The first two G20 summits, in Washington in November 2008 and in London in April 2009, demonstrated that the world's major economies were capable of forging a consensus in response to the crisis, and of developing a common vision of reforms in the international financial system, as confirmed by the global plan for recovery and reform adopted in London. The success of both summits implied that in the nearest future the G20 would be the forum on which to agree the most important issues concerning the global economy. At the Pittsburgh summit a historic decision was adopted to make G20 the prime forum for international economic cooperation of the group's member states.

**Prospects.** The group's principles of operation will be agreed at the next summit. The Pittsburgh decision leaves no doubt as to where the most important decisions on the global financial and economic system will be taken. The three G20 summits held to date produced decisions concerning the international financial system and guidelines for the leading institutions of global economic governance: the IMF, the World Bank and the Financial Stability Council. As for the fourth major international economic institution, the World Trade Organization, the G20 decisions concerned it to a somewhat lesser extent—yet the group's expressly stated will to conclude the Doha round could have more bearing on the progress of negotiations than G8's earlier declarations had, because the major parties to these negotiations are G20 members. A positive assessment of G20's performance efficiency might be a factor leading in a near future to agenda enlargement by other important issues, such as energy, climate change or development assistance. This would enhance the group's position as the central institution of the global economic order. The success of that new initiative will depend primarily on the group members' consensus on key issues; on their support for institutions of global governance, in particular for those of the UN system; and on their ability to compromise on key elements of important international agreements under negotiations.

The recognition of G20 as the main forum for international economic cooperation is a response to a shift in balance in the global system reflected in the growing importance of the emerging markets. On matters concerning the global economy, the G20 is to permanently replace the G8. The latter will focus on non-economic issues, i.e. most likely on international security and development assistance. How the G8's will function in practice in a view the role of the G20 has been elevated can be assessed in June 2010 at the earliest, at a meeting of the two forums in Huntsville. It should be noted, however, that the major initiatives adopted at recent G20 summits had originated chiefly from the United States, the United Kingdom, Germany and France, and that in the nearest future the G8 states can be expected to play the key role on the G20 forum.

The replacement of G8 with G20 solves to a certain extent the dilemma of non-representativeness that haunted the G8. Unavoidably, there will be a debate on the composition of the group. The inclusion of more EU states, including Poland, is unlikely, mainly because of complaints that the EU is already over-represented in major international institutions, including the G8 and G20. For states such as Poland, the way to further their interests on matters addressed by the G20 is through their EU membership. This requires active participation in intra-Union debate on subjects on the G20 agenda, constructive contribution to the articulation of EU position and, if necessary, the forming of intra-EU coalitions when important solutions from the point of view Polish interests are being developed. With no prospects of membership, only in this way can Poland influence decisions taken by the G20.