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G20 MONITOR

G20: Rebutting Some Misconceptions

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The Lowy Institute for International Policy is an independent policy think tank. Its mandate ranges across all the dimensions of international policy debate in Australia – economic, political and strategic – and it is not limited to a particular geographic region. Its two core tasks are to:

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Contents

Introduction

Welcome to the second issue of the G20 Monitor.

We begin this issue with an update on recent G20 developments. The Russian presidency of the G20 is well underway and Moscow has outlined a busy schedule of meetings for 2013. Also included in this update is an assessment of the G20 finance ministers and central bank governors meeting, which was held on 15-16 February 2013.

The remaining articles focus on the main theme of this issue of the Monitor: misconceptions surrounding the G20. Mark Thirlwell argues that many commentators have been too quick to condemn the G20 for lack of action. Mark contends that given the difficulties in the past with international economic coordination, the diversity of the G20's membership and the complexity and sensitivity of the economic problems being tackled, then the G20 has, in fact, been a 'surprising success.'

Jason Sharman's article continues the theme of G20 effectiveness, focusing on the areas of anti-corruption and the combating of money laundering and tax evasion. Jason argues that the G20 has been effective on these issues because it has given political momentum to established initiatives rather than attempting to 're-invent the wheel.'

My article deals with the common criticism that the G20 is not sufficiently representative. The G20 is certainly more representative than the G7/8. Its members collectively account for over 85 per cent of global GDP, even if over 90 per cent of countries are not members. The main focus of G20 members should be on whether the implementation of their national economic policies – and how these fit together – is contributing to achieving sustainable global economic growth, and in that regard the absence of universal representation should not be a major concern.

Stephen Grenville's article covers the relationship between the G20 and other international organisations. Stephen argues that the G20 is not an attempt to have 'one G to rule the world.' Although the G20 cannot formally sit on top of other organisations, it has the potential power to cut through the inertia that often characterises these institutions. He notes that the way the G20 works with other bodies, including regional groupings, will be important to its success.

Mike Callaghan
Director, G20 Studies Centre

G20: recent developments

Mike Callaghan

Russia's plans

Russia has been very active since taking over the chair of the G20 on 1 December 2012. They appear well organised, having published a detailed meeting schedule for 2013. And it will be a busy year. In addition to the summit in September, G20 related events organised by Russia will include:

- five meetings of finance ministers and central bank governors;
- a joint meeting of finance ministers and labour ministers;
- a meeting of labour ministers;
- a meeting of labour ministers with social partners;
- five Sherpa meetings;
- 15 working group meetings (framework, international financial architecture, anti-corruption, development, energy sustainability);
- three meetings of a task force on employment;
- six seminars (public debt management, financial literacy and education, international financial architecture reforms, trade, energy, financial inclusion);
- three conferences (economic growth and sustainability, rating agencies, financial literacy and education);
- Civil 20 summit;
- Business 20 summit;
- Y20 summit;
- Business 20 meeting;
- Civil 20 meeting;
- meeting of social partners (B20 and L20); and
- a Think 20 meeting.

Russia's priorities

Russia has indicated that they see the items on the G20 agenda as intertwined parts of three overarching priorities:

- Growth through quality jobs and investment;
- Growth through trust and transparency; and
- Growth through effective regulation.

The concept of introducing linking themes and concentrating on 'igniting a new cycle of economic growth' is commendable, but it remains to be seen how this will be put into practice.

The range of issues listed as priorities by Russia are very wide and ambitious, covering:

1. *Framework for Strong, Sustainable and Balanced Growth and Financing for Investment.*

   - Work on the Framework will include revised public debt targets for members, enhancement of the accountability assessment process, and analysis of persistent imbalances by members.

   - Financing for investment, which is a new topic Russia has added to the G20 agenda, will cover: strengthening the role of public-private partnerships; supporting investment in small-and-medium enterprises and start-up companies; meeting the capitalisation needs of banks; regulatory changes to change bank business models towards funding the economy; analysis of FDI trends; and how to increase the lending capacity of the MDBs.

2. *Jobs and employment*

   A Task Force on employment has been established which will deliver: a declaration by G20 labour ministers on employment; a database of best practice policies to facilitate job creation; a set of recommendations on policies to stimulate job creation; and a progress report on the implementation of G20 commitments related to youth employment.

3. *International financial architecture reform*

   The outcome for this stream of work includes: completion of the 2010 IMF quota and governance reforms; completion of the review of the IMF quota formula and the 15th general review of quotas; progress on developing global liquidity indicators; implementation of the action plan to support development of local currency markets; further development of regional financing arrangements and closer cooperation between them and the IMF; and review of the guidelines on public debt management.

4. *Strengthening financial regulation*

   The objective for this topic has been expressed as 'providing the Financial Stability Board (FSB) with favourable conditions to carry out its reforms.' The FSB will focus on: implementation of Basel III; supervision of domestic systemically important financial institutions; shadow banking regulation; development of the global legal entity identifier; reduction in reliance on credit rating agencies; completion of over-the-counter derivatives regulation; and, FSB transformation into a fully-fledged international organisation.

5. *Energy sustainability*

   Under this work-stream the objectives include: a progress report on the G20's contribution to enhancing transparency and the functioning of international commodity and energy markets; recommendations for a framework for forecasting commodity price volatility; draft principles for efficient energy market regulation to stimulate infrastructure investment; recommendations on the voluntary peer review process for fossil-fuel subsidies; progress report on JODI-oil and the launch of JODI-gas; best practice database for green energy and energy efficiency policies; and implementation of the global marine environment protection initiative.

6. *Development for all*

Work on development will cover: food security; a skills database; financial inclusion and financial literacy; infrastructure; contributing to the post-2015 development agenda; and development of an accountability mechanism to assess progress on previous G20 commitments.

7. *Enhancing multilateral trade*

The aim under this work stream is to 'solve the issues on the Doha round agenda' by leading the effort to: curb protectionism; strengthen the development of the multilateral trade system; and better understand global value chains.

8. *Fighting corruption*

The work on anti-corruption will be focused on: implementation of the G20 Anti-Corruption Action Plan; anti-corruption training; deepening the engagement of the business community; promoting financial transparency and disclosure for public officials; and eradicating corruption in major events.

This is a very wide-ranging list of priorities. It largely carries on with the agenda Russia inherited from Mexico, although work on disaster risk management has been dropped along with a focus on green growth. The main intended outcome on green growth now appears to be the best practice data base for green energy and energy efficiency policies. In addition, work on climate change financing has not been listed as one of the priorities of the Russian chair.

The main addition to the G20 agenda by Russia is work on financing for investment. Again, the topic is wide ranging, covering financing for infrastructure projects, start-up capital for small business and the capitalisation of banks.

The proposed agenda ranges from detailed proposals in some areas to broad objectives in others. For example, the Russians have provided little guidance about how they propose to 'solve the issues on the Doha round agenda.' In addition, it is not clear what will be the main issues raised at the leaders' summit in September.

But it is still early days.

Some indication of Australia's priorities for 2014

With Russia's term as chair of the G20 just beginning, it is premature for Australia to be publicly outlining in detail its priorities for 2014. However, the Prime Minister and Deputy Prime Minister have each identified an issue which will be pursued by Australia in 2014.

On 30 January 2013 at her address at the National Press Club, the Prime Minister stated: ' …we see more genuine competitive movement of capital and of profit centres to seek the highest private returns than there has ever been: although … some of the movement does look like it's about movement of the accounting of capital and profit. This is an area where the G20, which Australia chairs next year, can and should find a fruitful agenda and we will be using our special status to get this done.'[1]

Similarly, in advance of the meeting of G20 finance ministers on 15-16 February 2013, the Deputy Prime Minister wrote to his colleagues emphasising the importance of collectively dealing with the issue of base erosion and profit shifting.

[1] Julia Gillard, Address to the National Press Club, 30 January 2013: http://www.pm.gov.au/press-office/address-national-press-club.

In a speech to the Asian Financial Forum in Hong Kong on 14 January 2013, the Deputy Prime Minister also indicated that Australia will focus on regional infrastructure development when it chairs the G20 in 2014.[2]

Lowy G20 Studies Centre paper on *relaunching the G20*

On 30 January 2013 the Lowy G20 Studies Centre released a paper calling for a relaunching of the G20.[3] It observed that Australia and the world needed a focused and effective G20. But the forum is losing its way. The paper identified nine key lessons from the G20's history that can help relaunch the forum. In particular, the G20 needs an explicit multi-tracked approach. While a wide range of issues should continue to be advanced in the G20, leaders should focus on a few key areas where they can have an impact. Given the vulnerabilities confronting the global economy, the paper suggested that the priority should be achieving sustainable economic and jobs growth.

G20 finance ministers and central bank governors meeting: 15-16 February 2013

Key aspects of the meeting of finance ministers and central bank governors included:

- Exchange rates
- Debt targets
- Finance for investment
- IMF reform
- Tax

Exchange rates

In the lead-up to the meeting, the focus was on what steps the G20 would take to avert the concern over so-called 'currency wars' – that is, competitive devaluations. The language in the communiqué was largely reported as calming currency war fears. The key passage was:

'We reiterate our commitments to move more rapidly toward more market-determined exchange rate systems and exchange rate flexibility to reflect underlying fundamentals and to avoid persistent exchange rate misalignments. We reiterate that excess volatility of financial flows and disorderly movements in exchange rates have adverse implications for economic and financial stability. We will refrain from competitive devaluation. We will not target our exchange rates for competitive pressures, will resist all forms of protection and keep markets open.'[4]

This is a strong statement. Any expectation that the G20 would refer to the actions of specific countries was unrealistic. More importantly, it appears that ministers discussed the importance of resisting protectionist measures. Jim Flaherty, the Canadian finance minister, stated that the mood of the meeting was on the need to 'desperately … avoid protectionist measures … that mood permeated quite quickly.'[5] He also said the G20 statement had been hardened by ministers. The IMF Managing

[2] Wayne Swan, Asia's voice in global finance: government's role in the turbulent global economy. Address to Asian Financial Forum, 14 January 2013: http://www.treasurer.gov.au/wmsDisplayDocs.aspx?doc=speeches/2013/001.htm&pageID=003&min=wms&Year=&DocType=1.

[3] Mike Callaghan, *Relaunching the G20*. Sydney, Lowy Institute for International Policy, 2013.

[4] G20. *Communiqué of meeting of G20 finance ministers and central bank governors,* 16 February 2013: http://www.g20.utoronto.ca/2013/2013-0216-finance.html.

[5] Randall Palmer and Lidia Kelly. G20 steps back from currency brink, heat off Japan. *Reuters*, 16 February 2013.

Director said after the meeting that ‘people did talk about currency worries. The good news is that the G20 responded with cooperation rather than conflict today.’[6]

Debt targets

There was an expectation prior to the meeting that a new round of public debt targets would be established, building on those agreed at the Toronto summit in 2009. However no new targets were specified at this meeting, although the statement did say:

‘Advanced economies will develop credible medium-term fiscal strategies in line with commitments made by our Leaders in Los Cabos by the St Petersburg Summit.’

Financing for investment

This topic is a priority for Russia. The main outcome from the meeting was reference to a diagnostic report prepared by the international organisations which assess the factors affecting long-term financing. This report is to be the basis of future work in the G20, which will be advanced by a newly established Study Group on Financing for Investment.

IMF reform

The previous deadlines on IMF quota reform – ratification of the 2010 quota and governance reforms by the 2012 annual meetings and completion of a review of the quota formula by January 2013 – were not met. The meeting statement did not provide any indication as to how the reforms would be completed. The statement ‘underscores’ the importance of completing these reforms and notes that key elements of the quota formula review and the 15th General Quota Review would be secured by the St Petersburg summit. It has not been specified what these key elements would be.

Tax

Steps were taken to combat base erosion and profit shifting with a commitment to collective action based on a ‘comprehensive action plan’ that will be presented by the OECD at the July meeting of G20 ministers.

[6] Christine Lagarde, Statement by IMF Managing Director Christine Lagarde on G20 ministerial meeting in Moscow, 16 February 2013: http://www.imf.org/external/np/sec/pr/2013/pr1353.htm.

The surprising success of the G20?

Mark Thirlwell

Two narratives and a funeral?

There are three increasingly common narratives about the relative success of the G20 since its crisis-prompted elevation in 2008 from a meeting of finance ministers and central bank governors to a meeting of leaders.

The ***first***, and probably still the most common, holds that while the G20 provided an effective response to the global financial crisis, its subsequent ability to deliver effective international economic cooperation has been much more limited.[1]

So the G20 got off to a good start with the November 2008 Washington DC Summit, with the summit communiqué and Action Plan setting out the G20's plans: to provide more impetus to the Basel III framework; to upgrade and broaden the membership of the Financial Stability Forum (FSF); to expand the resources available to the IMF and reform its governance; and to 'refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing World Trade Organization (WTO) inconsistent measures to stimulate exports' for the following 12 months.[2] This good start got even better, with the London Summit of April 2009 – cited by some proponents as one which 'may well go down in history as the most significant summit since the G6/7/8 was formed in 1975.'[3] It delivered some US$5 trillion of coordinated fiscal measures, along with more than US$1 trillion of measures for the International Financial Institutions, including new resources to the IMF, and a strong declaration of intent regarding reform of the Bretton Woods institutions. London also saw the upgrading of the FSF to the Financial Stability Board (FSB) and an extension to 2010 of the G20's standstill on protectionism. This all culminated in September 2009 with the Pittsburgh Summit at which leaders 'designated the G20 as the premier forum for our international economic cooperation' and introduced the 'Framework for Strong, Sustainable and Balanced Growth' (FSSBG), 'a compact that commits us to work together to assess how our policies fit together, to evaluate whether they are collectively consistent with more sustainable and balanced growth, and to act as necessary to meet our common objectives.'[4]

According to this view of the G20, Pittsburgh represented the peak of the group's success. As the immediate sense of crisis faded, so too did the impetus for cooperation. The Toronto Summit held in June 2010 was widely viewed as a disappointment.[5] As the November 2010 Seoul Summit approached, cooperation had given way to open disagreement on issues such as US monetary policy, China's exchange rate policy and so-called 'currency wars'. Given this inauspicious backdrop, Seoul lived down to expectations. According to an FT editorial with the title 'G20 shows how not to run the world,' 'If the Seoul Summit of the Group of 20 large economies did not disappoint, it was only

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[1] See for example Ignazio Angeloni and Jean Pisani-Ferry. *The G20: characters in search of an author*. Bruegel Working Paper 2012/04. Brussels, Bruegel Institute, March 2012. Also: Uri Dadush and Kati Suominen. Is there life for the G20 beyond the Global Financial Crisis? *Journal of Globalization and Development* 2 (2) 2011 and Paul Heinbecker, *The future of the G20 and its place in global governance*. CIGI G20 Papers No. 5. Waterloo, Ontario, The Centre for International Governance Innovation (CIGI), April 2011.

[2] Homi Kharas and Domenico Lombardi. *The Group of Twenty: origins, prospects and challenges for global governance*. Washington DC, The Brookings Institution, 2012.

[3] Colin I Bradford and Johannes F Linn. A history of G20 summits: The evolving dynamics of global leadership. *Journal of Globalization and Development* 2 (2) 2011.

[4] G20. *Leaders' Statement: the Pittsburgh Summit.* 2009: http://www.g20.utoronto.ca/2009/2009communique0925.html.

[5] 'In our view the Toronto meeting on 27 June 2010 marked the lowest point in the short G20 history,' in Angeloni and Pisani-Ferry, *The G20: characters in search of an author*.

because public expectations had been sufficiently managed down in advance.'[6] Subsequent leaders' summits at Cannes and Los Cabos were overshadowed by the crisis in the Eurozone and did little to restore the G20's image.[7]

A ***second*** view of the G20 offers an even more pessimistic take, focusing on prominent failures like the continuing inability to successfully conclude the Doha Round of trade negotiations despite leaders' repeated pledges to do so. Indeed, according to this view, even the positive successes of the early period of G20 summitry are no more than a mirage. For example, after dismissing the progress on financial regulation as insufficient and the reform of the international financial institutions as too small, one assessment declares acerbically that 'to claim these as successes and conclude that the G20 has proved itself ... is as far from plausibility as Greece is from solvency.'[8] Another argues that the failure to deliver on specific promises means that the G20 is 'a grouping whose ratio of rhetoric to action was set to be stratospheric' and goes on to dismiss the G20 as 'more spin than substance.'[9]

These views tend to suggest at best that the prospects for the G20 have faded, and at worst that any serious attempts at international economic coordination – or indeed international cooperation more generally – are doomed in the current environment.[10] However, while it is patently true that there are elements of the G20 that are in need of reform, the G20 has actually been more successful than many pessimists would allow.[11] Certainly, no burial is called for.

Keeping it in perspective

In judging the G20's performance, it is critical to find the appropriate perspective. In particular, it is important to benchmark the reality of the G20, warts and all, against what we might reasonably expect from such a body, rather than against some idealized view of what international economic governance might deliver in the best of all possible worlds.

To this end, it's useful to think about what we knew about the prospects for global economic governance before the elevation of the G20 to leaders' level in late 2008. Most importantly, we already knew that – given the ongoing shifts in global economic power and the consequent rise of a more multipolar world economy – the G7/G8 club of developed economies was no longer a viable candidate for formulating a credible response to the global financial crisis. A change was required and if the world hadn't had the existing model of the G20 to draw upon, it would have had to invent something similar. In addition, however, we also knew some quite important things about both the theory and the practice of international economic cooperation and coordination.

Start with what we knew about international economic cooperation and coordination in theory:

- We knew that club theory (applicable to international organisations like the IMF but also to groupings like the G20) told us that it is difficult to scale up clubs. They tend to become more unwieldy as their membership expands, making it harder to meet the preferences of all

[6] G20 show how not to run the world. *Financial Times*, 12 November 2010.
[7] According to one observer the Cannes Summit 'proved almost comically irrelevant to the future of the global economy.' Wolfgang Munchau, Summitry again proves its own irrelevance. *Financial Times*, 6 November 2011.
[8] Jakob Vestergaard and Robert H Wade, The G20 has served its purpose and should be replaced. *Journal of Globalization and Development* 2 (2) 2011. Although the main objection of these authors seems to be to the G20's membership and perceived lack of legitimacy.
[9] Alan Beattie, *Who's in charge here? How governments are failing the world economy*. London, Penguin Special, 2012. According to Beattie, 'I have never heard a G20 pledge cited as the reason why a serious amendment to policy was made.'
[10] Ian Bremmer, *Every nation for itself: winners and losers in a G-zero world*. New York, Portfolio Penguin, 2012.
[11] On the challenges facing the G20, see Mike Callaghan and Mark Thirlwell. *Challenges facing the G20 in 2013*. G20 Monitor No. 1. G20 Studies Centre, Lowy Institute for International Policy, December 2012.

members, and risking a problematic combination of mission creep and declining effectiveness.[12]

- We also knew from both theory and experience that a large number of requirements are needed to sustain successful macroeconomic policy coordination, including: (i) agreement on the case for such coordination – that macroeconomic spillovers exist and are substantial; (ii) agreement on a common diagnosis of the problem(s) to be tackled; (iii) agreement as to the actual starting point of the economy(ies) in question; (iv) agreement on the appropriate policy objective(s); and (v) agreement on the appropriate economic model linking policy actions to economic outcomes. Moreover, even if agreement on all of these issues can be reached, this still has to be followed by bargaining over any gains from coordination, and negotiations over how the subsequent agreement would be policed and enforced.[13]
- Likewise, we knew that international policy coordination is most likely to succeed when (i) it centres on narrow, technical issues rather than high profile or politicised policies; (ii) it is institutionalised; (iii) it is concerned with preserving a policy regime rather than a shift to new policies; and (iv) it takes place 'in the context of broad comity among nations.'[14]

On this basis, we would have had to expect that moving from a smaller and more homogenous grouping like the G7/G8 to a larger and more diverse group would pose a range of challenges. In addition, given the great political sensitivity of many of the issues on the agenda, including exchange rates, fiscal and monetary policies as well as fundamental questions about the nature of economic models and the operation of the international monetary system, we would have expected significant difficulties in reaching any agreement on many of these matters.

Next, we could have drawn on the experience of a series of case studies to remind us of the practical difficulties involved in delivering successful international cooperation.

- For example, we knew that the actual experience of the policy coordination exercises of the 1980s tended to suggest that, despite the rhetoric, 'each country continued to pursue what it saw as its own interest, generally unaffected by the "international coordination" process.'[15]
- Likewise, we had the lessons of the abject failure of the IMF's attempts to deal with global imbalances in the years leading up to 2008, including the Fund's so-called multilateral consultations.[16]
- Finally, we had the experience of the transition from the GATT to the WTO, the rise of the developing country G-20 within the latter, and the repeated failures to deliver on the Doha Round of trade negotiations well before G20 leaders issued their first declaration on the

[12] Masahiro Kawai and Peter A Petri, *Asia's role in the global economic architecture*. ADBI Working Paper 235. Tokyo, Asian Development Bank Institute, 2010. See also Michele Fratianni and John Pattison, The economics of international organisations. *Kyklos* 35 (2) 1982, pp 244-262.

[13] See for example Jeffrey Frankel, *Obstacles to international macroeconomic policy coordination*. NBER Working Paper No. 25050. Cambridge MA, National Bureau of Economic Research, February 1988.

[14] As set out by Barry Eichengreen, International policy coordination: the long view. In *Globalization in an age of crisis: multilateral economic cooperation in the twenty-first century*, edited by Robert M Feenstra and Alan M. Taylor. Chicago, University of Chicago Press, Forthcoming.

[15] Martin S Feldstein, Distinguished lecture on economics in government: Thinking about international economic coordination. *Journal of Economic Perspectives* 2 (2) 1989, pp 3-13.

[16] Paul Blustein, *A flop and a debacle: inside the IMF's global rebalancing acts*. CIGI Papers No. 4. Waterloo, Ontario, The Centre for International Global Innovation (CIGI), June 2012.

subject as a cautionary case study of the consequences of multipolarity upon multilateralism.[17]

Keeping all of the above in mind, any sober analysis of the prospects for international economic cooperation as of 2008 would have to have been an extremely cautious one. The shift to a more multipolar world economy, the growing diversity of the key economic players, the complexity and political sensitivity of many of the issues that would have to be discussed, and the extremely patchy record of past efforts at cooperation and coordination would all have argued for very limited expectations of what any initiatives in global economic governance were likely to deliver. Granted, by the end of 2008 the worsening crisis could have been expected to concentrate leaders' minds and the salutary prospect of hanging together or hanging separately would have offered some grounds for optimism in terms of forging international agreements. But it seems reasonable to judge that this would still have led to fairly minimalist expectations for any governance innovation.

This perspective should have been further reinforced by the subsequent events in the Eurozone, which have provided another example of the difficulties involved in cross-country policy cooperation, even when the stakes are very high (the survival of the single currency) and when the countries involved are closely linked and relatively similar (at least compared to the G20 membership).

Praise (and reform) the G20, don't bury it

When judged against the appropriate benchmark – that of sensibly calibrated expectations regarding the realistic prospects for successful international policy cooperation and coordination – the record of the G20 can be seen as one of surprising success rather than the disappointment - or worse. Concrete initiatives such as the creation of the FSB, the raising of resources for the IMF, and the standstill on protectionism represent successful outcomes. But the G20 has also achieved success in the more general but still important sense of forging a body that recognizes the new realities of the distribution of international economic power and that has meaningfully incorporated a diverse range of economic players into the mechanisms of international economic governance. This surprising success also increases the premium on sustaining the G20 and on delivering the kinds of reforms that will increase its effectiveness and hence its longevity.

[17] The developing country G-20 is a group of developing countries that was established in August 2003, just before the WTO's Cancun Ministerial in September of that year, in response to the June 2003 Brasilia Declaration by the Foreign Ministers of Brazil, India and South Africa.

G20 effectiveness: be careful what you wish for

Jason Sharman

Much of the commentary on the G20 has tended to regard the leaders' summits in 2008 and 2009 as, in retrospect, the high-water mark of G20 effectiveness. Since that time there has been an increasing current of doubt, more and more openly voiced, that the G20 may be devolving into yet another ineffectual international talk shop, good only for issuing pious declarations that are never fulfilled, or retrospectively endorsing decisions already taken for unconnected domestic reasons. The spread of the G20 into 'non-core' areas is said to exemplify the danger of dissipating this group's focus and energies.

Here, though, I take a different line in looking at a cluster of related issues centring on corruption, money laundering and tax evasion where the G20 has been consistently effective. The G20 has confined itself to a steering role, and has generated important political momentum for existing initiatives in a way that has produced significant results. The second point, though, is that this evidence of effectiveness is not all good news. The G20 is a club, and clubs tend to be a lot more concerned with the interests of members than non-members. As a powerful club, the G20 has tended to adopt double standards and solutions that favour insiders at the expense of outsiders. The G20 may present itself as the selfless guardian of the general global good, but as the brief discussion below illustrates, there are some reasons to be skeptical of this claim.

Corruption, money laundering and tax evasion are not the same thing, but they are closely related policy issues as profit-driven crimes depending on some measure of financial secrecy. It has been argued that the rise of borderless finance has exacerbated each problem and, correspondingly, made the need for international collaboration to combat them more important. These common elements are reflected in common solutions, sometimes designed, but more usually endorsed after the fact, by the G20. For each type of crime the common essence of the policy response is to mandate greater financial transparency. Specifically, governments must require that their countries' private financial institutions (especially banks) collect more information on customers, and governments must then be more willing to share the resulting information with foreign counterparts.

Perhaps the most positive example of G20 action on this front relates to action against corruption, and in particular the sort of large-scale kleptocratic activity where leaders loot their own countries and stash the resulting wealth in a foreign financial centre. The G20 Anti-Corruption Working Group was established in 2010 at the Toronto meeting, but was really energised by the Arab Spring of early 2011. Tunisian and Egyptian demonstrators in particular were incensed by the widespread corruption of their elites at a time when the majority of the population faced diminishing economic opportunities. Much of this illicit wealth had been secreted abroad, whether in the form of luxury real estate in London and Paris, or bank accounts in Switzerland and the United States.

Partly as an accident of timing, the G20 Anti-Corruption Group resolved to make denying safe haven to kleptocrats' stolen wealth a priority. Led by its French and Indonesian co-chairs, the Group deliberately did not try to re-invent the wheel by designing new standards, but instead urged members to sign up to existing agreements like the United Nations Convention on Corruption, and instructed international organisations like the World Bank and the Financial Action Task Force (FATF) on Money Laundering to address this issue. The latter body, which had previously regarded corruption as someone else's problem, immediately began to design policy solutions as to how anti-money laundering measures can be used to combat international corruption. The World Bank established a program to provide the Arab Spring countries and others like South Sudan with practical assistance in tracing and repatriating the proceeds of corruption held abroad. There was a notable shift as previously recalcitrant G20 members began to sign up to international anti-corruption agreements and pass the supporting domestic legislation and regulations. Even generally critical NGOs like Global Witness and Global Financial Integrity regard this G20 action as making a significant positive difference.

Perhaps one of the key elements of success here was the G20 not trying to do too much, but instead putting its weight behind existing initiatives in a way that achieved results in weeks that might otherwise have taken years, or never happened at all. Just as importantly, the G20 members sought to lead by example, making sure their own houses were in order and only then calling on the rest of world to follow. Although corruption is arguably not core business for the G20, as one of the biggest obstacles to economic development it is hardly a trivial matter. Given the international cast of the problem, there is good reason to think that such a co-ordinated response will be more effective than G20 members acting in isolation. All this was achieved without the commitment of any significant new funds.

If the action to tackle corruption and kleptocracy represents the positive potential of the G20, the measures taken against tax havens and money laundering are more ambiguous. Somewhat surprisingly, one of the most contentious matters at the London G20 summit in April 2009 was a list of alleged tax havens drawn up by the Organisation for Economic Co-operation and Development (OECD). China and France in particular were deadlocked over whether or not to endorse the list, with France very much in favour and China opposed. At the eleventh hour the newly-elected Barack Obama brokered a compromise whereby the meeting would ‘note’ the list and include it in the official summit documents.

As underwhelming as ‘noting’ an OECD list may sound, this decision proved to have an electrifying impact on those named on the list. The background was that, since 2002, the OECD and a group of three-dozen tax havens had agreed in principle to share tax information on demand, a major reversal for the previously secretive havens. The problem, however, was that in the interim the agreement in principle had not translated into signing many specific agreements by which tax information could actually be exchanged. A particular sticking point was that the havens refused to budge unless Switzerland agreed to the same terms, which the Swiss (veto-wielding members of the OECD, but not the G20) resolutely refused to do. Within weeks of the summit, however, not only Switzerland but every other country on the list dropped their objections and began signing bilateral tax exchange agreements. Hundreds of such agreements have been reached since 2009.

Here the G20 had exercised its authority to break a deadlock and promote international co-operation in working to solve a shared problem of international tax evasion. Once again the G20 had not tried to do too much, especially as it delegated the details of implementation to the OECD, and of course it had not spent any extra money. So where’s the problem?

Critics pointed out the incongruity of publicly naming and shaming (and implicitly threatening) tiny Pacific islands like Nauru and Niue who were on the list, while studiously avoiding any equivalent condemnation of the G20 members like the United States that actually bore most of the responsibility for the financial crisis and the resulting massive economic dislocation and suffering imposed on other countries. Nauru and Niue are unlikely hosts for foreign tax evaders, given that neither hosts a single bank branch, let alone a financial sector. In contrast, only a few weeks after the collapse of Lehman Brothers the 2008 Washington summit offered an anodyne expression of regret that ‘Policy-makers, regulators and supervisors, in some advanced countries, did not adequately appreciate and address the risks building up in financial markets.’ The ‘advanced countries’ at fault here for precipitating the whole crisis were never named, presumably on the grounds that it’s bad manners to embarrass the host.

Finally, the issue of anti-money laundering standards again exemplifies both the ability of the G20 to get things done, and the tendency to push for tough action against those outside the club while going easy on member states. Like the issue of corruption and tax evasion, money laundering is not core G20 business. Moreover, despite some far-fetched claims to the contrary, tax evasion, corruption and money laundering had nothing to do with the financial crisis, and are largely irrelevant to the stability of the global financial system. Nevertheless, the G20 acted with alacrity to address the issue of money laundering.

Despite having no formal authority to do so, the G20 instructed the FATF to draw up a blacklist of countries that were derelict in their anti-money laundering standards, rather like the OECD's blacklist of tax havens. The resulting meeting happened so quickly that the Australian delegates did not have time to fly to Paris to participate. The FATF drew up a blacklist as instructed, with the rationale of sticking to systemically important countries. In practice, this process devolved into one targeting marginal financial centres such as Bangladesh and Nepal. In contrast, despite a 2012 US Senate report that the American subsidiary of HSBC had failed to apply proper anti-money laundering scrutiny to $60 trillion (not million or billion) of wire transfers, enough to fund every criminal scheme in history, the United States itself was never in danger of being blacklisted.

But it would be grossly unfair to suggest that problems of double-standards and hypocrisy are limited to the United States alone among G20 members. The current president of the group, Russia, has made 'Growth through trust and transparency' one of its three priorities. One does not have to know too much about the way Russian elections are run, or the way the criminal justice system or bureaucracy work in that country, to see this commitment to trust and transparency as an egregious example of 'do as I say, not as I do' logic at work. Again, however, it is unlikely Russia will be held to account for its conspicuous failings here, least of all from fellow troika member Australia; such straight talk is only for non-members.

In sum, detractors may have been too quick to condemn the G20 for a lack of effectiveness. At least when it comes to the related areas of corruption, tax evasion and money laundering, the G20 has taken rapid and decisive action that has produced important political results with a minimum of effort and effectively no additional money. This is no mean feat given the complexity of the issues at stake and the inherent difficulty of international collaboration. At its best the G20 has intervened judiciously and lead by example. Much less edifying, though, is the tendency to be quick to condemn those outside the club for their real or alleged failings, while taking a much more forgiving attitude towards the powerful states inside the club.

The G20's representational legitimacy

Mike Callaghan

A common criticism of the G20 is that it is unrepresentative. Yes, it is more representative than the G7, which consisted of only the major advanced economies. And yes, it does include the major advanced and emerging markets such that it collectively accounts for about 85 per cent of global GDP and two-thirds of the world's population.

But the G20 critics say 'what about the 90 per cent of the world's countries that are not members?' For example, Jacob Vestergaard from the DIIS argues 'the claim by the G20 that its economic weight and broad membership gives it a high degree of legitimacy is not convincing. It permanently excludes 173 countries. This fact alone undercuts its claim to representational legitimacy.'[1]

Certainly, there is a trade-off between the size of a grouping and its efficiency. As David Skilling observed in the first issue of the G20 Monitor, 'the fundamental problem is that trading off inclusiveness for effectiveness only works if the G20 is in fact effective.'[2] On this score, Skilling noted that small countries can point to reasonable concerns about both the effectiveness and the legitimacy of the G20's operations.

However, of the constraints that may be limiting the effectiveness of the G20, a lack of legitimacy is not the most debilitating. If the G20 sought to be an active 'steering committee' for the global economy, for global issues and the international institutions, then questions of legitimacy would be an issue. But if the main focus of G20 members is on whether the implementation of their national economic policies - and how they fit with each other - contribute to sustainable global economic growth, then the absence of universal representation should not be a major concern. This should be the current focus of the G20. Hence, for now, opening up the membership of the G20 would only result in much political pain for too little gain with regard to improving the forum's effectiveness.

G20 membership

The membership of the G20 will remain controversial, particularly in the eyes of those countries that are not, but would like to be, members. When the forum was formed in 1999 there was no membership criterion beyond the desire of its founders to assemble finance ministers and central bank governors from 'systemically significant' economies for regular and informal dialogue on economic and financial policy issues.[3]

It has been reported that the membership was settled in a telephone conversation between Timothy Geithner from the US Treasury and his counterpart at the German Finance Ministry, Caio Koch-Weser, who went through a list of countries and decided who was in and who was out.[4] Such a conversation may have settled the final membership of the G20, but there were a number of steps leading to the formation of the G20. In 1998 and 1999 there were meetings of the G22 (or Willard

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[1] Jakob Vestergaard, The future of global economic governance: from the G20 to a global economic council. In *Think global, act European: the contribution of 16 European think tanks to the Polish, Danish and Cypriot trio presidency of the European Union*, directed by Elvire Fabry. Paris, Notre Europe, 2011.
[2] David Skilling, *The G20: a small advanced economy perspective*. G20 Monitor No. 1. G20 Studies Centre, Lowy Institute for International Policy, December 2012.
[3] Stephen Grenville, G20: how many around the table? In *The Interpreter*, 2012.
[4] Vestergaard, The future of global economic governance: from the G20 to a global economic council.

Group)[5] and the G33,[6] both involving combinations of advanced and emerging markets. There was dissatisfaction with the *ad hoc* nature and unwieldy membership of both the G22 and G33. The Europeans were also concerned about the heavy East Asian representation in the G22. There was considerable diplomatic activity before the membership of the G20 was settled.

Critics have pointed out that the G20 currently does not contain the 20 largest countries (membership consists of 19 countries and the European Union with Spain now a permanent guest) according to any discernible or consistent metric – whether by GDP or population.[7] In addition it has never been clarified what constitutes 'systemic importance' – is it the size of a country's financial sector, its financial interactions or its trade linkages? Switzerland has a large banking and financial sector, a larger GDP than Saudi Arabia, Argentina and South Africa, is home to the Financial Stability Board and yet it is not a member of the G20.

The appropriateness of the membership of the G20 will no doubt continue to be questioned. But in 2008, in the wake of the collapse of Lehman Brothers and the recognition that there needed to be a forum to coordinate a global response, the advantage of the G20 was that it had an established membership. Using the G20 to respond to the crisis meant that time and political energy did not need to be devoted to deciding which countries should attend a global summit. The G20 leaders who gathered in Washington at the invitation of President George W Bush could get on with the task of responding to the global crisis.

If the G20 finance ministers and central bank process did not exist in 2008, would there have been a similar grouping of world leaders meeting in 2008 in response to the crisis? Perhaps. Although it is unlikely that key emerging markets would have eagerly participated in a 'G8 + BRICS' summit, notwithstanding that this was the preferred option of a number of Europeans. The emerging markets did not like the previous 'outreach' activities of the G8 where they were essentially invited to attend a brief session of the G8 summit and then asked to leave before the main discussions began. In the G20 the emerging markets were members in their own right and not mere add-ons.

Nor was the IMF seen as an alternative. Its ministerial process, namely the International Monetary and Financial Committee (IMFC), is only an advisory body and emerging markets also had major concerns about how representative it was.

Options to 'improve' G20 membership

The G20 membership could be 'improved,' but what constitutes improvement will largely be in the eyes of the beholder.

One option to improve the representativeness of the G20 - while not increasing overall numbers - would be to adopt a constituency arrangement, where members represent a group of countries. This is common in the International Financial Institutions (IFIs). Grenville notes that the constituency model works well for the large single constituency countries, such as China or the United States (where the country represents itself and as such there is no improvement in overall representativeness), and where close commonality of interest exists between constituency members (such as the Scandinavian

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[5] Members of the G22 were the G8 countries: Canada, France, Germany, Italy, Japan, Russia, United Kingdom, United States; and 14 others: Argentina, Australia, Brazil, China, Hong Kong, India, Indonesia, Malaysia, Mexico, Poland, Singapore, South Africa, South Korea and Thailand.

[6] Members of the G33 were Argentina, Australia, Belgium, Brazil, Canada, Chile, China, Cote d'Ivoire, Egypt, France, Germany, Hong Kong, India, Japan, Malaysia, Mexico, Morocco, Netherlands, Poland, Russia, Saudi Arabia, Singapore, South Africa, South Korea, Spain, Sweden, Switzerland, Thailand, Turkey, United Kingdom and the United States.

[7] Robert H. Wade, Emerging world order? From multipolarity to multilateralism in the G20, the World Bank, and the IMF. *Politics & Society* 39 (3) 2011, p 347.

group in the IFIs).[8] But as Grenville points out, where this is not so, the constituency framework tends to achieve the lowest-common-denominator consensus. Moreover, 'it has no relevance for a leaders' meeting where the plenipotentiaries from individual countries meet-face-to-face. The political head of one member representing a constituency of countries cannot have the same candid dialogue.'[9]

Another suggestion for bringing legitimacy to the G20's membership is to 'regionalize' the forum so that it becomes a 'network of the big regional organisations.'[10] The proposal, raised by the Belgian Prime Minister Guy Verhofstadt, is for a forum made up of regional groupings such as the European Union, MERCOSUR, ASEAN, NAFTA and the African Union – all with equal weighting. Such an approach would radically change the structure of the G20 and likely undermine the concept of a gathering of the leaders from the 'systemically important' countries.

Re-opening the question of G20 membership would clearly be a controversial and politically demanding exercise. There is already concern that the forum is too big. Given the involvement of more and more international institutions in meetings and the chair's practice of inviting up to five 'guests' every year, any further expansion in the membership would make it even more difficult to get agreement in a forum that works on consensus. Moreover, reducing and re-constituting the G20's membership would be extremely time-consuming. Would it be worth going through the pain? Subacchi and Pickford are right when they say that change would take time, would be met with opposition and that the focus of the G20 should be directed towards its core business of dealing with a vulnerable global economic situation.[11]

Legitimacy and the role of the G20

This question of the G20's representation and legitimacy is ultimately bound up with the forum's role. In this regard it needs to be remembered that the upgrading of the G20 to a leaders' process was a result of the global financial crisis. The G20 leaders' meetings in Washington in 2008 and London in 2009 agreed on measures that helped contain the crisis. G20 members committed to a raft of 'pro-growth' policies: implementing major domestic fiscal expansions; avoiding an increase in protection in all forms; maintaining open markets; and contributing to an increase in the resources of the IMF and regional development banks. In addition, the Financial Stability Board was established to advance financial sector regulatory reform and efforts were launched to improve the governance structure of the IFIs.

However, the main focus of the Washington/London summits was on domestic policy measures that each G20 member would undertake to limit the effects of the crisis. In the Pittsburgh summit in 2009, the Framework for Strong, Sustainable and Balanced Growth was launched. Underlying the Framework was the recognition that while each G20 member bears primary responsibility for the sound management of its own economy, collectively the G20 has the responsibility for the overall health of the global economy. The Framework is a concept that commits G20 members to assess how their policies fit together, whether they are consistent with achieving shared objectives, and whether they are undertaking necessary actions to meet their commitments.

Hence, the main focus of the G20 is on the domestic policies of its members. As Drysdale points out, 'while the G20 is an international forum, the economics of the G20 is largely domestic; the focus is on delivering domestic economic growth and jobs. The G20 represents a collaborative drive by countries for growth, recognising from the events of the global financial crisis just how

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[8]Stephen Grenville, *G20 membership: horses-for-courses.* October 12 2012: http://www.imf.org/external/np/sec/pr/2013/pr1353.htm.
[9] Ibid.
[10] Andrew F. Cooper, *The Group of Twenty: input and output legitimacy, reforms, and agenda*. ADBI Working Paper 372. Tokyo, Asian Development Bank Institute, 2012.
[11] Paola Subacchi and Stephen Pickford, *Legitimacy vs effectiveness for the G20: a dynamic approach to global economic governance*. London, Chatham House, 2011.

interdependent our national economies now are. This domestic focus has been to the G20's advantage. The G20 has worked so far because it has been the highest-level political catalyst for reform, compromise and change in the leaders' own countries.'[12]

This focus on the domestic policies of the G20 members, means that the fact that not all countries are represented at the forum should not impede its effectiveness. Moreover, the fact that the G20's membership represents more than 85 per cent of global growth does mean that the policies of the members in delivering domestic economic growth and jobs will have a major bearing on global outcomes. The best way that the G20 can exercise global leadership is to lead by example. Key to this is G20 members implementing the domestic policies consistent with strong and sustainable economic and jobs growth.

The G20 has acted to overcome political blockages in the reform of the IFIs, particularly reform of the voting and quota shares in the World Bank and IMF in favour of emerging markets and developing countries. Grenville notes that the G20 did not seek to replace the governance or decision-making processes in these bodies - instead it formed consensus-based coalitions big enough to carry the day. When issues of concern to the G20 are debated *in* these organisations there is now cause for hope that the inherent inertia of these unwieldy large groups can be overcome.

It is unlikely that recent reform of the IMF and World Bank would have been achieved without the political 'push' from the G20. The fact that leaders became involved and made commitments to advance these governance reforms set in train a concerted effort to make them happen. In fact, the main criticism of non-G20 countries was not of the reforms themselves, but that they did not go far enough or were not fully implemented.

Skilling raises a concern that, over time, more of the global policy debate and decision-making that used to take place in the IMF and other multilateral institutions will instead take place in the G20.[13] He notes that although the strong influence of large economies in global decision-making predates the establishment of the G20, small countries were, in a formal sense, able to participate in the work of these multilateral institutions. But in the past, large economies influenced the work of the international financial institutions through the G10 and G7, groupings of large advanced economies. Compared to these groupings, the G20 at least has the advantage of having emerging markets as members. The challenge for the G20 is to respect the governance arrangements of the multilateral institutions and to use its political leverage to enhance their effectiveness. Such an outcome would be to the overall benefit of the small countries.

Conclusion

Establishing whether a 'governance deficit' is the main debilitating constraint upon the G20's effectiveness is dependent on how the forum's role is defined. Subacchi and Pickford state that 'the G20's ambition of addressing a broader global agenda and providing political leadership inevitably highlights the body's restricted membership and a lack of legitimacy and representativeness.'[14] But the G20 leaders' process should not be seeking to broaden its agenda before dealing with the problem it was established to address, and that is to achieve a stronger, more sustainable and balanced recovery in the global economy. To do so, the focus must remain on the domestic policies of the G20 members. And in this context, any lack of representativeness is not adversely impacting on the G20's capacity to do its job.

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[12] Peter Drysdale, Can Asia help power the global recovery. In *Think Tank 20: new challenges for the global economy, new uncertainties for the G-20*. Washington, DC, Brookings Institution, 2012.
[13] Skilling. *The G20: a small advanced economy perspective*.
[14] Subacchi and Pickford. *Legitimacy vs effectiveness for the G20: a dynamic approach to global economic governance*.

The relationship between the G20 and other international institutions

Stephen Grenville

The G20 is only one of the many international institutions which impinge on global economic relationships, but few of them routinely involve the face-to-face meetings of leaders. Additionally, no other leaders' meeting matches the geographic representation of the G20. It has declared itself to be the 'premier forum for our international cooperation.' Thus it is not surprising that some have seen the G20 as 'one G to rule them all' or, in the context of crises, as a 'committee to save the world.'[15]

It is unhelpful, however, to see the G20 in this simplistic way. The G20 is an informal structure and cannot, in a strict governance sense, sit on top of other international agencies (for example, the UN and its specialised agencies such as the IMF) which have their own legal charters, governance and reporting lines, and stand-alone decision processes. Nor can it assert an over-riding leadership role over other independent international groupings such as the G8, APEC or the BRICS, which similarly have their own history, objectives and decision-making processes. Moreover, the various regional bodies which have developed, sometimes around trade-related activities (e.g. ASEAN, MERCOSUR and NAFTA) do not see themselves as subordinate to the G20, or stand ready to do the G20's bidding.

Nevertheless, international economic relations will function better if these various bodies, often overlapping and sometimes with conflicting objectives, can find ways to work together harmoniously and with a degree of coordination. In the longer-term, it is possible to envisage ways in which the G20 might link more formally to some of these other organisations.[16] But the immediate issue is how to optimise cooperation within the existing institutional arrangements.

This paper explores some of the issues raised by this multiplicity of international institutions. The somewhat arbitrary groupings used here are:

- universal institutions, mainly the UN family (but also including the WTO and the Bank for International Settlements [BIS]);
- other global bodies such as the G8 and APEC;
- regional arrangements such as ASEAN; and
- standard-setting bodies

Universal institutions

The key characteristic here is that these institutions cover much of the same geographic territory as the G20. In addition, they have a much longer history than the G20 (usually dating back to WWII), have much larger membership (often universal) and have formal legal charters together with their own decision-making processes. They don't see themselves as subordinate to the G20.

While the G20 does not sit on top of these institutions in a formal governance sense, the power that comes from representing 85 per cent of global GDP gives the G20 the potential for profound influence over these other bodies. G20 consensus could, potentially, be translated into effective control of the agenda and decisions of these other organisations. Moreover it should be easier to get a quorum within the G20 membership than within these institutions themselves.

[15] Daniel M. Price, G20 version 2.0 will appease the sceptics. *Financial Times*, 1 April 2011, p 11.
[16] One such possibility involves bringing together the G20 Finance meeting with the IMF governance arrangements, as discussed in Kharas and Lombardi, *The Group of Twenty: origins, prospects and challenges for global governance*.

Thus, the G20 has the potential power to cut through the inertia that often characterises these institutions.[17] But to be assertive in this way would be disruptive and unproductive. It would lead to the G20's legitimacy being seriously questioned. It is more useful to see the G20 sitting above these other institutions, 'as a steering committee that provides political energy and direction to international standard setters and also assesses progress of implementation.'[18]

Just where the G20 intersects with these other bodies depends on its agenda. Given its existing agenda, the G20 might exercise this steering-committee/ginger-group role over the Financial Stability Board (FSB) (and hence into the BIS), the IMF and the WTO. This gives it coverage over financial stability issues, macroeconomic policy coordination, IMF governance and trade issues.[19] Should the G20 agenda widen to cover issues in the remit of other universal international agencies - for example, taxation might take it further into OECD territory, or climate change might take it into the territory of the UN Framework Convention on Climate Change - then its influence could be exercised in the same way.

The way the G20 exercises its influence over other bodies will be important to its success. Some of these organisations are supranational institutions (e.g. the IMF) while others are inter-governmental groups (such as the Financial Stability Board[20]). The G20 can exercise its influence more effectively if it recognises the separate role and governance structure of these other organisations,[21] particularly of the IMF. Thus it has developed the practice of requesting the IMF to initiate work, rather than issuing edicts for work to be done.[22] It is in the mutual interest of the IMF (and the other bodies) to have a cordial and cooperative relationship with the G20, but it may take diplomacy on both sides to optimise the effectiveness of the relationships.[23]

The other aspects of this relationship with the IMF can be illustrated in its 'ginger group' role to invigorate efforts to deal with long-standing governance issues (specifically, larger voting and quota shares for emerging countries). Although a plan with specific timetable was agreed at the 2010 Seoul

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[17] '… all institutions reflect the specific time and circumstances of the world in which they were founded. As global realities change and new challenges emerge, practical ways of generating and refreshing the political consensus for addressing these challenges must be found to mobilise existing institutions and processes, and to ensure that their collective efforts are sustained through time,' see David Cameron, *Governance for growth: building consensus for the future*. London, Prime Minister's Office, 2011.
[18] Price, G20 version 2.0 will appease the sceptics.
[19] '…the G20 has developed macroeconomic policy coordination; shaped and driven forward a substantive common agenda to reform international financial regulation; promoted a consensus on reforming the governance of the international financial institutions; and set out a new, more growth-oriented approach to wider economic issues such as development,' see Cameron, *Governance for growth: building consensus for the future*.
[20] Whose enlargement was orchestrated by the G20 itself and which reports directly to G20. The IMF is a supranational organisation with a large secretariat, the FSB is an intergovernmental body formed (initially as the Financial Stability Forum) in 1999 in the aftermath of the Asian/Russian crisis with small secretariat (attached to the BIS).
[21] '… a number of scholars and experts have pointed to the need to better institutionalise the relationship between the G20 and the established, technically proficient international organisations. Although their proposals differ, their common aim is to strengthen the G20's infusion of political capital into these international organizations while bridging the legitimacy gap that the current, ad hoc setup poses,' see Kharas and Lombardi. *The Group of Twenty: origins, prospects and challenges for global governance*.
[22] The fact that these organisations are largely represented at G20 meetings should smooth this relationship. This differs from the G8, where the IMF may give presentations but does not attend the whole meeting.
[23] 'Admittedly, the relationship between the G20 and those international organizations has been much more meaningful than the one between the latter and the G7/G8. Both the heads of the Bretton Woods institutions and the chairpersons of their respective ministerial committees are ex officio members of the G20. The secretary-general of the United Nations regularly attends G20 summits, as does the chairman of the FSB. Other international organizations, such as the OECD and International Labour Organization, also participate in G20 meetings on an ad hoc basis, depending on the issues being discussed.' Kharas and Lombardi, *The Group of Twenty: origins, prospects and challenges for global governance,* p 12.

G20 meeting, a decision has to be taken by the IMF Board of Governors. In any event, the reforms have not been implemented in accordance with the agreed timeline – a reminder that sovereignty ultimately rests with the individual countries and cannot be easily over-ridden.[24]

Other global bodies

If we take the G8 and APEC as examples, there is a lot of overlap of shared interests, but very little interaction with the G20, other than the obvious fact that there is a substantial commonality of membership among all three.

The more restricted membership of the G8, its long history of working closely together in a variety of international arrangements, the minimal cultural differences among members and the informality and intimacy which can be achieved in a smaller group all work together to put the G8 in an advantageous position to have frank discussions and to develop strong consensual positions. It has the capacity to make decisions binding on its members and to take collective action in a way not possible within the wider G20 group.[25] This capacity to reach prior consensus gives it special advantages within the G20 discussion. Whether this is a force for good or a source of irritation for the non-G8 members of the G20 will depend on how subtly the G8 countries use this advantage. If prior consensus positions are seen as the norm, the non-G8 members might begin seeing themselves as second-class members of the G20 club.[26] The much wider range of the G8 agenda minimises this potential friction, but some have argued that the G8 should fade away over time.

It is more difficult to define the relationship between the G20 and other international groupings such as APEC. There is potentially substantial overlap and duplication with APEC, particularly as it too has a Leaders' meeting. It too operates through delegated working groups and covers some of the same territory (particularly trade). Ultimately the G20 has to have precedence, as it comes closer to representing the globe rather than a wide region.

Regional bodies

International relationships increasingly take place at regional level, rather than bilaterally or with universal multilateral agencies. With trade, for example, much of the action over the past decade has been with regional FTAs rather than in the WTO framework and the Doha round of negotiation. Within East Asia, ASEAN and ASEAN+3 provide the basis for very substantial economic interaction, not just through the Chiang Mai Initiative,[27] but also through the regular meetings of economic ministers and through the ASEAN+3 Macroeconomic Research Office (AMRO), the Economic Research Institute for ASEAN and East Asia (ERIA), the Asian Bond Initiative and the Executives' Meeting of East Asia Pacific Central Banks (EMEAP).

Members are more likely to find they have issues in common (and greater opportunity to find collective benefits) within a group that has regional rather than universal representation. Neighbouring countries care more about each other, impinge more on each other and there is often a strategic security dimension.

To date G20 coordination with regions has been ad hoc, coming though:

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[24] The changes require ratification by a majority of IMF members, with the main delay being US's failure to pass the required legislation. See Edwin M. Truman, The role of international financial institutions in addressing the financial crises of the 21st century: confrontation or cooperation? Expanded version of remarks delivered at the Casgrain and Company Economic Conference, Niagara-on-the-Lake, 13 July 2011.

[25] Such as the decision to support the yen following the Japanese earthquake of 2011, or debt forgiveness for the poorest countries at the 2005 G8 Summit in Gleneagles.

[26] On this, see Kawai and Petri, *Asia's role in the global economic architecture*.

[27] Now multilateralised as the CMIM.

- the EU's G20 membership;
- the invited presence of some regional organisations as temporary guests at G20 meetings and;
- the outreach process.

It can be argued that Europe's unbalanced representation and the potential for prior EU consensus-building are unhelpful to the G20 discussion as it gives a substantial advantage to one regional viewpoint and inhibits the exploration of the full range of issues in the discussion at the G20 meeting. In any case, this regional 'model' cannot be given wider application, for three reasons. Not only would this represent an unwieldy increase to an already-strained membership total, but there are at present no other well-defined region-wide groupings which have the degree of development and established internal consensus-building capacity as the EU.[28] Third, regions cannot be directly represented at the leaders' level in the same way as a sovereign state.

The second 'model' for interaction with regions is exemplified by the current practice whereby the G20 host invites representatives of regional organisations and/or specific guest countries which act as representatives of regional bodies. This seems somewhat ad hoc, with different countries and organisations invited to fulfil what is largely a token role, with little continuity of experience or prior consensus-building.

The third channel of communication has been through the outreach process, which depends largely on the diligence and effectiveness of the host country. It is, at best, a largely one-way process where the G20 host communicates what is happening at the G20 level and listens politely to comments.

Current practice may not be satisfactory to all participants. One anomaly here is that one regional body – the EU – is not only represented in its own right at the table, but in fact has dual representation. But this, like the other issues of membership, is not amenable to any easy or quick solution. For the moment the most fruitful way forward is to concentrate on developing deeper outreach with the regional bodies, encouraging them to put the G20 specifically on the agenda of the full range of their meetings and to use their regional meetings to canvas a wider range of opinion. Their respective G20 members could then bring to the G20 agenda a regional viewpoint on relevant items.[29] Ultimately there might be 'hierarchies of global and regional organizations with overlapping ownership structures in various functional areas'[30] but this is many years away.

International standard setters

Thomas Friedman has observed how globalisation encourages the development of the 'golden straitjacket' – a common set of rules and understandings which facilitates international transactions.[31] Often these are of a technical nature (common design standards), but widely-accepted rules can also discourage countries from competing with each other to provide the most lenient regulatory environment for, say, prudential standards or taxation.

The G20 has so far confined its interest in international standard setting to the financial sector. Again, the mode of operation is via a specialised technically-competent body (in this case the Bank for International Settlements). From time to time the G20 has been quite specific about the area where it

[28] ASEAN has the organisational structure and operational experience, but it covers only a part of the Asian region.
[29] 'So as to facilitate Leaders' own interactions, these representatives should participate in or be seated at the Leaders' table for the discussion of specific issues, as appropriate. In particular, Leaders' discussions should be informed by trenchant and candid analyses from international institutions to help frame the key questions across different parts of the G20 agenda.' Cameron, *Governance for growth: building consensus for the future,* p 14.
[30]See abstract in Kawai and Petri, *Asia's role in the global economic architecture*.
[31] Thomas Friedman, *The Lexus and the Olive Tree: understanding globalization*. New York, Farrar, Strauss and Giroux, 1999, p 87.

wants more global rule-making.[32] The specification, however, will be in general terms, with the detailed formulation and consultation processes left to the FSB, working with the BIS.

There are already many long-established international standard-setting bodies and procedures, many within the UN framework, with specialised expertise. Whether the G20 will, in the future, expand its interests into some of these areas in its role as a 'ginger group' remains to be seen.

Conclusion

The G20's relationship with other international institutions will depend on circumstances and its agenda. Within the current agenda, its relationship with the IMF will be the most prominent because of the Fund's role in providing input for discussion of the international macro-economy. There is also an important input/output relationship with the FSB, drawing also on the BIS. But as well as drawing technical assistance from these organisations, the G20 has a potential role as a 'ginger group' – cajoling, forming arguments, presenting cases, and comparing approaches, all designed to enhance the usefulness of these institutions. The objective is to join the silos, not to overlap or encroach.

Whether the G20 is drawing on the assistance of other institutions, or trying to influence these institutions, its method of operation needs to recognise that, while it has the weight of representing 85 per cent of world GDP, it has to wield this heft lightly.[33] It seems to have developed a satisfactory working relationship with the IMF and, through the FSB, those institutions with special responsibilities in the financial sector. But there is potential to develop these relationships further, for instance, with the WTO. Much of this coordination will take place in the background, rather than at the Leaders' meeting itself. Working Groups and Sherpa meetings[34] will play a key role. And all this will take time and patience.[35]

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[32] For example, work on derivatives, discussed at the 2009 G20 meeting.

[33] 'Formal, and informal institutions – such as the G20 – are not alternative or conflicting paths to stronger governance; instead, they are complementary parts of one international system that bridges the gap between ever increasing economic integration on the one hand, and the national accountability and national politics of the countries within the system on the other.' Cameron, *Governance for growth: building consensus for the future,* p 11.

[34] Which present their own coordination issues, in part because the sherpas are not the same national representatives who routinely deal with their international counterparts on these topics e.g. the attendees at the Development Working Group are not the same officials who discuss this same agenda at UN meetings.

[35] 'The 'new' G20, convened in a rush in the dramatic post-Lehman weeks, has so far had neither the time nor the desire to embark in a soul-searching discussion about ultimate objectives. The G20 exists, but its mission and role in the world economy are not well defined. For the moment, its focus evolves over time, driven by successive presidencies and urgencies,' see Angeloni and Pisani-Ferry. *The G20: characters in search of an author*.

Contributors

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