



The G20 and broader multilateral reform

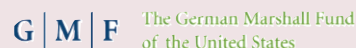
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>> The Group of 20 (G20), at the level both of finance ministers and of leaders, is but one of several international institutions that have arisen to govern the 21st-century world. Its task is not to compete with established multilateral organisations, or to rival or replace the newer informal, plurilateral bodies that have emerged. Rather, it is to cooperate with such institutions to govern an interconnected, complex, uncertain world.

In these tasks, the G20 has performed best in its relationship with the old Group of Eight (G8) major market democracies. The G8 is a body that has served as the parent of, model for and ongoing source of leadership within the G20. The G20 has also done well in forging a working relationship with a growing array of functional organisations to help analytically support and implement the decisions it has made. It has, however, been less successful in reforming those organisations, above all the international financial institutions (IFIs) that have been central to the G20's core mission of providing financial stability and restoring broadly shared recovery when global financial crises erupt. In addition, the G20 is still struggling to forge an adequate relationship with the United Nations, let alone reform that body to meet the needs of the new age.

THE G8–G20 RELATIONSHIP

There continue to be the assumption and argument among some analysts that the new G20 will – or at least should – replace the old G8, due to the former's inbuilt advantages of representativeness, diversity, concerted power and the legitimacy and effectiveness that presumably flow from



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»»»»» these. However, the two bodies are far more likely to coexist and cooperate for many years to come. The G20 is a creation and extension of the G8, having been established formally by the G7 finance ministers and G7 Summit in 1999. The two have followed a similar institutional trajectory, starting at the level of finance ministers and leaping to the leadership level in response to the global crisis. Both have reached out to embrace additional participants, with the G20 adding Spain and the Netherlands as ongoing participants when G20 summitry began in 2008 and inviting other countries on an ad hoc basis to increase the global representativeness of the forum.

Moreover, G8 members served as host and chair of the first three G20 finance ministerial meetings from 1999 to 2001, and hosted and chaired or co-chaired the first four G20 summits: Washington 2008, London 2009, Pittsburgh 2009 and Toronto 2010. Both the G8 and G20 have made extensive references to one another in their communiqués, always in supportive ways.

They have explicitly divided the policy universe, with the G20 focusing on finance and economics and the G8 on security, development and social concerns. However, the agendas of the two have overlapped in several areas – notably development, trade, labour and social protection, terrorist finance, food and agriculture, climate change, environmental protection, corruption and even health. Indeed this list includes macroeconomic policy coordination, which dominated the opening lunch among the leaders at the 2010 Muskoka G8 Summit on June 25 as well as the Toronto G20 Summit on the following two days. In these areas the two bodies have reinforced each other rather than competing for control or seeking to govern in different ways.

The recently completed G8 and G20 summits, held in tight tandem in June 2010 in Canada, showed that the two groups can work together very well. The decision to hold both a G8 and G20 summit in France in 2011, with the G8 on

its usual late spring or summer schedule and the G20 in the fall (as has been the traditional timing for the finance ministerials), shows that all members agree that the two forums are needed for the foreseeable future. On other issues, particularly a global bank levy, the outcome has been different because the issue was dealt with at the broader G20, rather than at the narrower, more European-dominated G8.

In order to strengthen the relationship between the G20 and the G8, in ways that make the G8 work more for the G20, it would be useful to have the chair of the G20 summit participate as an invited guest in all appropriate sessions of the G8 summit each year. More broadly, the G20 could usefully develop a relationship with its fellow plurilateral summit institutions where leaders of developed and developing countries gather regularly as equals, notably the Commonwealth, la Francophonie, the Organisation of the Islamic Conference and the Asia Pacific Economic Cooperation Forum.

There are also clear cases – such as money laundering – where the G20 has succeeded in providing effective global governance in an area where the G8 had long tried and largely failed.

THE G20'S RELATIONSHIP WITH FUNCTIONAL ORGANISATIONS

Over its four summits, the G20 has also forged a strong and productive working relationship with an increasing array of multilateral organisations across several functional domains. Building on the precedent of the G8 in 1996 and more frequently since 2001, the G20 has included the International Monetary Fund (IMF) and World Bank as core members. When it leapt to the leaders' level in November 2008, the G20 added the UN. The G20 summits have since included a widening range of increasingly diverse organisations, almost equalling the G8 summits in this regard. In June 2010, nine international organisations participated in the G20 summit, while only two – the African Union and the New Part-

nership for Africa's Development (NEPAD) – took part in that of the G8.

There are certainly limits to the participation of multilateral organisations, especially in a group where the leaders of 20 systemically significant countries and their guests from invited countries seek to have an open, decision-oriented dialogue in a meeting that lasts less than one working day. However, at Toronto the G20 moved to make the group function more like the G8 long has, allowing only country leaders along with the UN's secretary general Ban Ki-

moon to sit at the main table and having the heads of the multilateral organisations on hand in the second row to provide technical advice when asked.

In their communiqués that encode their collective decisions, the G20 summits have made extensive and increasing reference to a broadening array of multilateral bodies,

offering leadership, guidance and direction far more than reactive support. The G20 offered leadership to five bodies at Washington (with a net total of 13 leadership references), eight bodies at London (with a net total of 19), 20 bodies at Pittsburgh (with a net total of 36) and 14 bodies at Toronto (with a still robust net total of 23). Many of the organisations led, noted or supported by the G20 have a mandate and agenda that reach well beyond finance and economics alone. At the Toronto Summit, the Financial Stability Board (FSB) replaced the IMF and World Bank as the G20's international institutional instrument of choice.

The specific working relationship of the G20 with these bodies has taken several forms. The

G20 has successfully supported the desire of the World Trade Organisation (WTO) to combat protectionism in recessionary times, if not yet helped conclude the badly overdue Doha Development Agenda negotiations. The G20 has relied on multilateral organisations for technical expertise and analytical validation, for example, having the International Energy Agency (IEA) report on the eve of the Toronto Summit that the world could save more than \$500 billion if countries complied with the G20's commitment to eliminate inefficient fossil fuel subsidies. It has also invited the WTO to monitor the compliance of G20 members with their key trade commitments and has increasingly asked other functional organisations to do so in their particular fields.

The G20 has also looked to multilateral organisations to help it comply with its commitments, seemingly with some success. In the six assessed commitments made at the first three G20 summits where the G20 referred to the core international organisation in the commitment, compliance with the commitment by the time of the next G20 summit was +0.32 (on a scale from -1.00 to +1.00). In the seven assessed commitments where there was no such reference, compliance has been only +0.28. In all, the G20 has not engaged in forum shopping or risk spreading among international institutions, referring to the functionally appropriate core international organisation on seven occasions and to another international organisation only once.

To improve this G20–multilateral working relationship, the G20 could extend participation at its summits to the executive heads of the UN galaxy's environmental and food-agriculture bodies, given the permanent, prominent part these issues now occupy on the G20's built-in agenda. The G20 should incorporate the functionally core multilateral bodies into more commitments that it makes. And it should add independent civil society assessments of G20 members' compliance with those commitments.



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»»»» **THE G20 AND THE INTERNATIONAL
FINANCIAL INSTITUTIONS**

The G20 has experienced more difficulty in reforming the IFIs that stand at the core of the G20's central agenda in the field of finance and economics. The G20's one great success has come in extending the membership, strengthening the resources and expanding the mandate of the Financial Stability Forum. This plurilateral body, created by the G7 as the G20's technical twin in 1999, was transformed into the FSB and its membership expanded by the G20 at its second summit, in London in April 2009. However, like the G20 itself, the FSB remains an exclusive club.

The G20 has also had some success in raising new resources for the regional development banks, the World Bank and the IMF. In the case of the IMF, the standout success was the decision at London to raise \$1.1 trillion in new resources largely at or through the IMF. This involved the historic allocation of \$250 billion in special drawing rights.

The G20 has also decided on several governance reforms, notably that the head positions at the IMF and World Bank will henceforth be based on merit rather than the exclusive national constituencies composed of the globally dominant powers of 1944. However, no actual changes at the Bretton Woods bodies in accordance with this new principle have yet taken place.

Also incomplete is the G20's relationship with the IMF in regard to macroeconomic policy surveillance, notably through the mutual assessment process created by the Pittsburgh G20's Framework for Strong, Sustainable and Balanced Growth. Although the IMF staff has responded well to the G20's request for assistance, it remains unclear how G20 members will accept and adjust to the analysis and advice offered by an unreformed IMF and how G20 directions to the IMF staff will relate to the guidance of the IMF's own executive board. Making the G20 the formal ministerial council of the IMF is one pro-

posed solution that has found no favour among the G20 or at the IMF's existing executive board.

Most importantly, the G20 has had mixed success on the critical issue of voice and vote reform of the IMF. Its finance ministers did agree on the first installment, although they have not yet succeeded in having all G20 or IMF members legislatively ratify the resulting 2008 IMF agreement in order for it to take effect. The G20 summit has agreed that 5 per cent of the quota at the IMF would be transferred to the rapidly rising new powers led by China, India and Brazil. But after its first four summits, the G20 has not yet persuaded the overrepresented continental European countries to reduce their shares to allow the critical second component of this zero-sum bargain to be made. The June 2010 Toronto Summit, coming nine months after Pittsburgh, made no advance in this regard. There is thus an enormous burden placed on the November 2010 G20 summit in Seoul for this deal to be done if the early 2011 deadline is to be met. Even then, there remains the task of having all IMF members ratify the change by revising their relevant legislation at home. The delays thus far raise the question of how long the rising members of the G20 will wait while they continue to cooperate within the G20 on other things.

An additional challenge that the G20 has not yet overcome is guiding the non-governmental professional bodies it needs to adjust to accomplish its work. Here the clearest case is accounting, where a common set of strengthened global standards is required for all the other domestic financial reforms to be comprehensible and comparable across countries to citizens, market participants and governments alike. The G20 has agreed that in the future the international financial reporting standards governed by the International Accounting Standards Board should be adopted by all countries, including the United States – where a unique system governed by the Financial Accounting Standards Board endures. While the G20's moral suasion has resulted in some progress, there is no clear end in sight as the 2012 deadline draws near.

To strengthen the G20-IFI relationship, several moves could be made. A G20 civil society forum could be established among relevant professional stakeholders to advance understanding on accounting standards and similar issues dealt with at the FSB. The G20-generated resources for the IFIs could be made conditional on the IFIs using them for defined G20 priorities, including those on food, the environment and social safety nets. The framework could include variables monitoring outcomes here. And the G20 could create incentives to complete voice and vote reform at the IMF in the coming months, starting by offering the Netherlands and Spain a more assured place in G20 governance in return for reducing their quota share at the IMF.

THE G20-UNITED NATIONS RELATIONSHIP

The largest challenge faced by the G20, and the one where it has made the least progress, is in establishing a mutually beneficial relationship with the UN. The UN initially considered the advent of the G20 summit as a major threat, in part because it offered the world a broader, more balanced, more diverse, more permanent global steering group than the unreformed United Nations Security Council (UNSC), controlled by the Permanent Five (unchanged since 1945). These suspicions were compounded by the G20's success in attracting the direct participation and enthusiasm of the leaders of the world's most systemically significant countries and mobilising massive funds for the key task of global development, which the UN considered a core competence of its own. A particular threat came from the fact that the G20 in both 1999 at the ministerial level and 2008 at the summit level instantly admitted as equals several powers, in particular Japan, Germany, India and Brazil, which have long sought permanent seats on the UNSC but whose claims have been rejected every year since 1945.

Nonetheless there is a basis on which a better relationship can be forged. At the first G20 sum-

mit in Washington, US president George Bush invited the UN secretary general along with the executive heads of the IMF and World Bank to lead off the first dinner session with opening statements. The UN secretary general has participated at every G20 summit. His personal representative participated in the final two critical preparatory meetings for the Toronto Summit. The UN was given an explicit mandate by the London Summit to produce a vulnerability assessment on how the global economic crisis and the G20's remedial measures were affecting the poorest in the world. Moreover, G20 chairs have conducted an ever more extensive programme of outreach with the UN at or near its New York headquarters. Finally, Ban Ki-moon was invited to sit at the table with the G20 leaders at the G20 Toronto Summit, whereas, very unusually, he was not invited at all to the G8 Muskoka Summit the day before.

More ambitiously, some hope to see the G20 as a catalyst of UN reform, including Security Council reform. Thus far there is no sign that the advent and achievements of G20 summitry have inspired the UN to change its own governance in any meaningful way. Yet there are ways to strengthen the working relationship between the two.

There are many proposals for strengthening the relationship between the G20 and the UN. Four stand out as promising. The first is to give the UN secretary general a permanent equal status at the G20 table in recognition of the fact that in today's world, the central challenges are systemically interconnected rather than functionally discrete, and global rather than regional. Second, the chair of the General Assembly could be invited to participate in the G20 summit every year, both to represent the full global community and to expand the diversity of the G20 further still.

Third, as a reciprocal step, the chair of the G20 summit could be invited to serve as an additional member of the UNSC every year. This could be done using the existing legal provi-



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»»»»» sions that enable a country to be at the UNSC table when the deliberations of the council affect that member.

The fourth step is to focus the Seoul and subsequent summits squarely on the full agenda set by the UN's Millennium Development Goals (MDGs) and the extensions such as climate change control and Haiti's reconstruction, recently identified by UN secretary general Ban Ki-moon and the World Bank's Robert Zoellick. Doing so would, in the interests of accountability, give the G20 summit a multilaterally approved set of targets and timetables in the development and social domains comparable to those it has created for itself in the finance and

economic fields. It requires reinforcing more directly on the G20 summit agenda the hitherto missing four MDGs dealing with health and the environment in all its dimensions, giving the UN a key role in the G20's new development working group and using the G20's Seoul Summit to reinforce, with resources, the key conclusions reached at the UN's MDG conference in September 2010. In all cases, such reforms should proceed with a central focus on how G20 governors can strengthen the democratic values that have long been at its core.

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