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## G20, IMF, and WTO in Turbulent Times

Legitimacy and Effectiveness Put to the Test

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**G20, IMF, and WTO in Turbulent Times:  
Legitimacy and Effectiveness Put to the Test**

The global economic and financial crisis of 2007–2009 was the worst of its kind since the Great Depression of the 1930s. After the investment bank Lehman Brothers declared bankruptcy in September 2008, the global financial system stood on the brink of collapse. According to the International Monetary Fund (IMF), the severe turmoil in financial markets reduced global economic output (understood as the sum of all gross domestic products, GDP, worldwide) by 0.5 percent, and cut the GDP of the industrialized countries by as much as 3.4 percent. The impact on international trade was particularly severe: the volume of trade in goods and services dropped by 10.9 percent in 2009. Foreign direct investment (FDI) was also affected: from 2008 to 2009, global FDI declined by 38.7 percent, according to the United Nations Conference on Trade and Development (UNCTAD).

The crisis posed an enormous challenge to national economic policy-making and called fundamental principles of international economic governance into question. It became necessary to coordinate national measures to bail out banks and to stimulate the economy; to address short-term liquidity problems and long-term global imbalances; to stabilize volatile capital flows; and to reduce protectionist measures. In addition, the crisis brought about lasting changes in the international economic framework and acted as a catalyst for major institutional changes in economic governance: Whereas the emerging market economies came out of the financial crisis stronger than before, the advanced industrialized countries were left struggling in the aftermath. The Eurozone debt crisis escalated in 2011 and continues to preoccupy the industrialized nations, in particular, in 2012. Furthermore, during the crisis, new international forums were created and new policy instruments were implemented. The G20, a group of 20 major world economies, was established as a central forum for global governance and given responsibility for a broad range of issues. The IMF and the World Trade Organization (WTO) were assigned wide-ranging new responsibilities to address the fragile financial system and the collapse in world trade. In the turbulent years of the crisis, these three institutions had more leeway than

before to chart new courses of action. Of course, the risk of failure was also unusually high.

The crisis clearly underscored the need for a well-functioning system of global economic governance. How well did the G20, the IMF, and the WTO handle the crisis? To systematically evaluate the performance of these three economic institutions, we hold their effectiveness and legitimacy up to critical scrutiny.

### Results of the study

- ▶ *Legitimacy*: A central problem of the G20 lies in its exclusive membership structure, which leaves some countries and regions underrepresented. This becomes particularly apparent in comparison to the almost universal membership of the IMF and the WTO. At the same time, however, the G20 has a more equitable and transparent form of decision-making among member states than the other two institutions. The IMF, with its quota principle, is heavily dominated by a small number of industrialized nations. In the WTO, the small developing countries also have a difficult time asserting their interests.
- ▶ *Effectiveness*: Measured in terms of results, the G20 has succeeded to some extent in fulfilling its self-imposed mandate to coordinate efforts at combating the crisis and in establishing itself as a new premier forum of global economic governance. At the same time, it should be noted that the effectiveness of the G20 varies widely in different areas. The IMF has succeeded in improving its effectiveness markedly based on the volume of loans and the increased demand for macroeconomic and financial policy surveillance. It has also proven relatively adaptable. The WTO's balance sheet looks more disappointing by comparison. Although it was able to reduce protectionism during the crisis, it failed to stimulate world trade by bringing the Doha Round to a successful conclusion. It also failed to carry out the necessary governance reforms and adapt its regulatory framework.

### Recommendations

- ▶ *Use the comparative advantages of the individual institutions*: The G20, IMF, and WTO are not isolated entities, each one acting alone. If they improved their cooperation, they would be able to increase the long-term effectiveness and legitimacy of the entire governance system. The G20 should take a more assertive leadership position, place issues on the international agenda, and send positive politi-

cal signals. As a steering organization, it can help to reduce the inertia and fragmentation of the global governance system. The more institutionalized organizations IMF and WTO can, for their part, ensure that rules are formulated, adapted, and implemented more consistently.

- ▶ *Tasks to be done to increase the legitimacy and effectiveness of the G20, IMF, and WTO*: To improve its legitimacy, the G20 should build more systematic dialogue with non-members and non-governmental organizations. The IMF should fully implement the governance reforms initiated during the crisis and push these reforms even further. In addition, its monitoring function should be expanded to include wide-ranging systemic and financial-sector-specific aspects. The WTO's objective should be to foster the participation of smaller developing countries in the decision-making process through capacity-building measures and to restructure the decision-making process.

## Legitimacy and effectiveness: evaluation criteria for international economic institutions

The crisis placed great demands on international economic institutions.<sup>1</sup> It became necessary to mitigate negative impacts and to put new rules and mechanisms in place to prevent similar crises in the future. The increased importance of international economic institutions has again brought the question of their effectiveness and legitimacy to the fore.

*Legitimacy.* Legitimacy is a necessary although not sufficient condition for high effectiveness. The concept of legitimacy was developed for (democratic) states, and therefore cannot be applied fully to the international realm.<sup>2</sup> Nevertheless, it offers a valuable starting point for an assessment of international institutions.

An institution can claim legitimacy to the extent that governments and the public accept it, together with its rules, decision-making processes, and activities. At the same time, an institution does not derive its legitimacy solely from the acceptance of its member states, but also from that of non-member states and other international institutions that are responsible for implementing its resolutions. The more legitimacy an organization has, the greater its chance of overcoming members' efforts to block the adoption and implementation of resolutions. In the following, we evaluate the legitimacy of an institution based on three indicators: decision-making, transparency, and inclusiveness. The analysis thus focuses on the "input" dimension of legitimacy.<sup>3</sup>

(1) The indicator *decision-making* shows who has what degree of access to decision-making processes and how decisions are made. It gives information

about the extent to which all members are in a position to assert their interests in an institution's decisions and to play a role in decision-making.

(2) The indicator *transparency* describes who has what level of access to information about an institution, including its decision-making process, decisions, and rules. Transparency is thus part of an organization's accountability and can be broken down into internal and external transparency. The concept of internal transparency describes the extent to which all member states are informed about each step in the decision-making process, whereas external transparency describes the extent to which non-member states or civil society actors are able to understand and evaluate decisions. A distinction should also be drawn between ex-ante and ex-post transparency. Ex-ante transparency is created by organizations making positions known prior to negotiations. Ex-post transparency is created by making the outcomes of negotiations known to the public.

(3) The indicator *inclusiveness* denotes the number of member states in an institution and the extent to which they are represented in global economic governance. Furthermore, it takes into consideration whether an institution is fundamentally open to all states that share its goals.

*Effectiveness.* The rules and decision-making processes of international economic institutions do not exist merely as ends in themselves. Their aim is to help solve collective problems and substantially improve the general welfare, especially compared to what individual states can accomplish alone. An international institution is effective when it fulfills the demands placed on it, that is, when it achieves the goals that the members have jointly agreed upon. Assessing effectiveness requires evaluating individual policy measures as well as evaluating the institution as a whole.<sup>4</sup>

<sup>1</sup> "International economic institutions" is used in the following as the overarching term for international organizations, regimes, and clubs that differ in their degree of institutionalization.

<sup>2</sup> This is true, for example, for questions of accountability. See Daniel Mügge, "Limits of Legitimacy and the Primacy of Politics in Financial Governance," *Review of International Political Economy* 18 (2011) 1: 52–74; Robert O. Keohane, "Global Governance and Legitimacy," *Review of International Political Economy*, 18 (2011) 1: 99–109.

<sup>3</sup> The literature distinguishes between input and output legitimacy. The first is derived from acceptance of the rules and mechanisms of an institution, the latter from that of their governance activities.

<sup>4</sup> Marianne Beisheim and Harald Fuhr (eds.), "Governance durch Interaktion nicht-staatlicher und staatlicher Akteure. Entstehungsbedingungen, Effektivität und Legitimität sowie Nachhaltigkeit," *SFB-Governance Working Paper Series* 16 (2008): 7.

**Table 1**  
**Indicators for evaluating legitimacy and effectiveness**

<i>Criterion</i>	<i>Description</i>
<b>Legitimacy</b> (Focus on input legitimacy)	
Based on acceptance:	
<ul style="list-style-type: none"> <li>▶ of the mechanisms of the institution that are used to translate members' collective preferences into decisions</li> <li>▶ of governance activities</li> </ul>	
Decision-making	Access to and form of decision-making, participation of all members
Transparency	Provision of information
<ul style="list-style-type: none"> <li>▶ internal/external</li> <li>▶ ex ante/ex post</li> </ul>	<ul style="list-style-type: none"> <li>▶ to all direct participants in negotiations/ to non-member states and civil society actors</li> <li>▶ on the positions prior to negotiations/ on the results of negotiations</li> </ul>
Inclusiveness	Number and representativeness of members, possibilities for membership
<b>Effectiveness</b>	
The problem-solving ability of an institution	
<ul style="list-style-type: none"> <li>▶ Output</li> <li>▶ Outcome</li> </ul>	Relation between goals and results regarding <ul style="list-style-type: none"> <li>▶ decisions and rule-making</li> <li>▶ policy change in the context of a political agreement</li> </ul>

Source: authors' compilation.

Effectiveness can be evaluated with the help of three criteria: “output” encompasses the decisions and rule-making of an institution; “outcome” the (national) policy changes in the context of an international agreement; and “impact” the immediate changes in a situation or international problem.<sup>5</sup> It is difficult to say how the crisis would have played out without the work of the G20, IMF, and WTO. Did these institutions actually bring about a specific change in the behavior of their member states, or to put it differently, can the changes that occurred actually be attributed to one or the other of these institutions? This question is almost impossible to answer given the gaps in the data, the numerous context variables that must be taken into account, and the fact that the crisis is still relatively recent. In our analysis, we therefore concentrate primarily on the output dimension of effectiveness, and wherever possible, we give concrete examples. These do not, however, provide a basis for robust conclusions about chains of causality.

Finally, in evaluating the individual institutions, we pay special attention to the reforms undertaken in the wake of the crisis to improve long-term legitimacy and effectiveness.

<sup>5</sup> See Oran R. Young, *International Governance. Protecting the Environment in a Stateless Society* (Ithaca: Cornell University Press, 2002): 140–160.



## The Group of twenty major economies

In the dramatic first phase of the crisis, it quickly became apparent that neither the industrialized countries of the G7/8 (Group of leading industrialized countries) nor the IMF would be in a position to combat the crisis in a sufficiently coordinated manner. Thus, in 2008, the already-existing G20 of finance ministers and central bank governors (G20-F) was elevated to the status of the twenty most important heads of state and government. Prior to the crisis, the group had been more of a technical forum, founded in 1999 in the wake of the Asian crisis. Since this change in status, the heads of state and government of the twenty “systemically important”<sup>6</sup> economies have met regularly (G20-L; referred to in the following as G20). Their aim is to coordinate the economic and financial policies of the G20 states at the highest political level to achieve strong, sustainable, and balanced economic growth in the long term and to correct macroeconomic imbalances.

### The legitimacy of the G20

#### Decision-making

Since the G20 is an informal club, its agenda is set by its member states and coordinated by the rotating presidency. The G20 has no independent organizational structure and none of the characteristics of an independent body. Instead, it offers member states a platform for exchange at the highest political level. The G20’s communiqués are primarily statements of intent and do not establish binding rules like the declarations of the IMF and the WTO.

At summit meetings, governments of the individual G20 states and their teams of advisors (Sherpas) negotiate and make decisions. Between summit meetings, numerous preparatory meetings take place, both at the level of the G20 ministers responsible for the different policy areas and at Sherpa level, where problems are discussed and possibilities for compromise are explored. The G20 has also initiated working

groups to address issues outside the immediate context of crisis management. At the 2010 summit meeting in Toronto, the first working groups, “Development” and “Anti-Corruption,” were founded, and additional ones have been added since then. Each of the working groups is chaired jointly by one industrialized and one emerging economy. By sending negotiators at working group level to these issue-specific meetings, individual G20 countries can better participate in discussions and assert their interests in the G20 process.

The idea of a permanent G20 secretariat to provide professional support to the member states has been advanced repeatedly, especially by former French President Nicholas Sarkozy. The rationale was to give states a better chance to prepare for summits and thus play a more active role in debates. Moreover, a secretariat could enhance the continuity of the agenda. Yet most of the G20 states, Germany in particular, have to date opposed stronger institutionalization. From the point of view of these countries, member states should remain the driving force in the G20 process.

At the G20 meetings, members adhere to the principle of consensus and every country is heard: If a country is not willing to support a decision, the topic must be taken off the agenda for the time being. Through their veto right, all of the G20 states have an influence on the outcome. It is noticeable, however, that the G20’s overall objectives and agenda items are set primarily by the industrialized countries. The emerging economies have so far focused only on the reform of international financial institutions, although they could have set further priorities. Despite the equal access of emerging countries to the process, the industrialized countries still have an above-average influence on decision-making.

#### Transparency

In general, all G20 countries are informed about each step of the decision-making procedure, since the member states drive the process, and all attend the preparatory meetings. Internal transparency is therefore largely given. However, individual negotiating posi-

<sup>6</sup> See G20, *The Group of Twenty: A History*: 63, <http://www.g20.toronto.ca/docs/g20history.pdf> (accessed October 14, 2011).

tions are secret, and discussions at Sherpa meetings remain closed to the general public. Official communiqués and action plans are made widely available, providing at least ex-post external transparency.

In order to further increase external transparency, the G20 has attempted to improve the so-called “outreach”—that is, dialogue with non-members and non-governmental organizations (NGOs)—since the summit in Toronto. To this end, around 100 business leaders were invited to business summits in Cannes and Los Cabos, with plans to continue this practice in the future.<sup>7</sup> France organized the first summit on social issues to be held simultaneously with the business summit. This practice was repeated at the last G20 summit in Los Cabos in June 2012.<sup>8</sup>

### Inclusiveness

The main weakness of informal groups like the G20 is their self-assigned status and restricted membership structure. Not every country has access to these exclusive clubs, but only those states that are considered “systemically important.” This necessarily leads to significant acceptance problems, especially among those non-members who see themselves as equally important.<sup>9</sup>

The original G7/8 justified their exclusiveness with the argument that they were a group of liberal democracies with established market economies.<sup>10</sup> This criterion does not hold for the G20. The legitimacy of the latter is based instead on its representativeness, i.e., the economic weight of the member states and the group’s broad regional membership. The G20 member states account for 90 percent of GDP, 80 percent of world trade, and two-thirds of the world’s population.<sup>11</sup>

Nevertheless, while these characteristics provide legitimacy for the group as a whole, they are not enough to justify the membership of each G20 country, especially given the underlying political motivation that drove the selection process when the G20 emerged out of the G20F. If nominal GDP were the decisive criterion, Argentina, South Africa, and Saudi Arabia would not qualify as members.<sup>12</sup> They were asked to participate partly in an effort to include US allies in the group. Western Europe is also overrepresented, whereas other regions like North, East, and West Africa, the Caribbean, and Central and Eastern Europe were left out.<sup>13</sup>

To ensure that the G20 is more representative, it has also invited countries that head regional organizations to their summits. In Seoul, the members determined that up to five non-members, including at least two African countries, would be invited to future meetings.<sup>14</sup> At the summit in Los Cabos, Africa was represented by Benin, which held the chair of the African Union at the time, and Ethiopia as chair of the New Partnership for Africa’s Development (NEPAD). Cambodia represented Asia, while Chile and Colombia strengthened the Latin American representation. Following past practice, Spain was invited again as a permanent guest. However, apart from the EU, regional representatives only have special observer status and therefore fewer rights than full members.<sup>15</sup>

### The effectiveness of the G20

Can the G20 achieve its own objectives? In contrast to the IMF and the WTO, the G20’s range of goals can change from one summit to the next because it is an informal club. However, examining previous summits and declarations of intent (see Table 2), we iden-

7 See *Los Cabos B20 Business Summit* (Los Cabos, June 17–18, 2012), <http://www.b20.org/index-english.aspx> (accessed July 23, 2012).

8 G20, *Civil Society and NGOs: CS2012 Los Cabos*, <http://www.g20.org/index.php/en/civil-society-and-ngos> (accessed July 24, 2012).

9 Andrew F. Cooper, “Competing Gs? The Increased Importance of the G20 is Calling into Question the Role of the G8. Is the G20 Establishing Itself as the Hub of Global Policy-making?,” in John Kirton and Madeline Koch (eds.), *G20. The London Summit: Growth, Stability, Jobs* (London, April 2009): 28f.

10 Anthony Payne, “How Many Gs Are There in ‘Global Governance’ after the Crisis? The Perspectives of the ‘Marginal Majority’ of the World’s States,” *International Affairs* 86 (2010) 3: 738.

11 G20, *What is the G20*, <http://www.g20.org/index.php/en/g20> (accessed July 29, 2012).

12 Jakob Vestergaard, “The G20 and Beyond: Towards Effective Global Economic Governance”, *DIIS Report 4/2011* (Copenhagen: Danish Institute for International Studies): 20, 33.

13 John Kirton, “The G8-G20 Partnership,” *Studia Diplomatica* 63 (2010) 2: 28; Robert Wade, “From Global Imbalances to Global Reorganizations,” *Cambridge Journal of Economics* 33 (2009): 553.

14 G20, *The G20 Seoul Summit Leaders’ Declaration* (Seoul, November 11–12, 2010), <http://www.g20.org/images/stories/docs/eng/seoul.pdf> (accessed February 2, 2012).

15 G20, *Invited Countries and International Organizations*, <http://www.g20.org/index.php/en/invited-countries-and-international-organizations> (accessed July 23, 2012).

**Table 2**  
**Overview of important topics and outcomes of the previous G20 summits**

<i>Location</i>	<i>Date</i>	<i>Summit topics/results</i>
Immediate crisis management		
Washington	September 2008	▶ 47-point Action Plan, including: risk management, convergence of accounting standards, regulation of tax havens, equity guidelines for banks (Basel III), oversight of rating agencies
London	April 2009	▶ Increase in the IMF's capital base ▶ Financial regulation reform: fighting tax havens, reducing salaries of senior bank officers
Pittsburgh	September 2009	▶ G20 to become main forum for international economic cooperation ▶ Framework for Sustainable and Balanced Growth ▶ Mutual Assessment Process for growth strategies
From crisis management to sustainable economic strategies		
Toronto	June 2010	▶ Debt levels, situation of public finances
Seoul	November 2010	▶ Adoption of Basel III ▶ Reform of the IMF ▶ Global imbalances
Crisis management and expansion of the G20 agenda		
Cannes	November 2011	▶ Crisis reaction (Greece/Euro crisis) ▶ Global growth strategies and imbalances ▶ Reform of the international monetary system ▶ Volatility of commodity prices
Los Cabos	June 2012	▶ Crisis reaction (Euro crisis: Greece, Spain, Italy) ▶ Global growth strategies and imbalances ▶ Additional bilateral credits for the IMF

Source: authors' compilation.

tify five overarching goals of the G20: (1) Reviving the global economy, (2) strengthening the financial system, (3) improving the international financial architecture, (4) promoting world trade, and (5) stabilizing the global economy in the long term.

Whether these broad goals have been reached (i.e., impact effectiveness) cannot be answered within the scope of this study. After all, the G20 relies on other international organizations, such as the WTO and the IMF, and on technical bodies like the Financial Stability Board (FSB) and the Basel Committee on Banking Supervision to fulfill its objectives. Rather than analyzing the broad objectives, the following concrete G20 measures and implementation are investigated instead: (1) stimulus measures, (2) financial regulatory reform, (3) reform and increased financing of international financial institutions, (4) trade finance and measures against protectionism, and

(5) monitoring of members' growth strategies and macroeconomic imbalances within the framework of the Mutual Assessment Process (MAP). To anticipate the conclusion, the G20's output is mixed. With regard to the summits' outcomes, we show that their effectiveness differs markedly from one area to the next—to the extent that it can be measured at this stage.

### Stimulus measures

Soon after the crisis had reached its initial peak with the collapse of Lehman Brothers, then-US President George W. Bush invited world leaders to the "Summit on Financial Markets and the World Economy" in November 2008. The participants devised an ambitious action plan that was further refined at the G20

summit in London. The G20's initial goal was to revive the world economy and to prevent a global recession that could eclipse the Great Depression. The most important short-term measures to this end were emergency stimulus packages.

Most of the national stimuli were enacted shortly after the first G20 summit in Washington in late 2008 and early 2009, such as the American Recovery and Reinvestment Act (February 2009) and two German economic stimulus packages (November 2008 and January 2009). Nearly 90 percent of all economic stimulus packages worldwide were introduced by the G20 countries; China, Saudi Arabia, and the United States put together the largest aid packages in terms of national GDP. In total, the G20 countries invested more than \$4 trillion in national stimulus packages.<sup>16</sup>

There is no doubt that the G20 countries would have undertaken national measures to stimulate the economy even without the new forum at the leaders' level, making it difficult to determine the G20's outcome effectiveness: The dimensions of the packages are also unsurprising considering the seriousness of the crisis and the size of the economies affected. In addition, the composition and volume of the national stimulus packages were based on national preferences for economic growth strategies rather than on recommendations of the G20. Furthermore, the G20 did not succeed in resolving conflicts of interest between its members—for example, between the United States and Germany: whereas Washington accused Berlin of not doing enough to revive the economy, the German government accused the Obama administration of non-sustainable fiscal policy, accumulation of debt, and creeping inflation.<sup>17</sup>

Nevertheless, the G20 has made a remarkable contribution, even if this cannot be described as meeting the classic definition of effectiveness. The summits in Washington and London bolstered the commonly held

belief that the G20 states needed to work together to avoid a downward spiral. The G20 sent an important, collective, and reassuring signal to markets. Furthermore, the G20 was an important forum for discussing the timing, size, and priorities of the stimulus packages and for evaluating the impacts of individual countries' national programs. Finally, the summits helped to foster understanding of the different national priorities in the G20 countries, even if media coverage may have suggested otherwise.

### Reforming financial sector regulation

Another important item on the G20's agenda was the strengthening of the financial system. At their first summit, the G20 members agreed to provide comprehensive support to their national banking systems, including bank guarantees, to normalize lending.

In addition, the G20 initiated stricter regulations to reduce the risk of similar financial crises in the future. At the London summit, the heads of state and government agreed on common goals in the areas of capital requirements for banks, compensation rules for senior bank officials, a register for hedge fund managers, the regulation of trade in derivatives, and global accounting standards. G20 members also decided to eliminate tax havens to strengthen the financial system.<sup>18</sup>

At the Seoul summit, the G20 agreed on further reforms of international banking regulation, based on proposals from the Basel Committee on Banking Supervision (Basel III). In essence, the proposed regulations raised the required amount and quality for common equity (shares and retained earnings). At the Cannes summit, the G20 countries also adopted the FSB proposal that, as of 2016, global systemically important financial institutions (G-SIFIs) must hold additional capital ranging from 1 to 2.5 percent of their risk-weighted assets, depending on the impact of a possible default. Furthermore, countries agreed to subject the shadow banking system and derivatives trade to stricter regulation so that risky transactions would not simply be shifted from the regulated banking sector into the unregulated shadow banking sec-

<sup>16</sup> Kirton, "The G8-G20 Partnership" (see note 13): 25; Sameer Khatiwada, "Stimulus Packages to Counter Global Economic Crisis: A Review," *International Institute for Labour Studies Discussion Paper* 196 (2009): 10 and 27–32, [http://www.ilo.org/public/libdoc/ilo/2009/109B09\\_49\\_engl.pdf](http://www.ilo.org/public/libdoc/ilo/2009/109B09_49_engl.pdf) (accessed October 14, 2011).

<sup>17</sup> Katharina Gnath and Claudia Schmucker, "Same Economic Nightmares, Different Solutions: Transatlantic Approaches to International Macroeconomic Policymaking in the Face of the Crisis," *AICGS Policy Report* 48 (Washington: American Institute for Contemporary German Studies, Johns Hopkins University, December 2011), <http://www.aicgs.org/site/wp-content/uploads/2011/12/PR-48-Gnath-Schmucker.pdf> (accessed January 10, 2012).

<sup>18</sup> G20, *Global Plan for Recovery and Reform* (London, April 2, 2009), <http://www.g20.utoronto.ca/2009/2009communique0402.html> (accessed October 14, 2011); G20, *Progress Report on the Actions of the London and Washington G20 Summits* (September 5, 2009), [http://www.mof.go.jp/english/international\\_policy/convention/g20/g20\\_090905\\_3.pdf](http://www.mof.go.jp/english/international_policy/convention/g20/g20_090905_3.pdf) (accessed March 10, 2012).

tor. At the Los Cabos summit, the framework was expanded to include domestic systemically important banks (D-SIBs).<sup>19</sup>

Without the common political will of the G20 countries, it would have been impossible to reform banking regulations so quickly. Even though there are long transition phases for Basel III (until 2019), the summit results can be viewed as a political success for the G20. The group has to share credit for this achievement with the Basel Committee and the FSB, which were instrumental in formulating the recommendations. Yet the crucial political signal came from the G20.

Many G20 obligations have already been fulfilled at the national and regional levels. According to the compliance reports of the G20 Information Centre at the University of Toronto, the implementation of the commitments steadily improved between the London and Seoul summits.<sup>20</sup> The national compliance rate on the commitments as set out at the Seoul summit has been impressive: on average, 88 percent on the regulation of systemically important institutions, 84 percent on the regulation of over-the-counter derivatives trading, 83 percent of Basel III, and 73 percent of commitments to compensation rules have been implemented.<sup>21</sup>

The United States, for example, enacted a number of reforms (e.g., Wall Street Reform and Consumer Protection Act, otherwise known as the Dodd-Frank Act). These included: (1) the reform of the institutional regulatory and oversight framework, (2) tighter regulation of banks and other financial institutions and of their activities, (3) the improvement of incentive struc-

tures to reduce excessive risk-taking, (4) stricter regulation of consumer protection, and (5) measures to reduce the “too big to fail” problem of systemically important banks. The EU and its member states endorsed similar reforms, including a new EU supervisory structure to facilitate the identification of systemic risks. Furthermore, a registration requirement was introduced for rating agencies, which will be subjected to stricter oversight in the future. Hedge funds, too, are to be regulated more closely. Higher equity and liquidity requirements have been designed to ensure that financial institutions are more resistant to crisis, and salary guidelines for bank managers are to correct incentive systems that distort decision-making processes.

Are these reforms a success of the G20? Yes and no. To its credit, the G20 helped to shape an international reform agenda with the crucial support of the Basel Committee and the FSB. In addition, the G20 created a forum for intensive international exchange, as had been the case previously with the stimulus packages. However, the national pressure to reform financial oversight and regulation at the beginning of the crisis was so high that reforms would very likely have been passed even without the G20’s impetus. Like the stimulus packages, these reforms also reflect national preferences. The G20 was not able to overcome conflicts of interest over controversial topics like an international bank levy or a global tax on financial transactions. In addition, the timing of the reforms was not as well coordinated as was the case with the fiscal stimuli and was more a function of national capacities than of an internationally coordinated schedule. For US President Barack Obama, for example, it was important to pass the reform bill before the mid-term congressional elections in November 2010 for fear of missing a window of opportunity for reform if the Democratic majority in the House of Representatives were lost. The G20 was ultimately unable to prevent a decline in willingness among its members to engage in tough reforms as soon as the global economy started to pick up again. In some countries like the United States, there is increasing resistance to stricter measures, and the pace of implementation has slowed down. Thus, it remains to be seen whether all of the G20 members will fully comply with Basel III and implement compensation rules or bank levies.

**19** G20, *Cannes Summit Final Declaration – Building Our Common Future: Renewed Collective Action for the Benefit of All* (Cannes, November 4, 2011), <http://www.g20.utoronto.ca/2011/2011-cannes-declaration-111104-en.html> (accessed December 14, 2011); G20, *Leaders Declaration* (Los Cabos, June 19, 2012), <http://www.g20.utoronto.ca/2012/2012-0619-loscabos.html> (accessed July 24, 2012).

**20** The report identifies a certain number of G20 obligations and scores their implementation in each country over a set period. The scores vary between -1 (failure to comply) and +1 (full compliance); 0 means partial implementation or work in progress whose final results cannot yet be assessed. See G20 Information Centre, *2010 G20 Toronto Summit Final Compliance Report* (November 14, 2010), <http://www.g20.utoronto.ca/analysis/2010toronto-compliance.html#findings> (accessed February 2, 2012).

**21** G20 Information Centre, *2010 Seoul G20 Summit Final Compliance Report* (November 6, 2011), <http://www.g20.utoronto.ca/compliance/2010seoul-final/index.html> (accessed February 2, 2012).

## Reform and increased financing of financial institutions

The G20 was able to provide capital and to help reform the international financial institutions. At the summit in London in 2009, the G20 countries significantly increased the funding for the IMF and other multilateral organizations, allowing them to prevent countries from running into short-term liquidity problems and to restore market confidence.<sup>22</sup> G20 members tripled the resources available to the IMF to \$750 billion, including \$250 billion in Special Drawing Rights (SDR).<sup>23</sup> A large portion of the initial financing has already been transferred to the IMF. At the Los Cabos summit in June 2012, countries pledged another \$456 billion in bilateral credit to increase IMF resources, thereby almost doubling IMF lending resources.

The G20 has also been effective in increasing the momentum to reform international financial institutions—most importantly the IMF. Owing to the G20's high political visibility, pressures to reform increased and the governance deadlock in the IMF was successfully broken. In Seoul, the G20 countries agreed to a quota shift of 6 percent in favor of large emerging market economies and to a reduction in Europe's influence in the Executive Board.<sup>24</sup> The debate over the final structure of the governance reform, however, has not been fully settled. Nevertheless, the G20 can already count the initiative changes as a success, since the emerging market economies had been calling for far-reaching IMF reforms for some time. The reform of international financial institutions to consider the interests of the emerging and developing countries can be seen as a means for the G20 to increase their legitimacy by proxy.<sup>25</sup>

<sup>22</sup> Claudia Schmucker and Katharina Gnath, "From the G8 to the G20: Reforming the Global Economic Governance System," in Christoph Herrmann and Jörg Philipp Terhechte (eds.), *European Yearbook of International Economic Law*, vol. 2 (Berlin/Heidelberg: Springer, 2011): 390f.

<sup>23</sup> The SDR is an international non-traded reserve asset introduced by the IMF, whose value is based on a basket of four key international currencies. 1 SDR = €1.23 EUR = \$1.51 (as of July 27, 2012).

<sup>24</sup> G20, *Seoul Summit* (see note 14); G20, *The G20 Seoul Summit Leaders' Declaration* (Seoul, November 11–12, 2010), <http://www.g20.org/images/stories/docs/eng/seoul.pdf> (accessed February 2, 2012).

<sup>25</sup> Paola Subacchi and Stephen Pickford, "Legitimacy vs. Effectiveness for the G20: A Dynamic Approach to Global Eco-

## Trade finance and measures against protectionism

At the London summit in 2009, the G20 heads of state agreed to grant \$250 billion for trade finance in the form of export credits and export insurance as part of the effort to stabilize world trade. In 2010, global trade flows did rebound in many parts of the world. Yet poorer countries in particular continued to face significant obstacles to gaining access to capital, since financial risks remained high.<sup>26</sup> At the summit in Seoul, the G20 countries reaffirmed their commitment to implementing measures designed to increase funding for trade finance in developing countries and especially in low-income countries. Among other organizations, the World Bank and its subsidiary, the International Finance Corporation, as well as the G20 countries themselves were mandated to increase trade finance. The additional funds actually did help to stabilize world trade.<sup>27</sup>

Already at the first G20 summit in Washington, the G20 states had pledged to avoid protectionism and refrain from erecting any new trade barriers in the following twelve months. This also applied to any export restrictions or measures to promote exports that violated WTO regulations.<sup>28</sup> This pledge was reiterated at subsequent summit meetings in London and Pittsburgh. In Toronto, the G20 states promised to refrain from creating any new trade barriers until the end of 2013. At the summit in Los Cabos, G20 members extended their standstill commitment until the end of 2014. The WTO, OECD (Organisation for Economic Co-operation and Development), and UNCTAD were tasked with conducting a quarterly public review to evaluate compliance. The G20 Information Centre in Toronto, however, has given a mixed evaluation of the implementation process: while the implementa-

tionary Governance", *Chatham House Briefing Paper IE BP 2011/01* (London: Chatham House, October 2011).

<sup>26</sup> International Chamber of Commerce (ICC) Germany, *ICC-Handelsstudie: Globale Erholung verläuft unregelmäßig* (March 25, 2011), <http://www.icc-deutschland.de/news/icc-handelsstudie-globale-erholung-verlaeuft-unregelmaessig.html> (accessed October 14, 2011).

<sup>27</sup> ICC, "Global Economy Will Remain on Shaky Ground, Says New ICC Trade Finance Survey" (September 7, 2009), <http://www.iccwbo.org/News/Articles/2009/Global-economy-will-remain-on-shaky-ground,-says-new-ICC-trade-finance-survey/> (accessed October 14, 2011).

<sup>28</sup> G20, *Summit on Financial Markets and the World Economy* (Washington, November 15, 2008), <http://www.g20.org/images/stories/docs/eng/washington.pdf> (accessed February 2, 2012).

tion of trade resolutions following the Washington summit was relatively satisfactory in comparison to other policy areas, it declined steadily between the London and Seoul summits.<sup>29</sup> Most of the G20 governments had in fact created more trade barriers than before. Nevertheless, it can be said that the financial crisis has not significantly increased protectionism among the G20 members. The political signals emanating from the G20 declarations have undoubtedly contributed to this.

### Monitoring growth strategies of G20 members and reducing macroeconomic imbalances

After the immediate response to the crisis, the G20 began to address more fundamental macroeconomic issues that affected long-term growth and global economic imbalances. At the 2009 meeting in Pittsburgh, G20 leaders launched the Framework for Strong, Sustainable, and Balanced Growth.<sup>30</sup> Under the Mutual Assessment Process (MAP), member states' economic policies are evaluated for their consistency with the objectives of the Framework, their impact on other countries (spillover effects), and their need to instigate additional reforms.

At the Toronto summit, countries with trade deficits pledged to adopt measures to increase national savings while keeping their markets as open as possible. In addition they promised to improve their export competitiveness. Countries with a trade surplus pledged to implement reforms to reduce reliance on external demand and to focus more on domestic sources of growth. Because of disagreements between the G20 countries, however, the formulation of these commitments was very vague. Despite the ambiguous wording of the commitments, the G20 Information Centre reports high implementation rates, even though a great deal still remains in flux in this area.<sup>31</sup> For example, in March 2010, President Barack Obama introduced a national export initiative in the United States—a country that has experienced large trade deficits for years—in an attempt to open up new markets and eliminate trade barriers with the goal of doubling

exports over the next five years. Germany, on the other hand, as a surplus country, has endeavored to boost internal demand through structural changes that would increase investment activity and in turn stimulate demand.

However, already in the run-up to the Seoul summit, tensions around macroeconomic imbalances surfaced between the United States, Germany, China, and the emerging market economies. The main points of contention were a possible quantitative limit on current account deficits and surpluses as well as Chinese and American monetary policies.<sup>32</sup> The summit itself was not able to resolve the rift. It was only in February 2011 under the French presidency that G20 finance ministers agreed on five “indicative guidelines” under the MAP according to which the individual countries' policies would be evaluated.<sup>33</sup> The criteria included: public debt and fiscal deficits; private savings rate and private debt, and the external imbalance composed of the trade balance and net investment income flows and transfers. Exchange rates were not included, due to China's strong opposition. They are now considered together with fiscal, monetary and other policies in the context of current account balances. At the Cannes and the Los Cabos summits, further policy commitments were formulated. They include detailed obligations for all G20 countries and were aimed among others at encouraging growth and reducing global imbalances.<sup>34</sup>

The MAP is the first international mechanism for analyzing the impact of national economic policies on global imbalances. The MAP is an instrument for judging individual countries from the outside. It facilitates learning from other countries' policies and creates peer pressure to induce national policy changes. The outcome of this process is still open and its effective-

<sup>29</sup> G20 Information Centre, *Toronto Summit Compliance Report* (see note 21).

<sup>30</sup> G20, *G20 Leaders Statement: The Pittsburgh Summit* (Pittsburgh, September 24–25, 2009), <http://www.g20.utoronto.ca/2009/2009communique0925.html> (accessed October 14, 2011).

<sup>31</sup> G20 Information Centre, *Toronto Summit Compliance Report* (see note 20).

<sup>32</sup> Katharina Gnath and Claudia Schmucker, “Deutschland und die G-Clubs,” *Note du Cerfa* 85 (Paris: Ifri, May 2011): 8–11, [http://www.g20.utoronto.ca/biblio/IFRI\\_noteducerfa85gclub.sde.pdf](http://www.g20.utoronto.ca/biblio/IFRI_noteducerfa85gclub.sde.pdf) (accessed October 14, 2011).

<sup>33</sup> Edwin M. Truman, “The G20 Indicative Guidelines: A New Improved Chapter of International Economic Policy Coordination?,” *RealTime Economic Issues Watch* (Washington: Peterson Institute for International Economics, April 20, 2011), <http://www.piie.com/blogs/realtime/?p=2129> (accessed October 14, 2011).

<sup>34</sup> G20, *Cannes Action Plan for Jobs and Growth, Annex of Commitments*, <http://www.g20.utoronto.ca/2011/2011-cannes-action-annex-111104-en.pdf> (accessed January 4, 2012); G20, *Policy Commitments by G20 Members* (Los Cabos Summit, June 18–19, 2012), <http://www.g20.utoronto.ca/2012/2012-0619-loscabos-commitments.pdf> (accessed July 24, 2012).

ness cannot yet be answered conclusively as yet. However, the divisions among member states remain as strong as ever and indicate that the process will not be easy. Progress on the issue of exchange rates in particular has been weak and will continue to present a challenge.<sup>35</sup>

<sup>35</sup> G20 Information Centre, *Seoul Summit Compliance Report* (see note 21).



## The International Monetary Fund

Founded in 1944, the IMF is the oldest of the three economic institutions discussed here. The organization deals with macroeconomic issues, such as international monetary policy and exchange rate stability, and helps member states facing difficulties in their balance of payments. Since the 1990s, the IMF has taken on additional responsibilities to promote financial stability. The main instruments it uses to realize its objectives are economic surveillance and loans. The highest decision-making body in the IMF is the Board of Governors, on which each member is represented by one governor—generally the country’s minister of finance or central bank governor. Many decisions, however, are addressed at the regular meetings of the Executive Board in Washington that consists of 24 Directors and is chaired by the Executive Director. The board also manages the daily operations of the IMF.

### The legitimacy of the IMF

#### Decision-making

All members formally take part in the Fund’s decision-making through their representation on the Board of Governors and the Executive Board. However, this is not done on equal terms: Decisions are made on the basis of a quota system in which larger economies have a greater financial obligation but also more voting power than smaller states. As a result, the United States and the EU member states are seen as too dominant, while developing nations and emerging economies, on the other hand, have too little influence. Ariel Buira, former Director of the Secretariat of the G-24, a group of developing countries, pointedly summed up the dichotomy inherent in the IMF: “There has emerged a growing chasm between shareholders and stakeholders, between those who determine IMF policies and decision and those to whom those decision and policies are applied.”<sup>36</sup> This unequal in-

fluence is manifest in several aspects of the institutional framework: (1) voting power or quotas, (2) the composition of the Executive Board, and (3) the appointment of IMF leadership.

#### Quotas

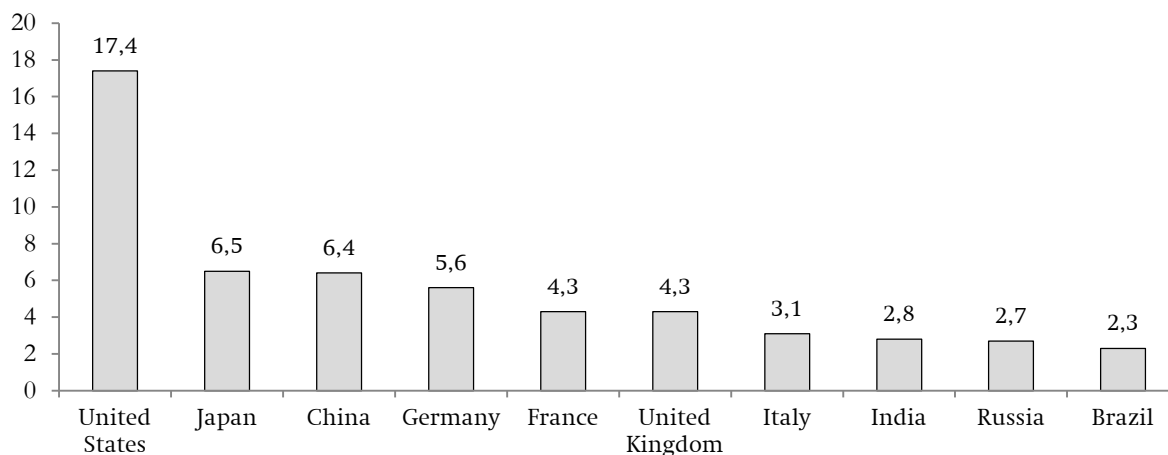
The IMF’s primary source of funding derives from contributions known as quotas—capital that individual members pay into the Fund. The quota for each individual country is calculated on the basis of its GDP, the relative openness of its national economy, its economic variability, and its international reserves. The quotas determine both the payment obligations of a given country and the volume of loans it is eligible to receive. Quotas also determine the voting power of the member states. Unlike the United Nations or the WTO, where every member has one vote, the weighting of votes in the IMF is designed to reflect each member’s relative strength in the global economy. Each country has 750 basic votes, plus one additional vote for each 100,000 SDR that are calculated on the basis of that country’s quota.<sup>37</sup> Although many resolutions are decided by consensus, the possibility of a vote can influence decisions.

The largest shareholders in the IMF—the United States, Germany, Japan, France, and Great Britain—jointly hold almost 40 percent of the votes (see Figure 1), of which the United States alone controls more than 16.5 percent. When major decisions are made, which require 85 percent of the votes in order to be adopted, the United States have veto power. EU member states would also have a blocking minority if they voted together, which in practice they do not always do. Even before the crisis, it was generally agreed that the quota system no longer reflected the current balance of power in the global economy. Emerging market economies such as China, India, or Brazil were particularly underrepresented relative to their economic output. Moreover, the calculation of the quota

<sup>36</sup> Ariel Buira, “The Bretton Woods Institutions: Governance without Legitimacy?,” *CSGR Working Paper 180/05* (Warwick, November 2005): 18, <http://www2.warwick.ac.uk/fac/soc/csgr/research/workingpapers/2005/wp18005.pdf> (accessed August 1, 2011).

<sup>37</sup> Until March 2011, each country had 250 basic votes.

**Figure 1**  
**The ten largest shareholders in the IMF**  
**(as a percentage of total IMF quotas)<sup>a</sup>**



**a** The governance reforms of 2010 must still be ratified (as of July 2012). All of the quotas and distribution of voting power listed here anticipate this ratification.

Source: IMF, [http://www.imf.org/external/np/sec/pr/2010/pdfs/pr10418\\_table.pdf](http://www.imf.org/external/np/sec/pr/2010/pdfs/pr10418_table.pdf) (accessed October 3, 2011).

formula was seen as unbalanced and non-transparent, and its application was inconsistent.<sup>38</sup>

The quotas are regularly reviewed every five years and adjusted to suit changes in economic positions of power when necessary. Beyond these routine adjustments, however, several initiatives for more extensive reforms were launched even before the economic crisis. Rodrigo De Rato, then Managing Director of the IMF, and the International Monetary and Financial Committee (IMFC) confirmed the “importance of fair voice and representation for all members.”<sup>39</sup> At the 2006 annual conference in Singapore, IMF member states agreed to a reform package. Among other things, it included an ad hoc increase in quotas for the most underrepresented countries (China, Korea, Mexico, and Turkey), a new quota formula, an increase in basic votes, and new executive seats for African countries.

Although these governance reforms were not triggered directly by the financial crisis, the crisis increased the political momentum for further reforms. In 2008, therefore, the Board of Governors agreed to transfer a minimum of 5 percent of the votes from overrepresented to underrepresented countries and to triple the number of basic votes to enhance the voting power of low-income countries. In addition, the Board approved a simpler and more transparent quota formula. The reform went into effect in March 2011, after 85 percent of the member states had ratified the amendments to the Fund’s Articles.<sup>40</sup> As mentioned above, the heads of state and government of the G20 decided at the Seoul summit in November 2010 to continue the 2008 IMF reforms, increasing the transfer of votes to 6 percent for the emerging market economies (see Table 3). With this shift, Brazil, Russia, India, and China will be among the ten largest share-

<sup>38</sup> Vijay Kelkar, Vikash Yadav, and Praveen Chaudhry, “Reforming the Governance of the International Monetary Fund,” *The World Economy* 27 (May 2004) 5: 727–743 (735); Edwin M. Truman, “Rearranging IMF Chairs and Shares: the Sine Qua Non of IMF Reform,” in Edwin M. Truman (ed.), *Reforming the IMF for the 21st Century* (Washington: Peterson Institute for International Economics, 2006): 201–232.

<sup>39</sup> IMFC, *Communiqué of the International Monetary and Financial Committee of the Board of Governors of the International Monetary Fund* (Washington, April 22, 2006), <http://www.imf.org/external/np/cm/2006/042206.htm> (accessed August 24, 2011).

<sup>40</sup> The new formula incorporates fewer sub-formulas and changes the weighting of conversion for GDP calculations to a combination of market rates and purchasing power, which adds to the political influence of developing nations. IMF, “The IMF’s 2008 Quota and Voice Reforms Take Effect,” *Press Release* 11/64 (Washington, March 3, 2011), <http://www.imf.org/external/np/sec/pr/2011/pr1164.htm> (accessed September 6, 2011).

**Table 3**  
**Quotas and voting shares before and after 2008 and 2010 reforms (shares in percent of total IMF votes)**

	Quota Shares			Voting Shares		
	Pre-Singapore 2006	Post-2008 reforms	Post-2010 reforms	Pre-Singapore 2006	Post-2008 reforms	Post-2010 reforms
Advanced economies	61.6	60.5	57.7	60.6	57.9	55.2
United States	17.4	17.7	17.4	17.0	16.7	16.5
EU-27	32.9	31.9	30.2	32.5	30.9	29.4
Emerging market and developing countries	38.4	39.5	42.3	39.4	42.1	44.8

Source: IMF, [http://www.imf.org/external/np/sec/pr/2011/pdfs/quota\\_tbl.pdf](http://www.imf.org/external/np/sec/pr/2011/pdfs/quota_tbl.pdf) (accessed July 27, 2012).

holders of the IMF in the future. Ratification of the 2010 changes is still ongoing.<sup>41</sup>

### Executive Board

The inequality in representation that results from the present quota system is also reflected in the composition of the IMF Executive Board. The EU countries are represented by as many as eight out of 24 Executive Directors. Other regions have far fewer seats.<sup>42</sup> Furthermore, the advanced industrialized countries of the United States, Japan, Germany, France, and the United Kingdom have their own Executive Directors, while all other members are represented by a Director in a voting group, (constituency) that can be comprised of up to 22 member states. The 2010 reform concluded that all Directors must be elected in the future, thereby ending the practice of some Directors being appointed by large shareholders. Finally, the European member states expressed their willingness to reduce their representation on the Executive Board by two seats. In doing so, they responded to a demand voiced by emerging market nations that until that point had gone largely unheard.<sup>43</sup>

<sup>41</sup> IMF, "IMF Executive Board Approves Major Overhaul of Quotas and Governance," *Press Release 10/418* (Washington, November 5, 2010), <https://www.imf.org/external/np/sec/pr/2010/pr10418.htm> (accessed August 4, 2011). For the current status of the ratification process see: IMF, *Acceptances of the Proposed Amendment of the Articles of Agreement on Reform of the Executive Board and Consents to 2010 Quota Increase* (Washington, July 27, 2012), <http://www.imf.org/external/np/sec/misc/consents.htm> (accessed July 27, 2012).

<sup>42</sup> The number of posts varies because the Executive Directors representing individual constituencies are subject to a rotation system.

<sup>43</sup> IMF, "IMF Executive Board Approves Major Overhaul" (see note 41).

### IMF leadership

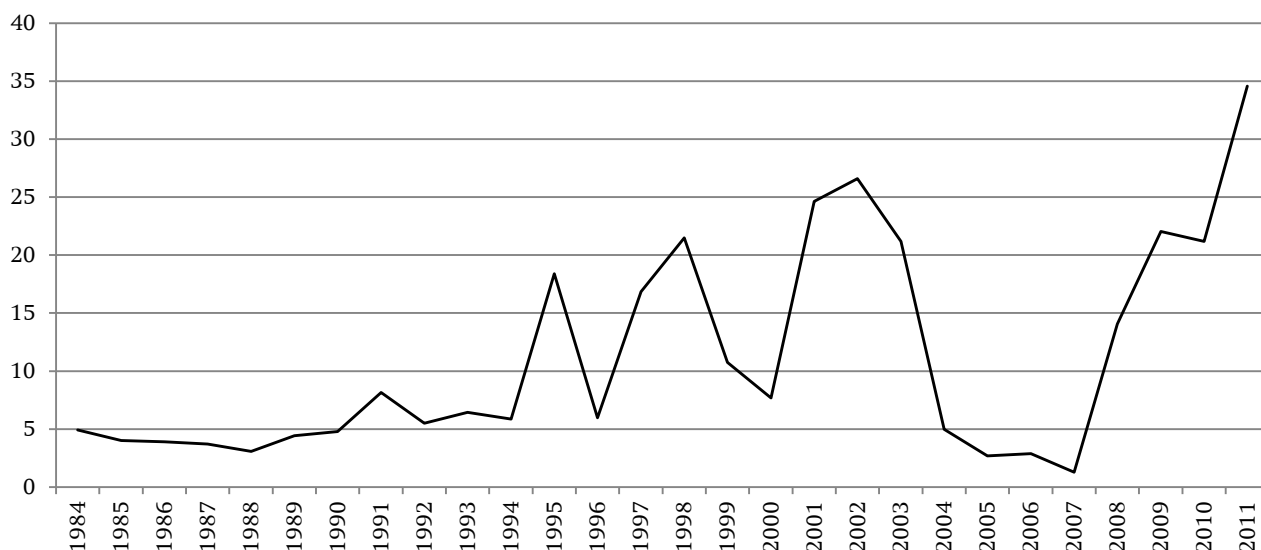
The most basic form of collective participation in the IMF is the selection of the IMF Managing Director. The United States and Europe have divided the leadership of the Bretton Woods institutions of the IMF and the World Bank informally among themselves, whereby the United States traditionally fills the top position of the World Bank and the IMF deputy position, while Europe appoints the Managing Director of the IMF. This practice has drawn sharp criticism, and efforts have been made to make the selection process more transparent and merit-based in the future. These efforts notwithstanding, the top IMF position was once again awarded to a European in July 2011: former French minister of finance, Christine Lagarde, following the resignation of her compatriot Dominique Strauss-Kahn.

### Transparency

The IMF is often accused of working in secrecy and refusing to release reports and lending conditions or the proceedings of these evaluations to outsiders. According to the IMF, one reason for this lack of transparency is the sensitivity of market data. That is, in a world with tremendous capital mobility, markets could (over)react to individual states' risk analyses (vulnerability assessments).<sup>44</sup> The IMF's transparency

<sup>44</sup> Carlo Cottarelli, "Efficiency and Legitimacy: Trade-Offs in IMF Governance," *IMF Working Paper WP/05/107* (Washington, June 2005): 16.

**Figure 2**  
**Past IMF disbursements for all members from May 1984 to December 2011 (in billion SDRs)**



Source: IMF, <http://www.imf.org/external/np/fin/tad/extrep1.aspx> (accessed July 27, 2012).

certainly leaves something to be desired,<sup>45</sup> but it has improved markedly since the 1990s. The IMF is now releasing previously unpublished documents, such as the IMF Staff Reports and national Letters of Intent. Moreover, in 2001, a permanent Independent Evaluation Office (IEO) was established that assesses the Fund’s activities.<sup>46</sup> During the financial crisis, however, events occurred with great rapidity and negotiations tended to take place in small, informal circles within the IMF, for example, among the G7 countries. This reduced internal transparency and hampered the participation of many smaller members and external stakeholders.

<sup>45</sup> The IMF’s Independent Evaluations Office, for example, found fault with what it saw as an excessively long wait for publication of formerly classified documents. See IEO, *Governance of the IMF. An Evaluation* (Washington, 2008): 9, [http://www.ieo-imf.org/ieo/files/completedevaluations/05212008CG\\_main.pdf](http://www.ieo-imf.org/ieo/files/completedevaluations/05212008CG_main.pdf) (accessed July 27, 2011).

<sup>46</sup> See also Eric Helleiner and Bessma Momani, “Slipping into Obscurity? Crisis and Reform at the IMF,” *Working Paper International Institutional Reform* 16 (Waterloo: The Centre for International Governance Innovation [CIGI], February 2007); Ngaire Woods, “Making the IMF and the World Bank More Accountable,” *International Affairs* 77 (January 2001) 1: 83–100 (90).

### Inclusiveness

With 187 member states, the IMF is an almost universal international organization, just behind the United Nations with 193 member nations. It also has a high degree of inclusiveness, since each non-member country has the opportunity to join, to contribute capital to the Fund, and to access the IMF’s financial resources contingent upon meeting certain conditions.

### The effectiveness of the IMF

The statutes of the IMF establish as its primary objectives the promotion of international monetary cooperation and the maintenance of monetary and exchange rate stability, but also the promotion of international trade and balanced global economic development. In pursuing these objectives, the Fund’s tasks include crisis management and crisis prevention. It responds to these duties by providing loans, surveillance, and technical support to its members.<sup>47</sup>

<sup>47</sup> See, among others, David Vines and Christopher L. Gilbert (eds.), *The IMF and Its Critics. Reform of Global Financial Architecture* (Cambridge: Cambridge University Press, 2004); Mark S. Copelovitch, “Master or Servant? Common Agency and the Political Economy of IMF Lending,” *International Studies Quarterly* 54 (2010) 1: 49–77 (49).

**Table 4**  
**Selected credit facilities and current loans of the IMF<sup>a</sup>**

Credit Facility	Description	Total amount of available loans	Main recipient countries according to credit volume granted (program start)
Stand-By Arrangements (SBA)	Primary instrument of IMF aid to middle-income countries with short-term balance of payment problems. Programs are linked to specific conditions. Covers a period of 1–2 years, repayment is due within 3–5 years.	\$30 billion	Ukraine (July 2010) Romania (March 2011) Iraq (February 2010) Sri Lanka (July 2009)
Extended Arrangements (EEF)	Aid for countries with longer-term difficulties in the balance of payment that require fundamental economic reforms. Typically covers a period of 3–4 years, repayment within 4–10 years.	\$102 billion	Greece (March 2012) Portugal (May 2011) Ireland (December 2010)
Flexible Credit Line (FCL)	Used for crisis prevention in countries with very strong financial and economic policies and robust economic data. Unlike the SBA, payments are not linked to further conditions or structural adjustments. The credit line does not have to be drawn immediately and may be disbursed at one time. Two-year validity.	\$106 billion	Mexico (January 2011) Poland (January 2011) Columbia (May 2011)
Precautionary and Liquidity Credit Line (PLL)	Used for crisis prevention in countries with sound economic and financial policies and robust economic data, but which do not qualify for the FCL. Some policy adjustments are expected with low conditionality. Two-year validity.	\$624 million	Macedonia (January 2011)

<sup>a</sup> Loans to fight poverty in developing countries and crisis programs that have already been concluded are not considered here. To date, the available loans have not been fully drawn, in particular by countries that have access to the FCL.

Sources: IMF, *Factsheet: IMF Lending* (March 30, 2012), <http://www.imf.org/external/np/exr/facts/howlend.htm> (accessed July 27, 2012); IMF, *IMF Lending Arrangements* (June 30, 2012), <http://www.imf.org/external/np/fin/tad/extarr11.aspx?memberKey1=ZZZZ&date1key=2020-02-28> (accessed July 27, 2012).

Before the crisis, the IMF was in an abysmal state in terms of both its acceptance by the global community and its effectiveness. The Fund was seen as having “lost its way”<sup>48</sup> and was struggling with budget cuts and staff reductions. Some commentators went so far as to demand its closure.<sup>49</sup> After the G20 summit in London in early 2009, then IMF Managing Director

Strauss-Kahn stated: “The IMF is back!”<sup>50</sup> This was a combative reply to all those who had written off the Fund as having become irrelevant. Since the start of the economic and financial crisis, the IMF’s reputation has been rising steadily and it has been actively involved in crisis management by providing liquidity, expertise, and information.

<sup>48</sup> Mervyn King, “Reform of the International Monetary Fund,” *Speech of the President of the Bank of England to the Indian Council for Research on International Economic Relations* (New Delhi, February 20, 2006), <http://www.bis.org/review/r060222a.pdf> (accessed August 2, 2011).

<sup>49</sup> For example, George P. Shultz, William E. Simon Jr., and Walter B. Wriston, “Who Needs the IMF?,” *Wall Street Journal* (February 3, 1998).

<sup>50</sup> Cited in Andrew Walker, “The International Monetary Fund Returns,” *BBC News* (April 24, 2009), <http://news.bbc.co.uk/2/hi/business/8015979.stm> (accessed August 2, 2011).

## Crisis management

Ever since the Asian Crisis of the 1990s, the IMF has been harshly criticized for its crisis management, in particular its uniform, “one-size-fits-all” terms of credit.<sup>51</sup> The waning credibility of the IMF was also partly responsible for a decline in lending activity (see Figure 2, p. 20). Many emerging economies that had previously been among the largest recipients of IMF assistance paid back their loans early and sought other forms of crisis insurance.

The IMF has committed more than \$300 billions in loans since the beginning of the current financial crisis. At present, credit programs worth \$240 billion are in operation or available for countries acutely affected by the crisis (see Table 4).<sup>52</sup> For the first time in many years, industrialized countries were again among them: roughly 55 percent of the currently granted available IMF credit volume alone is going to or is reserved for EU Member States. The increased lending activity has been accompanied by a significant increase in the credit resources of the IMF. As mentioned above, G20 states decided to triple available resources to around \$750 billion at the London summit in April 2009. To this end, SDRs were increased and comprehensive new credit agreements were created between individual members and the IMF in the framework of NAB (New Agreements to Borrow).<sup>53</sup> As mentioned above, member countries announced additional pledges to increase the IMF’s resources by over \$430 billion in April 2012.

When the IMF’s financial resources were increased, its credit facilities were reformed as well. At the beginning of 2009, the IMF Executive Director initiated a general review of credit instruments and conditions. A New Flexible Credit Line (FCL) and a Precautionary and Liquidity Credit Line (PLL) were established (see Table 4).<sup>54</sup> Through the FCL, Mexico, Colombia, and Poland have already been provided with loan promises worth around \$106 billion, which can be accessed at any time and are not conditional on implementation of specific policy understandings. In addition, the conditions for regular loans, known as Stand-By Arrangements (SBA, see Table 4), have been eased. The IMF no longer stands unreservedly by austerity policies, and is less critical today of countercyclical policy measures (such as stimulus packages) than it was several years ago. The Fund also now pays more attention to preserving social spending and social security, particularly in borrower countries with lower economic performance. This changed perspective on social spending and stimulus packages has already affected the lending programs implemented since the crisis.<sup>55</sup>

Not least because of its substantially increased financial resources, the IMF was once again able to respond quickly in the midst of the crisis to balance of payments difficulties and financial crises in specific countries and to offer them loans.<sup>56</sup> By expanding its credit lines and becoming more flexible, the IMF has also managed to deflate the criticism that it has a “one-size-fits-all” policy. Since the recent crisis, there have been far fewer conflicts over the role and im-

<sup>51</sup> IMF loans are usually tied to the fulfillment of economic and financial policy conditions under what is known as conditionality.

<sup>52</sup> All calculations have been made on the basis of IMF data from June 30, 2012, and the US exchange rate from July 27, 2012. IMF, *IMF Lending Arrangements* (Washington, June 30, 2012), <https://www.imf.org/external/np/fin/tad/extarr11.aspx?memberKey1=ZZZZ&date1key=2020-02-2> (accessed July 27, 2012); IMF, *Factsheet: IMF’s Response to the Global Economic Crisis* (Washington, May 23, 2012), <http://www.imf.org/external/np/exr/facts/changing.htm> (accessed July 27, 2012).

<sup>53</sup> The NAB is a set of credit agreements arranged between the IMF and individual member states that go beyond their quotas. See Garry J. Schinasi and Edwin M. Truman, “Reform of the Global Financial Architecture,” *Working Paper Series 10-14* (Washington: Peterson Institute for International Economics, September 2010), <http://www.iie.com/publications/wp/wp10-14.pdf> (accessed August 2, 2011); see also IMF, *Factsheet: IMF Standing Borrowing Arrangements* (Washington, May 23, 2012), <http://www.imf.org/external/np/exr/facts/gabnab.htm> (accessed July 27, 2012).

<sup>54</sup> The PLL replaced the Precautionary Credit Line (PCL) that was established at the beginning of the crisis together with the FCL.

<sup>55</sup> E.g., IMF, “Pakistan: Request for Stand-by Arrangement—Staff Report; Staff Supplement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Pakistan,” *IMF Country Report 08/364* (Washington, December 2008): 10, <http://www.imf.org/external/pubs/ft/scr/2008/cr08364.pdf> (accessed August 2, 2011); IMF, “Republic of Latvia: First Review and Financing Assurances Review under the Stand-by Arrangement, Requests for Waivers of Non-observance of Performance Criteria, and Re-phasing of Purchases under the Arrangement,” *IMF Country Report 09/297* (Washington, October 2009), <http://www.imf.org/external/pubs/ft/scr/2009/cr09297.pdf> (accessed August 2, 2011). See also Susanne Lütz and Matthias Kranke, “The European Rescue of the Washington Consensus? EU and IMF Lending to Central and Eastern European Countries,” *LEQS Paper 22* (London: London School of Economics, May 2010).

<sup>56</sup> See also the evaluation by the Independent Evaluation Office before the crisis: IEO, *Governance of the IMF* (see note 45).

portance of its policies than in earlier crises.<sup>57</sup> In this sense, the IMF has increased its output effectiveness during the crisis.

By contrast, the outcome effectiveness of IMF lending has been evaluated less favorably. The effectiveness of IMF programs has been examined in a series of long-term studies. The vast majority of these express grave concerns about the implementation of credit conditions (outcome) and the macroeconomic consequences for stability and economic growth (impact).<sup>58</sup> Although the IMF has introduced progressive lending (tranching), it has thus far failed to effectively sanction countries that violate loan agreements. Designing the programs to better fit the particular situation of each recipient country should help to increase identification with the arrangements (ownership) and thereby improve their rate of implementation.

At the present time (July 2012), it is difficult to estimate the outcome effectiveness of IMF lending in the specific context of the current financial crisis. The planned credit programs have not been finalized and various changes deemed necessary have not (yet) been made. Early signs of increased outcome efficiency in lending, however, can be seen in the program for Latvia. The IMF has determined that the Latvian authorities implemented the tough measures that were required as part of the joint EU-IMF program, and thus steered the country out of the immediate crisis.<sup>59</sup> However, the situation looks very different in the case of the Greek program. Here, the IMF could not prevent Greece from falling deeper and deeper into a vortex of weak growth and rising debt. Individual tranche payments were repeatedly questioned; structural reforms proceeded slowly; the economy remained weak; and the external environment has been deteriorating.<sup>60</sup> In March 2012,

Greece agreed to a comprehensive voluntary debt reduction deal with its creditors. The IMF approved another aid package for Greece in the same month.<sup>61</sup>

In the case of the European programs, the IMF and the EU institutions and states must share responsibility for the successes as well as the failures, since they have worked very closely together. Due to the severity of economic difficulties, however, it is generally very hard to exclude the counterfactual, that is, to tell whether recipient countries might have implemented structural and fiscal policy reforms even without IMF programs.

The new precautionary credit facilities are effective insofar as only Macedonia (under PLL) has drawn from them to date. Many of those involved view this as a success of systemic prevention. Then French minister and current IMF Director Lagarde, for example, estimated that these new credit lines would enable the Fund to react more effectively to potential balance of payments difficulties, a view also expressed by representatives of the United Kingdom.<sup>62</sup>

### Crisis prevention

The IMF's second task is to prevent crises via surveillance, a monitoring process that keeps a constant eye on the economic policies of member states and on broader economic trends. The IMF uses regular bilateral Article IV consultations<sup>63</sup> and the publication of reports such as the World Economic Outlook (WEO) or the Global Financial Stability Report (GFSR) to assess

Disbursement," *Press Release 11/440* (Washington, December 5, 2011), <http://www.imf.org/external/np/sec/pr/2011/pr11440.htm> (accessed January 10, 2012).

<sup>61</sup> The previous SBA that had been approved in May 2010 was cancelled by the Greek authorities upon signing an EEF-program for countries with fundamental economic problems. IMF, "Greece Program: IMF Board Approves €28 Billion Loan for Greece," *IMF Survey* (March 15, 2012), <http://www.imf.org/external/pubs/ft/survey/so/2012/CAR031512B.htm> (accessed July 27, 2012).

<sup>62</sup> Christine Lagarde, "Statement by the Minister of Economy, Industry and Employment, France," *20th Meeting of the IMFC* (Washington, October 4, 2009); §6, <http://www.imf.org/external/am/2009/imfc/statement/eng/fra.pdf> (accessed November 4, 2011). For a more skeptical perspective, see, Peer Steinbrück, "Statement by the Minister of Finance, Germany," *18th Meeting of the IMFC* (Washington, October 11, 2008); §5, <http://www.imf.org/external/am/2008/imfc/statement/eng/deu.pdf> (accessed November 4, 2011).

<sup>63</sup> Named after Article IV of the IMF Charter of 1944, which codified the organization's surveillance task.

<sup>57</sup> Michael Bordo and Harold James, *The Past and Future of IMF Reform* (2009), <http://scie.ucsc.edu/JIMF/bordojaximesimfmarch09V3.pdf> (accessed August 2, 2011).

<sup>58</sup> IEO, *Annual Report 2003* (Washington, 2003); Adam Przeworski and James Raymond Vreeland, "The Effect of IMF Programs on Economic Growth," *Journal of Development Economics* 62 (2000): 385–421.

<sup>59</sup> That the final tranche of IMF loans were not drawn was likewise assessed positively. See, among others, IMF, "IMF Concludes Fifth and Final Review under Stand-by Arrangement with Latvia," *Press Release 11/481* (Washington, December 21, 2011), <http://www.imf.org/external/np/sec/pr/2011/pr11481.htm> (accessed January 10, 2012).

<sup>60</sup> IMF, "IMF Executive Board Completes Fifth Review under Stand-by Arrangement for Greece and Approves €2.2 Billion

national and global economic and financial stability. The original focus of these efforts was on monetary and exchange rate policy, but now other macroeconomic policies, structural policy, and the financial stability of member states are also subject to scrutiny.

The crisis exposed the inadequacy of the IMF's attempts at crisis prevention. An investigation by the IMF's Independent Evaluation Office revealed that the organization's response to the risks and vulnerabilities of the financial system had been both too weak and too inconsistent. For instance, while the GFSR had been warning since 2005 of an impending crisis in the financial sector, the WEO's tone was relatively optimistic. In addition, the IMF had supported the policies and financial practices of the United States and the United Kingdom, whose concentration on financial innovation and rapid growth are now viewed as the root cause of the financial crisis.<sup>64</sup> Furthermore, the IMF was unable to persuade its member states, including China, to seek multilateral solutions rather than stockpiling currency reserves of their own, which meant that global macroeconomic imbalances continued to grow. It turned out that the IMF was not capable of preventing the financial crisis with its surveillance instruments. As a result, its efforts at prevention must be considered inadequate, although the Fund itself cannot be held responsible for the crisis as such.

In the course of the crisis, the IMF was assigned new systemic surveillance tasks. The G20, for example, asked the Fund to provide analysis for the Mutual Assessment Process (MAP) and to monitor the consistency of the national policies being pursued by the various member states.<sup>65</sup> Since the Seoul summit, the MAP has stepped up its scrutiny of global imbalances, which are to be analyzed by the IMF. The IMF's enhanced surveillance mandate is in line with its previous efforts to create a more extensive surveillance network to take better account of spill-

over effects of national economic and financial policies. Even before the crisis (2006–2007), for example, the IMF had initiated multilateral consultations on global imbalances with systemically important member countries.<sup>66</sup>

In addition, the IMF and the World Bank have been reviewing the financial market sectors of individual member countries since 1999 under voluntary Financial Sector Assessment Programs (FSAP). As a result of the crisis experience, the G20 highlighted the importance of macrofinancial scrutiny; appropriate instruments were added, and the FSAP was made mandatory for 25 countries with financial sectors deemed “too big to fail,” including the United States.<sup>67</sup> In November 2008, the G20 also commissioned the IMF and the Financial Stability Board to collaborate on regular Early Warning Exercises to identify systemic tail risks—that is, low probability but high-impact risks to the global economy.<sup>68</sup> Hence, the IMF asserted its unique competence and, as a result, its authority by effectively providing expert knowledge and information at short notice.

The crisis not only raised the question of how surveillance should be recalibrated to focus on particular themes, but also revealed the limits of the IMF's ability to enforce its goals. The Fund has little power to influence especially those member countries that are not in a Fund-supported program and to get them to change their national policies. Even in the past, large stakeholders had proven reluctant to follow recommendations made during consultations. The impact of “naming and shaming” and of “best practice” is limited primarily to smaller member countries and loan recipients, and is generally exerted indirectly, via markets or national debates.

It should thus be emphasized that the IMF cannot be held solely responsible for shortcomings in the effectiveness of its surveillance activities. While the

<sup>64</sup> See Declan Kelly, “CIGI Panel Debates the Roles of IMF, G20 in Financial Crisis,” *CIGI online* (June 2, 2011), <http://www.cigionline.org/articles/2011/06/cigi-panel-debate-roles-imf-g20-financial-crisis> (accessed July 27, 2012); IEO, *IMF Performance in the Run-up to the Financial and Economic Crisis: IMF Surveillance in 2004–07* (Washington, 2011), [http://www.ieo-imf.org/ieo/files/completedevaluations/crisis-%20main%20report%20\(without%20moises%20signature\).pdf](http://www.ieo-imf.org/ieo/files/completedevaluations/crisis-%20main%20report%20(without%20moises%20signature).pdf) (accessed July 27, 2011).

<sup>65</sup> IWF, *Factsheet: The G20 Mutual Assessment Process (MAP)* (Washington, November 14, 2011), <http://www.imf.org/external/np/exr/facts/pdf/g20map.pdf> (accessed March 9, 2012).

<sup>66</sup> IMF, “IMF's International Monetary and Financial Committee Reviews Multilateral Consultation,” *Press Release 07/72* (Washington, April 14, 2007), <http://www.imf.org/external/np/sec/pr/2007/pr0772.htm> (accessed August 2, 2011).

<sup>67</sup> IWF, *Factsheet: The Financial Sector Assessment Program (FSAP)* (Washington, September 2, 2011), <http://www.imf.org/external/np/exr/facts/fsap.htm> (accessed March 9, 2012); IMF, *Financial Reform: Top 25 Financial Sectors to Get Mandatory IMF Check-up* (Washington, September 27, 2010), <http://www.imf.org/external/pubs/ft/survey/so/2010/new092710A.htm> (accessed August 2, 2011).

<sup>68</sup> IMF, *Factsheet: IMF-FSB Early Warning Exercise* (Washington, March 22, 2012), <http://www.imf.org/external/np/exr/facts/ewe.htm> (accessed July 27, 2012).



IMF's recommendations can be criticized for insufficient urgency and coherence, the organization's success is dependent on its member countries' willingness to translate IMF recommendations into national policy decisions. In light of the crisis, the IMF is striving to add more systemic and financial-sector-specific aspects to its surveillance mandate; however, even prior to the crisis, there were complaints that the IMF lacked an explicit mandate to monitor global financial stability and monetary policy.<sup>69</sup> This debate on mandates continues.

<sup>69</sup> See, e.g., Committee on IMF Governance Reform (Trevor Manuel Group), *Final Report* (Washington, March 24, 2009), <http://www.imf.org/external/np/omd/2009/govref/032409.pdf> (accessed March 9, 2012).

## The World Trade Organization

The WTO was founded in 1995 as the successor to the General Agreement on Tariffs and Trade (GATT), which itself dated back to 1947. Its primary task is to reduce trade barriers and thereby promote worldwide trade and growth of the global economy. WTO agreements include the GATT, which applies to international trade in goods; the General Agreement on Trade in Services (GATS); and the agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Like the IMF, the WTO is characterized by a high degree of institutionalization. Its highest body is the Ministerial Conference, which meets at least once every two years. The day-to-day business is managed by the General Council, the Dispute Settlement Body (DSB), and the Trade Policy Review Body (TPRB). Important decisions are made by the members, while the Secretariat, headed by the Director-General, plays only an organizational and advisory role.

### The legitimacy of the WTO

#### Decision-making

##### Decision-making principles

Two principles govern the WTO decision-making process: consensus and the single-undertaking principle (see explanation below). In contrast to the IMF arrangement, each WTO member has one vote, and votes are not weighted (for instance, according to a member's share of world trade). Decisions are made by consensus among the members present at the Council meeting. Consensus does not mean unanimity; rather, it is reached when no member formally opposes the proposal at hand. If there is no consensus, a vote can be taken, for which—depending on the issue—different majorities are required. This option, however, has almost never been used, since WTO members prefer the consensus principle. It ensures (at least nominally) that no country is outvoted by others, which would diminish the resolution's acceptance and the likelihood of it being put into practice.

According to the single-undertaking principle, “nothing is agreed until everything is agreed”. Every negotiation item is part of a whole package and

cannot be agreed separately. The decision to treat WTO negotiations as a package was made at the beginning of the Uruguay Round. One rationale was that it would facilitate cross-sectoral concessions of equal weight (reciprocity). Another motivation was the desire to counteract the growing tangle of GATT rules, especially the stand-alone side agreements or codes on non-tariff barriers with limited membership. GATT signatories were largely free to pick and choose among these codes. The single-undertaking principle put an end to this. In consequence delegations can no longer afford to ignore individual items on the agenda.

The consensus and single-undertaking principles give every WTO member the chance to veto proposals,<sup>70</sup> giving developing countries considerably more influence than before. However, the consensus principle also has its drawbacks. Since not all WTO members are prepared to move ahead at the same speed, negotiation texts are riddled with exceptions for country and product groups in order to reduce the risk of a veto. Consequently, there have been more frequent calls for watering down the single-undertaking principle—for instance, with plurilateral sector agreements. A prerequisite for the conclusion of such agreements would be a critical mass of WTO members whose combined share of world trade in the sector under discussion is at least 90 percent. In the current Doha Round, however, members have been unable either to reach a consensus on the sectors to which these agreements would apply or to achieve critical mass in the individual sectors.<sup>71</sup> At the last Ministerial Conference in December 2011, more than a hundred developing countries called for retaining the single-undertaking principle. They fear being further dis-

<sup>70</sup> See Danko Knothe, “Die WTO als Handelsverein. Organisierte Heuchelei und institutionalisierte Ausreden,” *Hallenser IB-Papier* 2/2008 (Halle: Martin-Luther-Universität Halle-Wittenberg, 2008): 14.

<sup>71</sup> Bundesministerium für Wirtschaft und Technologie, *Stand der WTO-Welthandelsrunde* (Berlin, July 2011), <http://www.bmwi.de/BMWi/Redaktion/PDF/WTO/wto-handelsrunde-sachstand,property=pdf,bereich=bmwi,sprache=de,rwb=true.pdf> (accessed October 14, 2011).

advantaged by the addition of plurilateral agreements.<sup>72</sup>

### Negotiation processes

In theory, the consensus principle formally gives even small developing countries the chance to assert their own interests in negotiations. In practice, however, opportunities for participation are limited; this lack has been a regular source of criticism of the WTO. The least-developed countries (LDCs) in particular have neither the staff nor the expertise to attract adequate attention to their concerns and to evaluate the potential economic consequences of an agreement for their countries.

The WTO has recognized the problem and is using capacity-building measures to enhance the negotiating skills of developing countries. Director-General Pascal Lamy has also tried different negotiating formats in the Doha Round with the aim of providing small developing countries the chance to defend their interests, while maintaining feasibility and manageability for an organization that has 156 members (as of July 2012). In the run-up to the 2008 Ministerial Conference, for instance, the chairs of the individual negotiating groups did their best to include in their draft proposals compromise solutions suggested in advance by various coalitions. Along with so-called “transparency sessions,” which were open to all members, “Green Room” (a reference to the Director-General’s conference room) meetings were held with 20 to 30 delegation chairs and the WTO Secretariat.

However, this negotiating format failed to deliver a breakthrough, and Lamy subsequently proposed a consultation structure of “concentric circles” in which talks are first held in a small circle of large trading nations, which then put forward their compromises in the multilateral process that is open to everyone.<sup>73</sup> Lamy conceded that this approach had drawbacks, but argued that it alone was capable of producing a draft proposal able to win consensus. This, however, failed to mollify the WTO members who were not part of the

inner circle.<sup>74</sup> The results of the consulting process were published shortly before the meeting of the General Council at the end of November 2011, but a number of developing countries, such as Bolivia, Ecuador, and Venezuela, complained that they had merely been informed of the outcome of talks and that the “Elements for Political Guidance”<sup>75</sup> did not reflect the position of all WTO members.

This suggests that the WTO has problems with decision-making and participation. Reforms, however, have so far been consciously postponed in the interest of not adding further complications to the already-difficult Doha Round negotiations.<sup>76</sup> In 2005, under the chairmanship of former WTO Director-General Peter Sutherland, a group of experts submitted comprehensive proposals for reforms that covered both the organization’s structure and its decision-making processes.<sup>77</sup> The proposals did not meet with consensus. On the initiative of Germany’s Chancellor Angela Merkel and the UK’s Prime Minister David Cameron, the G20 at its Seoul summit commissioned a second group of experts, headed this time by the economist Jagdish Bhagwati and, once again, Peter Sutherland, to draft a longer-term approach to boosting trade liberalization. In its report, the group advocated a stronger WTO and constant updating and improvement of its instruments and rules. It did not, however, come up with a viable solution to the difficulties of WTO decision-making.<sup>78</sup>

<sup>72</sup> Friends of Development, *Friends of Development Ministerial Declaration* (Geneva, December 15, 2011), <http://www.eed.de/fix/files/doc/Friends%20of%20Development.pdf> (accessed February 4, 2012).

<sup>73</sup> The core groups include the G4 (EU, U.S., Brazil, and India), the G6 (G4 plus Japan and Australia), the G6+1 (G6 plus China), and recently the G11 (G6+1 + Canada, Argentina, South Africa, and Mauritius).

<sup>74</sup> See “WTO General Council: Lamy Calls for a ‘Major Acceleration’ in Doha Talks,” *ICTDS, Bridges Weekly Trade News Digest* 15 (February 24, 2011): 6.

<sup>75</sup> WTO, *Elements for Political Guidance* (December 1, 2011), <http://docs.wto.org/imrd/directdoc.asp?DDFDocuments/t/WT/MIN11/W2.doc> (accessed February 4, 2012); “Developing Countries Stress Multilateralism and Development Dimension,” *Third World Network* (December 17, 2011), <http://www.twinside.org.sg/title2/wto.info/2011/twninfo111201.htm>.

<sup>76</sup> One of the few reforms achieved concerns the transparency mechanism for preferential trade agreements (PTA).

<sup>77</sup> Peter Sutherland, et al., *The Future of the WTO. Addressing Institutional Challenges in the New Millennium* (Geneva, 2005), [http://www.wto.org/english/thewto\\_e/10anniv\\_e/future\\_wto\\_e.htm](http://www.wto.org/english/thewto_e/10anniv_e/future_wto_e.htm) (accessed October 14, 2011).

<sup>78</sup> See Jagdish Bhagwati and Peter Sutherland, *World Trade and the Doha Round. Final Report of the High-Level Trade Experts Group* (May 2011), <http://www.bis.gov.uk/assets/biscore/international-trade-investment-and-development/docs/w/11-964-world-trade-and-the-doha-round.pdf> (accessed February 2, 2012).

## Transparency

Particularly since the outset of the Doha Round, the WTO has striven to improve the flow of information to the interested public (external transparency). Its goal is to counter criticism of globalization and the public's growing skepticism about the benefits of trade liberalization. This effort is important for two reasons. For one thing, since WTO resolutions often need to be ratified by national legislatures, public opinion is key to putting resolutions into effect. For another, because governments in small developing countries lack adequate resources of their own, they are often dependent on the advice of NGOs and research institutes; the better the flow of information, the better the advice.

External transparency and opportunities for participation of interest groups and NGOs have grown considerably in comparison to the GATT era. The organization publishes an entire range of trade data and statistics, provides detailed information on its dispute settlement proceedings, and reports regularly on the trade policies of its members. In addition, the WTO holds annual public forums in Geneva in which representatives of NGOs and the academic and business communities are invited to take part in discussions. Not only does it put the dates of important meetings on its website, it also provides updates on the status of negotiations and publishes reports on their outcomes. Internal sessions and their minutes, on the other hand, are not open to the public; negotiations between WTO members take place behind closed doors. The scope for difficult compromises between negotiating partners has already shrunk under the watchful eye of the public. If negotiations were opened up still further, compromise would be all but impossible.

## Inclusiveness

One of the WTO's strengths is its membership structure. At the end of 2011, WTO members voted to admit Vanuatu, Russia, Montenegro, and Samoa. With the national legislatures of Samoa, Russia, and Montenegro having ratified their countries' accession, the number of WTO members has risen to 156. Russia is the last of the world's large economies to join the organization. The expanded coverage gives the WTO's resolutions enormous impact on worldwide trade in goods and services.

Any state or customs territory with full autonomy in the conduct of its trade policies can join the WTO, assuming the other members agree and the applicant is willing to undertake wide-ranging liberalization of its economy. In practice, however, accession negotiations tend to be difficult, especially in the case of larger countries. Negotiations with China took 15 years (1986–2001), and the terms of its accession filled over a hundred pages. Negotiations with Russia were even more protracted (18 years).

## The effectiveness of the WTO

The WTO's basic tasks can be summed up as ensuring a functioning, multilateral trade system and promoting a sustainable process of liberalization in order to strengthen international trade and global economic growth. During the global economic and financial crisis, the WTO had to withstand rising protectionist pressure in its member countries and continue to liberalize trade, thereby sending a vital political signal and stimulating the international economy. It used four instruments in this effort: (1) WTO rules, (2) the transparency mechanism, (3) the dispute settlement mechanism, and (4) the liberalization round.

## Resisting protectionism

The instruments discussed below apply almost exclusively to WTO members. For example, the organization does not compile country reports on the trade policies of non-members (Trade Policy Reviews, TPR), nor can WTO members use the dispute settlement mechanism to compel non-members to follow WTO rules. This turned out to be a disadvantage especially during the crisis, since a number of the non-member countries—particularly Russia—set up a raft of new trade barriers.<sup>79</sup> The fact that all of the world's large trading nations have since agreed to the WTO's rules, however, should make the institution more effective in the future.

<sup>79</sup> Apart from the WTO, the Global Trade Alert offers the most comprehensive overview of new trade barriers since the beginning of the crisis; <http://www.globaltradealert.org/> (accessed October 14, 2011).

### WTO rules

The WTO agreement contains a comprehensive and, in large part, rigorous set of rules for international trade that severely limits the possibilities for discriminatory trade policy measures. For instance, once a tariff has been reduced, Article II of GATT permits a subsequent increase only in exceptional cases—for instance, in order to counter unfair trade practices like dumping or subsidies from abroad or to safeguard national security, health, or the environment. Despite its severity, however, the agreement gives countries a great deal of leeway to protect domestic markets—for example, by exploiting the difference between the WTO's bound tariff rates and the tariff effectively applied. This “binding overhang” tends to be large especially in the case of developing countries, and it enabled them to raise tariffs during the crisis without risking conflict with the WTO.

While a relatively strict approach is taken to tariffs, WTO-compliant trade instruments like anti-dumping and countervailing measures give protectionism an opening. In addition, in contrast to its tariff management system, the organization's anti-subsidy regime is fairly weak. Here, too, members were able to protect domestic industries during the crisis without violating WTO rules. Many governments put together stimulus and bailout packages designed to prop up struggling sectors and companies and to save jobs in their own countries. The WTO is even less able to combat discrimination in public procurement, since this area is not covered by a multilateral agreement. Moreover, standards aimed at safeguarding health or the environment, for instance, were used during the crisis as an excuse to protect domestic markets against foreign competition. The WTO is just as powerless to fight export duties, since members are permitted to impose them; they have not been systematically reduced and bound like import duties. During the crisis, export restrictions soared on agricultural products in particular, but also on many minerals and metals.<sup>80</sup> The WTO cannot be held responsible for this development, since it can only enforce the rules its members have agreed on.

The loopholes in the WTO's rules are a familiar problem and are thus under discussion in the current round of negotiations. A rare step forward was taken

shortly before the 2011 Ministerial Conference, when the parties to the 1996 plurilateral agreement on government procurement agreed on comprehensive reforms. These include (1) more transparent regulations governing the awarding of public contracts by the parties, (2) new market access possibilities, (3) accelerated accession for developing countries, and (4) the establishment of work programs dealing with issues like sustainable procurement, support for small and medium enterprises, and the collection and reporting of statistical data. The reform will help to curb trade-distorting practices at least in this area. At the same time, however, the impact of the agreement will be limited until large trading nations, especially China and Russia, have come on board.

### Transparency mechanism

The WTO's monitoring activities center around its Trade Policy Review Mechanism (TPRM) and the accompanying country reports (TPR): every two years, the trade policies of larger members, such as the EU, the United States, and China, are examined with an eye to identifying possible protectionist tendencies. The WTO scrutinizes the policies of smaller countries every four to six years. Fifty-seven TPRM reviews were conducted during the crisis years between 2008 and 2010.<sup>81</sup>

Two additional review mechanisms were added at the beginning of the crisis. The reports of the WTO Director-General give an overview of the current state of world trade and of WTO members' trade policy measures.<sup>82</sup> The first report appeared in January 2009; nine others have since followed. In addition, as mentioned above, the WTO drafts Reports on Trade and Investment Measures (RTIM) of the G20 countries; these are commissioned by the G20 and written in cooperation with the OECD and UNCTAD. Its seven RTIM reports so far have provided information on developments in international trade and on new barriers to trade and investment flows in the G20 countries.

The TPRs, the reports of the Director-General, and the RTIMs enabled WTO members to monitor each other's trade policy behavior during the crisis, at least in part. Nevertheless, in many respects, the transpar-

<sup>80</sup> WTO, *Report on G20 Trade Measures (May to Mid-October 2011)* (Geneva, October 25, 2011): 4, <http://www.unctad.org/templates/Download.asp?docid=15870&lang=1&intItemID=5970>.

<sup>81</sup> WTO, *Annual Report 2009, 2010, 2011*, [http://www.wto.org/english/res\\_e/reser\\_e/annual\\_report\\_e.htm](http://www.wto.org/english/res_e/reser_e/annual_report_e.htm) (accessed September 15, 2011).

<sup>82</sup> See Robert Wolfe and Terry Collins-Williams, “Transparency as a Trade Policy Tool: The WTO's Cloudy Windows,” *World Trade Review* 9 (2010) 4: 551–581.

ency mechanism leaves much to be desired. For instance, although the WTO calculates the trade share of G20 countries and of global trade affected by protectionist policies, it does not evaluate the actual impact of individual measures on the flow of trade and does not indicate to what extent the decline in trade can be blamed on protectionism. Moreover, all three of these reports lack an estimate of the consequential costs of the various national measures. The WTO is equally reticent on the subject of the dead-weight loss of protectionism.<sup>83</sup> All of these omissions reduce the potential impact of the “naming and shaming” mechanism.

The issue of transparency was on the agenda once again at the most recent Ministerial Conference in late 2011. The biggest problems were left out; still, the semi-annual report of the Director-General on trade measures was declared to be an essential task, which will likely improve the reception of these reports. The TPRB was also called on to streamline the procedures used to review member countries’ trade policies; however, members were unable to agree on the details.<sup>84</sup>

### Dispute settlement

Along with the transparency mechanism, the WTO can also use its Dispute Settlement Procedure (DSP) to enforce its trade rules. This powerful instrument marks a clear difference between the WTO and the G20 and IMF. Thanks to the DSP, parties have so far been able to settle trade disputes—or prevent them from arising in the first place—by using swift, rule-based procedures and depoliticizing conflicts. The DSB monitors the implementation of the panel’s decisions, although it does not systematically record and evaluate compliance at regular intervals the way the University of Toronto does with G20 resolutions. Nevertheless, scientific studies have shown that implementation rates were high at least before the crisis. According to an analysis by U.S. law professor William Davey, from the time the WTO was founded until

<sup>83</sup> See Valentin Zahrnt, “The WTO’s Trade Policy Review Mechanism: How to Create Political Will for Liberalization?,” *ECIPE Working Paper 11/2009* (Brussels: European Centre for International Political Economy [ECIPE], 2009); Georg Koopmann, “Der Trade Policy Review Mechanism der WTO – eine entwicklungspolitische Perspektive,” *Nord-Süd Aktuell* 1 (2004): 137f; Robert Wolfe, “Did the Protectionist Dog Bark?,” *ENTWINED Policy Report 11* (March 2011), [http://www.iisd.org/pdf/2011/protectionist\\_dog\\_bark.pdf](http://www.iisd.org/pdf/2011/protectionist_dog_bark.pdf) (February 2, 2012).

<sup>84</sup> WTO, *Trade Policy Review Mechanism. Decision of 17 December 2011, WT/L/848* (Geneva, December 19, 2011).

December 2004, panel decisions were implemented promptly in 61 percent of cases, with delays in 21 percent, and were not implemented at all in only 9.8 percent.<sup>85</sup> It is still too early to undertake a comparable analysis of implementation efforts during the crisis. While the DSB has issued a report for the majority of dispute settlement cases for 2010, some of these are still under appeal and others have yet to be adopted by the WTO members. The countries affected by the reports already adopted still have time remaining before they need to have implemented the panel results. How successful implementation will be thus remains to be seen. The same holds true for dispute settlement cases initiated in 2011; the majority of these cases are still (as of July 2012) in the consultation or processing phase.<sup>86</sup>

In view of rising protectionism, it seems at first glance surprising that the number of disputes taken to the WTO is not higher.<sup>87</sup> The relative lack of WTO member complaints to the DSB is probably not an indication of a lack of confidence in the mechanism. Rather, many countries may have exercised restraint for fear of unleashing a flood of lawsuits that could end up also targeting their own, not always WTO-compliant behavior. This flaw in the dispute settlement mechanism reflects a fundamental dilemma of international organizations: the WTO is dependent on its members. The organization itself cannot initiate proceedings in order to enforce rules; this option is reserved for member countries. In addition, many of the trade-distorting instruments used during the crisis were in fact WTO-compliant, thanks to loopholes in WTO agreements. Filing a complaint against them with the DSB would therefore have made little sense.

Did the WTO succeed in curbing protectionism during the crisis with the three instruments discussed here? According to WTO data, G20 countries introduced 639 trade restrictive measures, not including

<sup>85</sup> William J. Davey, “Implementation in WTO Dispute Settlement: An Introduction to the Problems and Possible Solutions,” *RIETI Discussion Paper Series 05-E-013* (Tokyo: Research Institute of Economy, Trade and Industry [RIETI], March 2005, <http://www.rieti.go.jp/jp/publications/dp/05e013.pdf> (accessed February 2, 2012).

<sup>86</sup> See WTO, *Current Status of Disputes*, [http://www.wto.org/english/tratop\\_e/dispu\\_e/dispu\\_current\\_status\\_e.htm](http://www.wto.org/english/tratop_e/dispu_e/dispu_current_status_e.htm) (accessed July 30, 2012).

<sup>87</sup> WTO, *Chronological List of Disputes Cases*, [http://www.wto.org/english/tratop\\_e/dispu\\_e/dispu\\_status\\_e.htm](http://www.wto.org/english/tratop_e/dispu_e/dispu_status_e.htm) (accessed July 30, 2012); WTO, *Disputes by Agreement*, [http://www.wto.org/english/tratop\\_e/dispu\\_e/dispu\\_agreements\\_index\\_e.htm](http://www.wto.org/english/tratop_e/dispu_e/dispu_agreements_index_e.htm) (accessed July 30, 2012).

**Table 5**  
**Trade restrictive measures by G20 economies during the crisis**

Type of measure	April– Aug. 2009	Sept. 2009– Feb. 2010	March– Mid-May 2010	Mid-May– Mid-Oct. 2010	Mid-Oct. 2010– April 2011	May 2011– Mid-Oct. 2011	Mid-October 2011– Mid-May 2012
Trade remedies	50	52	24	33	53	44	66
Border	21	29	22	14	52	36	39
Export	9	7	5	4	11	19	11
Other	0	7	5	3	6	9	8
Total	80	95	56	54	122	108	124

Source: WTO, *Report on G20 Trade Measures (Mid-October 2011 to Mid-May 2012)* (Geneva, May 31, 2012): 4, [http://www.wto.org/english/news\\_e/news12\\_e/igo\\_31may12\\_e.htm](http://www.wto.org/english/news_e/news12_e/igo_31may12_e.htm) (accessed July 30, 2012).

internal support measures, between April 2009 and mid-May 2012. There was an especially steep rise in the number of protectionist measures during 2009, followed by a noticeable decline until the fall of 2010. However, because the global economy made only negligible gains in 2011 and stimulus programs expired, protectionist pressures were revived. In the reporting period from mid-October 2011 to mid-May 2012 alone, 124 new trade barriers were set up (see Table 5). The same trend has emerged for WTO member countries as a whole, as well as for those with observer status: while 222 new trade barriers were introduced from November 2009 to mid-October 2010, the number climbed to 339 in the period from mid-October 2010 to mid-October 2011, an increase of about 50 percent.<sup>88</sup> In the period from mid-October 2011 to mid-May 2012, another 182 restrictive measures were implemented.<sup>89</sup> WTO Director-General Lamy warned against the rise in export barriers in particular, since the WTO has very little leverage against them. According to the organization's calculations, a relapse into high-intensity protectionism could cost the global economy around \$800 billion a year.<sup>90</sup>

Despite the increase in protectionism, it is not nearly as pronounced as many had feared at the outset of the crisis. Overall, protectionism affected only a

small share of global trade (see Table 6, p. 32), and there was no dramatic increase in the number of trade remedies (anti-dumping and countervailing measures, as well as safeguard measures) over average annual rates.<sup>91</sup> There are many reasons why the anticipated protectionist spiral failed to materialize. Not only had political decision-makers learned from the drastic consequences of 1930s protectionism; they were also aware that sealing off markets is always detrimental to domestic industries due to the increasing globalization of production processes. In addition, countries now have a wide array of monetary and fiscal policies at their disposal, and since these can be used to stabilize domestic economies, they no longer need to fall back on protectionist measures as much as before. Although the WTO's influence cannot be weighed precisely, its vigilance most likely contributed to keeping protectionism at bay—despite the above-mentioned flaws in its rules, its transparency mechanism, and its dispute settlement mechanism.

### Liberalization

The WTO was less effective at fulfilling its second task, trade liberalization, during the crisis. At their summits, the G7/8 and later the G20 called repeatedly on the WTO to bring its Doha Round to a quick conclusion, but after being stalled for years, talks were revived only at the end of 2010. WTO members continued to negotiate on improving market access for agricultural products, industrial goods (Non-Agri-

<sup>88</sup> See WTO, *Overview of Developments in the International Trading Environment*, WT/TPR/OV/14 (November 21, 2011), [http://www.wto.org/english/news\\_e/news11\\_e/WTPROV14.doc](http://www.wto.org/english/news_e/news11_e/WTPROV14.doc) (accessed March 9, 2012).

<sup>89</sup> See WTO, *Report to the TPRB from the Director-General on Trade Related Developments*, WT/TPR/OV/W/6 (June 28, 2012), [http://www.wto.org/english/news\\_e/news12\\_e/devel\\_29jun12\\_e.htm](http://www.wto.org/english/news_e/news12_e/devel_29jun12_e.htm) (accessed July 30, 2012).

<sup>90</sup> WTO, "Lamy: 'Stand up for the Values of Multilateralism'," *Speech at the WTO Ministerial Conference* (Geneva, December 15, 2011), [http://www.wto.org/english/news\\_e/sppl\\_e/sppl212\\_e.htm](http://www.wto.org/english/news_e/sppl_e/sppl212_e.htm) (accessed February 2, 2012).

<sup>91</sup> See WTO, *Report on G20 Trade Measures (May to Mid-October 2011)* (May 24, 2011): 11–14, [http://www.wto.org/english/news\\_e/news11\\_e/igo\\_24may11\\_e.htm](http://www.wto.org/english/news_e/news11_e/igo_24may11_e.htm) (accessed February 2, 2012).

**Table 6**  
**Share of worldwide imports and G20 imports affected by protectionism (in percent)**

	Oct. 2008— Oct. 2009	Nov. 2009— May 2010	May— Mid-Oct. 2010	Mid-Oct. 2010— April 2011	May— Mid-Oct. 2011	Mid Oct. 2011— Mid-May 2012
In total world imports	0.8	0.4	0.2	0.5	0.5	0.9
In total G20 imports	1.0	0.5	0.3	0.6	0.6	1.1

Source: WTO, *Report on G20 Trade Measures (Mid-October 2011 to Mid-May 2012)* (Geneva, May 31, 2012): 4, [http://www.wto.org/english/news\\_e/news12\\_e/figo\\_31may12\\_e.htm](http://www.wto.org/english/news_e/news12_e/figo_31may12_e.htm) (accessed July 30, 2012).

cultural Market Access, NAMA), services, and environmental issues, on strengthening multilateral rules, and better integrating developing countries into world trade and the world trade system—but without much enthusiasm. When the acute phase of the crisis subsided at the end of 2010, Lamy outlined a timetable for negotiations, which were targeted for conclusion at the end of 2011, and called on WTO members to make new proposals for moving forward on individual issues.<sup>92</sup> Nevertheless, the last Ministerial Conference in late 2011 also failed to achieve a breakthrough. Along with approving the new accessions mentioned above, the ministers managed to adopt only smaller decisions related to LDCs, such as a work program on small economies, an extension of the implementation deadline for trade-related aspects of intellectual property rights, facilitating accession for LDCs, and preferential treatment to services and service suppliers of least-developed countries. The members also agreed to extend their e-commerce moratorium, according to which customs duties are not imposed on electronic commerce.<sup>93</sup> Still, these decisions cannot be considered much of a step forward in terms of liberalization.

The current trade round's fundamental conflict has existed unchanged for years now: the EU and the United States want significantly improved access particularly to the industrial goods markets of Brazil, China, and India, but developing and emerging countries are unwilling to make further concessions without an additional, substantial quid pro quo on agri-

cultural trade.<sup>94</sup> In addition, the United States in particular is pushing for sector agreements that include developing countries. Disagreement also prevails over a “Doha light” agreement, which would at least conclude negotiations on issues (primarily with a development focus) on which members have already reached an understanding, such as export subsidies. Developing countries support the idea, while the United States is adamantly against such an “early harvest.”

The economic and financial crisis has intensified these longstanding problems. For one thing, crisis management efforts tied up political resources of large trading nations, which now have different priorities; for another, trade liberalization and the corollary increase in competitive pressure is a tough sell on the domestic front in the given economic climate. This is also a reason why WTO members concentrated on working out preferential trade agreements (especially free trade agreements) aimed at opening up markets more selectively to certain trading partners.

Bringing the Doha Round to a successful conclusion would have given the global economy a strong boost during the crisis. The economists Gary Clyde Hufbauer, Jeffrey J. Schott, and Woan Foong Wong estimate that if negotiations were to be concluded at the level reached by July 2008, potential growth effects for seven industrial countries and 15 developing countries would amount to \$56 billion annually (0.1 percent of the GDP of these countries). If the outcome of negotiations were even more ambitious, growth effects could add up to \$249 billion (0.5 percent of their GDP).<sup>95</sup> In addition, reaching an agreement

<sup>92</sup> See Klaus Deutsch, “Doha oder Dada. Die Welthandelsordnung am Scheideweg,” *Aktuelle Themen* 515 (Frankfurt a.M.: Deutsche Bank Research, May 26, 2011): 3ff.

<sup>93</sup> Bundesministerium für Wirtschaft, Familie und Jugend (Austria), 8. WTO-Ministerkonferenz, <http://www.bmwfj.gv.at/Aussenwirtschaft/WTOUndMultilateraleHandelspolitik/Seiten/8WTOMinisterkonferenz.aspx> (accessed January 1, 2012).

<sup>94</sup> See, for instance, Stormy-Annika Mildner, “Die Doha-Runde der WTO. Stolpersteine auf dem Weg zu einem erfolgreichen Verhandlungsabschluss,” *SWP-Studie* 1/2009 (Berlin: Stiftung Wissenschaft und Politik, January 2009).

<sup>95</sup> See Gary Clyde Hufbauer, Jeffrey J. Schott, and Woan Foong Wong, “Figuring out the Doha Round,” *Policy Analysis in International Economics* 91 (Washington: Peterson Institute for International Economics, June 2010), <http://www.iie.com/>



would remove obstacles to reforms of both the WTO and its multilateral rules. A failure of the trade round will probably take a toll on the dispute settlement mechanism as well. Member countries may try to exploit it in the future to create new WTO rules by establishing precedents in areas in which negotiations have so far been unsuccessful. The WTO's credibility as a dispute settlement authority would suffer a serious blow—as would the willingness of governments to submit to the panel's decisions. Finally, failure would further boost the trend towards preferential trade agreements and could end up undermining the WTO in the long term.

publications/briefs/hufbauer5034.pdf (accessed October 14, 2011).

## Conclusions

### Legitimacy and effectiveness of the G20, IMF, and WTO during the crisis

#### Legitimacy

All three institutions have legitimacy deficits. At the same time, the evaluation of the various indicators reveals stark differences between them.

The G20 as a self-appointed club is significantly less inclusive than the IMF and the WTO. The G20 is an improvement over the G7/8, since the large emerging economies are now also included. Still, the participants were chosen arbitrarily, and some countries and regions are not adequately represented. However justified this criticism may be, it is difficult to increase input legitimacy because there are no objective criteria for membership. The G20 is supposed to be a club of systemically important countries, but opinions are divided on how importance is to be determined—whether on the basis of GDP, total population, share of world trade, or global investment. Nevertheless, the G20 could make its outreach activities more systematic and more representative to enhance its own legitimacy. One conceivable approach would be to bring relevant non-members into the discussions on issues in which their interests are strongly affected by G20 negotiations and where their perspective would be valuable to the G20.

The group thus lacks representativeness, but at least the way in which G20 member governments arrive at decisions is balanced, and there is, for the most part, internal transparency. In the interest of boosting legitimacy (and effectiveness), some G20 countries have suggested setting up a permanent secretariat. This would not be a good idea as the G20 process will succeed only if the agenda continues to be flexible and driven by its members.

On the basis of its almost universal membership, the IMF is an inherently inclusive organization. Decision-making, however, is dominated by a few members—above all, the United States and Europe—while the quota system gives most of the others few opportunities for participation. In recent years, the IMF has bolstered its own legitimacy with internal

governance reforms and more transparency. However, it now needs to also implement and further develop the governance reforms initiated during the crisis.

The WTO is distinguished by its universal character and the formal equality of its members; as a result, it has more legitimacy in this respect than the G20 or the IMF. At the same time, this feature has impeded decision-making in the organization: the consensus and single-undertaking principles make negotiations arduous and slow, and the interests of smaller developing countries are still not adequately heard. The WTO should therefore help these countries boost their ability to participate. The consensus principle should be maintained; loosening the single-undertaking principle through plurilateral sector agreements may help to find a way out of the current impasse. These agreements should address issues in the interests of both the industrialized and the developing countries, and the onerous requirement that 90 percent of world trade be covered should be abandoned.

#### Effectiveness

Judged on their output, the G20 and IMF can be proud of their achievements in the crisis, although the G20's effectiveness varies markedly depending on the issue at hand. The G20 has launched many different initiatives and has for the most part succeeded in reaching the goals it set itself in dealing with the immediate effects of the crisis. For instance, it was a key contributor to the reforms of international financial market regulation and of international financial institutions. However, with the global economy's modest recovery and the diverging economic development of the members, there has been a noticeable decline in the output of this informal forum. The first rifts are becoming evident, especially on fundamental macroeconomic issues that go beyond immediate crisis management. Above all, these include reducing global imbalances and measures to further boost the economy in the midst of the euro crisis. In other words, the real test of the G20's effectiveness on issues outside the realm of crisis management is yet to come.

The effectiveness outcome is even more mixed, but is also more difficult to measure: The G20 is heavily dependent on other international organizations and implementation of many decisions is still pending. At the same time, however, the G20's tasks should not be judged simply on its track record of adopting and implementing resolutions. One of the group's key functions is to provide a platform for informal, cross-sector, and flexible exchange on the highest political level. Constant communication supports a common analysis of the root causes of the crisis that enables the development of cooperative solutions in an atmosphere of trust, thereby facilitating the implementation of G20 resolutions. The members of the G20 must now transform the forum from a crisis management group into an effective global steering committee and devote more attention to macroeconomic questions. They should also see to it that the G20's agenda transcends individual presidencies. This would maintain the necessary flexibility, while at the same time ensuring continuity; it would also avoid skewing the individual agendas towards the domestic political considerations of the different presidencies.

With the growing demand for loans, especially among industrial countries in the EU, the IMF has a much stronger worldwide presence than it did before. In terms of the volume of loans granted, its output has grown considerably, albeit from a relatively low starting point prior to the crisis. In addition, the IMF has abandoned its "one-size-fits-all" policy and given up, at least in part, the procyclical loan conditions for which it had been severely criticized since the 1990s. The IMF also took advantage of the crisis moment to reposition itself with regard to its mandate, with an eye to enhancing its reputation in the medium term and its significance in the long term. By contrast, IMF surveillance as a key crisis prevention instrument remains inadequate. Although its deficiencies have been recognized, members have not yet given the organization the necessary mandate to expand IMF surveillance by adding far-reaching systemic and financial-sector-specific aspects. The Fund will need better instruments in order to monitor the global economy effectively.

Compared to the G20 and the IMF, the WTO's performance in the crisis was disappointing. While the organization's vigilance did contribute to reining in protectionist measures during the crisis, it was not able to prevent the growth of protectionism in areas where its rules are weak. The transparency mechanism also has severe flaws. Above all, the WTO did not

succeed in moving ahead with further trade liberalization during the crisis, and thereby stimulating the global economy. If the current negotiations in the context of the Doha Round fail, potential welfare gains will not be achieved, and the WTO's effectiveness will suffer. However, the conclusion depends first and foremost on the willingness of its members to make the necessary concessions to liberalization.

This analysis of the G20, the IMF, and the WTO has shown that the three institutions are more effective when they "have their backs to the wall"—in other words, when they need to overcome sudden, unexpected challenges. During the crisis, the G20 took steps to boost the economy, the IMF provided liquidity, and the WTO curbed protectionism. All of them were reasonably successful in meeting these short-term goals. By contrast, they have had much more difficulty remedying long-term, structural problems, making virtually no progress during the crisis with their long-term tasks, such as reducing global imbalances (G20 and IMF) and advancing liberalization (WTO).

Although there are major differences between the three organizations in terms of their institutional structure and their decision-making mechanisms, comparison shows that all of them are only as effective as their members permit them to be. For one thing, members need to give their organization a powerful mandate; for another, they need to be willing to make compromises on the international level and to thereby relinquish some of their national sovereignty. These two aspirations often end up colliding: the desire to initiate more international coordination is opposed by national sensitivities or domestic policy considerations. This tendency is especially evident in the case of the more informal G20. If the members are at odds over an issue, the group can take only limited action; its power to assert itself is directly dependent on the will of its members and the presidency. However, even the IMF and the WTO—organizations with a much stronger institutional structure—have their hands tied when political initiatives or instruments run counter to the interests of more dominant members or to the political will of the majority. Examples include the general reluctance to invoke the WTO dispute settlement mechanism during the crisis, the failed attempts to conclude the Doha Round, and the debate over the IMF surveillance mandate.

Finally, an institution's effectiveness over the long-term also depends on its ability to adapt to a changing

environment. The G20 itself was a reaction to the crisis, which means that it has not yet had to adapt to new developments. However, it has successfully expanded its structure (for instance, by setting up working groups) and increased its outreach to non-members and civil society, also in view of the experiences of the G7/G8. The IMF, on the other hand, proved to be very adaptable during the crisis, even if more progress has been made with reforms of its instruments than of its governance structures. In contrast, the WTO has so far been unable to push through necessary governance reforms and to adapt its rules in order to boost its effectiveness. Institutional reforms do, of course, require time, and the reorientation of global governance structures takes place one small step at a time. The assessment undertaken here is thus only provisional; a long-term evaluation of the crisis remains a project for the future.

### **The tension between legitimacy and effectiveness**

Comparison of the three institutions also shows that tension can exist between the criteria of (input) legitimacy and effectiveness. On the one hand, an institution can be effective only if its decision-making process is legitimate or, in other words, if its members accept its mechanisms and outcomes. The higher the input legitimacy, the greater the faith in the institution and the more effective its policy recommendations and surveillance measures can be. On the other hand, institutions may well become less effective the more members they have and the more inclusive decision-making becomes. A trade-off of this kind can be observed in the case of the G20. Because the group has grown and, as a result, has become more heterogeneous, it is now more likely that a member may block a decision with its veto. The same is true of the WTO. Because the developing countries are now more involved, the input legitimacy of the negotiations has risen. The downside of this development is that reaching an agreement has become much more arduous.

### **An appeal for better cooperation between the organizations**

Because of their differing institutional characteristics and thematic priorities, the G20, the IMF, and the WTO perform different tasks in the global system of economic governance and are able to complement

one another. With the creation of the G20, forms of interaction and cooperation are still in flux and need to be worked out.

More and more, the G20 is becoming an “apex forum,”<sup>96</sup> a kind of steering body that is expected to use political impetus to put issues on the agenda and then pursue these. Expectations that the G20 might be able to function as a global economic government, on the other hand, are unrealistic, as are the corollary demands on its legitimacy and effectiveness. This informal forum can only operate effectively by joining forces with organizations that are able to carry out plans and proposals, such as the IMF in the area of macroeconomics and the WTO in trade. Because of their universal membership, both of these organizations have the necessary legitimacy to translate political initiatives into concrete decisions and regulations. They also have the enforcement instruments (although these need to undergo critical scrutiny) needed to ensure implementation.

More cooperation between the organizations is necessary also because they vary in their degree of flexibility: as an informal group, the G20 can respond more easily to new challenges, while other organizations use their official instruments to make lasting changes in rules. To some extent, this has already happened recently: The G20 provided the political impetus for IMF reforms and financial regulation. In turn, the IMF implemented the reform, while the Basel Committee on Banking Supervision drafted the financial regulation. In the interest of preserving the division of labor, the G20 should not be further institutionalized. Instead, international institutions should be viewed to an even greater extent as networks, and better use should be made of their complementarity. Enhancing cooperation will make it possible to also bolster the system’s legitimacy and effectiveness over the long term—beyond the crisis.

<sup>96</sup> Andrew Baker, “Deliberative International Financial Governance and Apex Policy Forums: Where We Are and Where We Should Be Headed,” in Geoffrey Underhill, Jasper Blom, and Daniel Mügge (eds.), *Global Financial Integration Thirty Years On: From Reform to Crisis* (Cambridge: Cambridge University Press, 2010). This interpretation corresponds in part with Pascal Lamy’s proposal of an institutional triangle, with the UN at the top.

## List of abbreviations

DSB	Dispute Settlement Body
D-SIB	Domestic Systemically Important Bank
DSP	Dispute Settlement Procedure
EEF	Extended Arrangement
EU-27	European Union with 27 Member States
FCL	Flexible Credit Line
FDI	Foreign Direct Investment
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
G7/8	Group of Seven/Eight Leading Industrialized Countries
G20	Group of Twenty Major Advanced and Emerging Economies
G20-F	G20 Finance Ministers and Central Bank Governors
G20-L	Leaders' G20
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GFSR	Global Financial Stability Report
G-SIFI	Global Systemically Important Financial Institution
IEO	Independent Evaluation Office
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
LDC	Least-Developed Countries
MAP	Mutual Assessment Process
NAB	New Agreements to Borrow
NAMA	Non-Agricultural Market Access
NEPAD	New Partnership for Africa's Development
NGO	Non-Governmental Organization
OECD	Organization for Economic Co-operation and Development
PCL	Precautionary Credit Line
PLL	Precautionary and Liquidity Line
PTA	Preferential Trade Agreement
RTIM	Report on Trade and Investment Measures
SBA	Stand-by Agreement
SDR	Special Drawing Rights
TPR	Trade Policy Review
TPRB	Trade Policy Review Body
TPRM	Trade Policy Review Mechanism
TRIPS	Trade-Related Aspects of Intellectual Property Rights
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
WEO	World Economic Outlook
WTO	World Trade Organization