THE POLISH INSTITUTE OF INTERNATIONAL AFFAIRS

BULLETIN

No. 99 (175) • July 1, 2010 • © PISM

Results of the G20 Toronto Summit

by Artur Gradziuk and Marcin Koczor

The most important decisions of the G20 Toronto summit (26–27 June 2010) address the necessity to combine the fostering of economic recovery with repairing public finances. The leaders point to the need for closer coordination of activities among the world's largest economies, even though differences persist on the methods, scope and pace of certain reforms. For this reason, decisions on certain doubtful issues have been postponed to the G20 summit in Seoul (11–12 November 2010).

The G20 Toronto summit for the first time had a new function—that of the premier forum for international economic cooperation. This new role of G20 (set at the Pittsburgh summit in September 2009) had influenced powerfully the G8 summit in Huntsville, which preceded the Toronto meeting. Unlike in previous years, this G8 summit was not attended by representatives of the largest emerging economies (Brazil, China, South Africa, Mexico, India) and its agenda was dominated by development and global security issues.

Economic Policy. For the EU, the adoption by the G20 of deficit and public debt reduction commitments was the most important of all the proposals put before the Toronto summit. This being the case, the European Council and European Commission presidents, who represented the EU, found satisfactory the developed economies' commitments to at least halve deficits by 2013 and to reduce or stabilize debt by 2016. A statement in the final declaration that fiscal consolidation should be "growth-friendly," its pace tailored to the rebound of growth in the different states, acknowledged a request of the U.S., which in the lead-up to the summit had highlighted this necessity.

The implementation of these decisions will be the key test of the efficacy of coordination within the G20, which extends to structural reforms of the goods, services and labor markets designed to enhance economic competitiveness. The foundation underpinning the coordination is the Framework for Strong, Sustainable and Balanced Growth adopted at the Pittsburgh summit. This process covers three phases: the agreeing by the G20 of general aims and directions of action; the identification of appropriate policy frameworks for the implementation of the same; and the assessment of efforts, with the support of the IMF and the World Bank. This structure is similar in its logic to the EU's open method of coordination and it could eventually develop into a mechanism for "soft" coordination of economic policies at the global level. According to an IMF study prepared for the purposes of this process, full implementation by the G20 members of ambitious fiscal and structural reforms could increase (under an optimistic scenario) global GDP by 5.75% (some $4,000bn) and lead to the creation of 52 million jobs in the middle term.

In the absence of sanctions, the effectiveness of coordination will depend on the different states' political will to implement reforms and on the effectiveness of monitoring and assessment. In the case of the EU, having these commitments properly situated in the internal economic policy coordination system, which is currently in the process of being strengthened, will be one of the conditions for their fulfillment.

Financial System. From the EU's perspective, a lack of common consent to the imposition of a banking levy system should be seen as a disappointment. The participants of the summit noted this proposal in the final declaration barely as one of several options capable of helping solve financial sector problems in the future—a wording due, among other things, to resistance from Canada, Australia and India. The lack of a uniform approach notwithstanding, the levies can be imposed in the EU countries (under decisions of the European Council of this June, except for the Czech Republic) and in the U.S.

Neither did the Toronto summit bring a breakthrough on the acceleration of regulatory efforts. Despite the consent to increase capital and liquidity requirements for banks (the “Basel III regulations” drafted by the Basel Committee on Banking Supervision) to better protect banks against the consequences of crises, the implementation of the new rules will be delayed. Final arrangements in this regard are to be agreed at a G20 summit in Seoul. Also, little headway was made on the strengthening and convergence of accounting standards. The development of final solutions in this area will depend largely on the determination of the U.S. and of the EU, which have both been implementing internal regulatory reforms in this sector. On the eve of the summit, the U.S. Congress reached an general agreement on the shape of this reform (the Dodd-Frank bill). The reform is to include, among other things, stricter oversight of systemic risks, the imposition of additional constraints on banks’ proprietary trading, and the creation of a central clearing house for OTC derivatives trades. The EU’s agenda for financial sector reforms, while apparently more comprehensive than the U.S., is far from completed yet. This is due to differences between the Council and the European Parliament on certain issues, including a financial supervision package and a directive on alternative investment fund managers (e.g. hedge funds). To expedite the regulatory reform and to step up the EU’s activity in this respect on the G20 forum will constitute important challenges for the Belgian Presidency of the EU Council and for the permanent president of the European Council.

International Financial Institutions. The G20 leaders are of an opinion that international financial institutions have played a positive role in counteracting the consequences of the economic crisis and in restoring the stability of the global economy. This was due to significant increases in these institutions’ capitals, by close to $1,000bn in critical financing, and over $250bn in trade finance so as to restore access to credit at the time when private banks were cutting down lending. In Toronto a decision was taken to increase the capital base of multilateral development banks, in particular of the African Development Bank, whose capital is to be increased by 200% to triple its annual lending levels to strengthen capacity to achieve the Millennium Development Goals. A decision was also taken on a full cancellation of Haiti’s debt to international financial institutions to help this country recover from devastation in the earthquake.

World Bank and International Monetary Fund reforms are ever-present issues at G20 summits. With regard to the World Bank, voice reforms according to earlier G20 guidelines were introduced last April, resulting in an increase in the developing and transition countries’ voting power (e.g. China’s by as much as 1.65 percentage point). Poland’s voting power has also increased, from 0.69% to 0.73%.

However, a decision on a new distribution of quotas and votes in the IMF is yet to be adopted. The G20 leaders called for stepping up work on this reform, including at least a 5% increase in the share of the emerging and developing markets’ in the quota system. A higher transparency of selection for senior positions in the IMF was also promised. These reforms (which are scheduled for completion before the November G20 summit) are a particularly difficult subject for the European states, which stand to see their quotas and votes reduced and whose representative usually held the position of the IMF chief.

Other Issues. Like the G8 before it, the G20 emphasized, in a time-honoured way, its support for bringing to conclusion the WTO Doha Development Agenda. However, with no target date indicated in the Toronto declaration, this amounts in fact to a waiver of the goal adopted at last year’s G8 summit in L’Aquila, to wind up the Doha round by the end of this year. The very general wording of the declaration undermines the prospect of reaching an early agreement in this matter. On the positive side, the G20 undertook to refrain till the end of 2013 from imposing new barriers on trade and investment. The WTO, OECD and UNCTAD, which publish on a regular basis reports on new trade and investment instruments adopted by members of the G20, are to continue monitoring the fulfilment of these commitments.