THE ROLE OF THE GROUP OF TWENTY- G20 IN RESHAPING THE GLOBAL ECONOMIC AND FINANCIAL SYSTEM

DAEA Alexandra Renate  
(lecturer/Ph.D., Faculty of Economics and Business Administration, University of Craiova, Romania, alexandradaea@yahoo.com)

Abstract: The scope of this paper is to emphasize the great changes in the economic and political balance among countries, global threats and an antiquated global governance system that confront the world community today. With the economic crisis as an high priority, the G-20 summit format has the potential to make a real transformation in the global economic order in which a new set of values underline the way countries and people cooperate across borders. All the actions initiated in this direction accentuate common interests in a global society, the need for multilateral action and for alternative approaches to achieve development.

Key words: the G20, the G-8, International Monetary Fund, reform.

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1. Introduction

The leaders of five members of the G-20 Steering Group advised G-20 member nations to accomplish the agreements reached at the last meeting in Pittsburgh (on 24th - 25th September 2009) in order to reform quickly the global financial regulatory framework and create post-crisis actions. In a letter, signed by the authorities representing South Korea, Canada, United States of America, United Kingdom of Great Britain and French, the steering (or the guiding) group called for stronger policy coordination among G-20 countries to strengthen the status of the this summit as the most important global economic forum. It is necessary a strong political commitment to put the accords made in Pittsburgh -such as financial reform, free trade and job creation- into action in front of the planned meetings in Toronto on 26th - 27th June 2010 and Seoul on 11th-12th November 2010. This letter emphasizes the need to implement the commitments assumed to ensure strong macroeconomic policy cooperation and to continue the regulatory reform. The leaders of G-20 Steering Group considered that the emerging recovery of the world economy remains fragile. In this letter elaborated at Pittsburgh G-20 Summit is mentioned that current tensions illustrate the continuing risks to global economic financial stability. For the G-20 member nations, it is vital that these countries will continue to work together to achieve their mutual objectives in addressing new risks, safeguarding stability and supporting a robust return to growth and job creation in all economies of G-20.

The G20 is an informal group of 19 countries and the European Union, with representatives of the International Monetary Fund and the World Bank. The finance ministers and central bank governors began meeting in 1999, at the suggestion of the G8 finance ministers in response to the global financial crisis of 1997-99. The new Group of Twenty (G20) forum of finance ministers and central bank governors was formally created at the September 25, 1999, meeting of the G8 Finance Ministers.

It was created as a new mechanism for informal dialogue in the framework of the Bretton Woods institutional system, to broaden the dialogue on key economic and financial policy issues among systemically significant economies and to promote cooperation to achieve stable and sustainable world growth that benefits all. To launch the G20 at its first ministerial meeting in Berlin in December 1999, the G8 finance ministers were to invite counterparts from a number of systemically important countries from regions around the world, as well as representative of the European Union, International Monetary Fund and World Bank. The formal birth of the G20 can be traced to the leaders' G8 Statement at their Cologne Summit on June 18, 1999. There they declared, following passages welcoming the creation of the Financial Stability Forum and the IMF's International Financial and Monetary Committee (IFMC), the commitment to work together to establish an informal mechanism for dialogue among systemically important countries, within the framework of the Bretton Woods institutional system. The G20, from this initial formulation as the "GX" to its September 1999 birth, was the product of different approaches among G8 members. These will determine in part how the new body evolves.
The French, supported by the Italians, were opposed to the very creation of the G20, for fear that it would undermine the authority of the IMF, which their compatriot Michel Camdessus headed, and the new International and Monetary Financial Committee (IMFC) which they preferred. The USA and Japan were very much in approval of the new body. Britain, while supportive, was somewhat reserved, for fear that the G20 might undercut in practice the prominence of the new IFMC, which Britain's finance minister Gordon Brown was chosen to initially chair. Their early emphasis was on restricting the discussions to be held within the new body.

The G20 fulfills the commitment by G8 leaders to establish an informal mechanism for dialogue among systemically important countries within the framework of the Bretton Woods institutional system. Its mandate is to promote discussion and study and review policy issues among industrialized countries and emerging markets with a view to promoting international financial stability. Its initial 18 country members consisted, in addition to the G8, of Argentina, Australia, Brazil, China, India, Mexico, Saudi Arabia, South Africa, South Korea and Turkey.

2. Origins, Options and Obstacles for the G-20 Meetings

Origins. The G-20 summit had its origins in the annual meetings of the G7 - the leaders of a group of seven major Western industrial countries who gathered annually starting in the 1970s, initially to establish economic and financial policy coordination in reaction to a major financial crisis. After the break-up of the Soviet Union, the G8 was formed by the addition of the Russian Federation. The G8 increasingly became preoccupied with global economic and political issues - in effect assuming the role of a global steering group.

The G8 summits were seen as ritualistic in process, ineffective in impact and increasingly unrepresentative in the face of global population and economic problems and lacking in legitimacy as a global steering group. The ministerial-level G-20 was first created in the aftermath of the 1997-98 East Asia financial crisis. By convening representatives from 10 industrialized economies and 10 emerging market economies, the G-20 presented a much more geographically and culturally diverse group than the G8. With about 90 percent of the world’s economy and two thirds of the world’s population, the G-20 is also much more representative than the G8. Emerging market economies have been fully engaged in managing the proceedings of the meetings of G-20 finance ministers and central bank governors. It is therefore not surprising that there had been persistent calls by some experts and politicians for using the G-20 as a platform to replace the G8. While moving from G8 to G-20 summit might not create an optimal global steering group, it is a pragmatic and effective step, especially in response to crisis.

Options. Will the G-20 be a short-lived experiment or will it prove an effective tool of global governance? Various options are under debate among experts and practitioners. One possibility is to return to the G8 summits. There is a concern that the G-20 format is too unwieldy for effective exchanges among the key players. There will be continuing debates about reducing the size of the summit to somewhere between thirteen and sixteen members, as reflected in a proposal of French to create a G14. However, there are pressures to expand the number of participants to include more countries and to expand regional representation. Then there are proposals to develop a constituency-based approach to membership, with universal participation as in the case of the international financial institutions.

None of these options will likely materialize in the predictable future. Instead there are two probable results: The first is the continuation of the G-20 summit with a gradually expanding mandate beyond the current crisis. For this to be successful, it is critical that the G-20 format proves its effectiveness in the future. This result has three requirements: that the number of participants does not expand; that participants focus on a limited number of action items; and that a small but effective secretariat is established to support and monitor the G-20 summit with logistics and technical expertise.

The most likely alternative to the G-20 summit is what is frequently referred to as “variable geometry.” Under this scenario, selected world leaders would discuss about specific topics in various constellations, with participation of the most important actors decided separately for each topic. For example, the G-20 might continue to meet on global financial and economic matters, while different groups would debate about actions on climate change, nuclear proliferation or other topics.

Obstacles. There are different challenges for the evolution of global summits beyond the G8, whether toward an effective G-20 or some alternative, especially summits of variable geometry. These challenges emanate from the diverging interests of four sets of players: the United States of America, Europe, the new emerging powers and the rest of the world. For the predictable future, active U.S. leadership is needed to triumph over inertia and collective action problems in addressing global challenges and to achieve global governance reform.
Europe is a key player and has proven a major obstacle to global governance reform as it continues to claim far too many chairs at the G-20 (and in other global forums and institutions) for its economic and demographic significance. In effect, Europeans can either retain their over-representation, which gives them a fragmented voice and weakens their influence while also weakening the global institutions; or they can assemble their votes, chairs and voice for greater impact and to ensure more effective international organizations. Unfortunately, the current impasse on internal European Union governance reform blocks any new European approach to global governance reform.

The new emerging powers, especially China, India and Brazil, will face the challenge of moving beyond their traditional role of the “excluded” and “representatives of the South.” They will need to accept co-responsibility for solving global problems and creating effective global governance institutions. They will have to look beyond issue-specific South-South coalitions to North-South coalitions where it is in their and the global interest (e.g., the impulse for international financial institution reform, for European Union consolidation, for the conclusion of the Doha Round, etc.). There are hopeful signs that this is beginning to happen. South Korea’s leadership of this year’s G-20 represents a critical test of whether the new powers are ready to participate and conduct a G-20 forum at the leaders’ level, not only ministerial.

Finally, there is the challenge of how to include the “excluded states.” The G-20 is much more inclusive than the G8, but it still leaves out a majority of countries with a third of the world’s population. Options for associating the rest of the world with the summit include ad hoc meetings (as the G8 has done), expanding regional representation (as already practiced with the EU), introducing a constituency approach (as for the International Financial Institutions- IFIs) and seeking a closer alignment with the United Nations (perhaps through an Economic Security Council). With the exception of the first two-which risk further expanding the number of participants at G-20 summits-none of the other options are likely to materialize soon. However, G-20 leaders will have to be sensitive to the needs of the “excluded states” and ensure that the interests of the poorest countries are not neglected.

3. Transforming the Global Economic and Financial System

The financial system is complex in structure and function throughout the world. (Mishkin, 2001, p.181). The impact of financial crisis on the developing world is devastating: an additional 46 million people are living on less than $1.25 per day; export growth has slowed, exacerbated by lack of available trade financing and a fall in commodity prices; and foreign direct investment has retreated, forcing both the devaluation of local currency and a rise in the price of imports. Further, the IMF estimates that 28 countries already have external debts in excess of 60% of GDP, putting them at risk of default.

The World Bank estimates that external financing needs (in the form of private capital flows) of 59 countries would not be met in 2009, leaving a gap of US$352 billion. Devaluation, perhaps more than inflation, is a concern. Declining remittances from workers in recession-affected countries mean that families in the developing world, who depend on remittances to supplement their income, are no longer able to support their households. The G-20 has begun to address the short-term impact of the crisis. But of the $1.1 trillion in funding announced by the G-20 in 2009, only $50 billion is expected to go to the world’s poorest countries.

Although the IMF and the World Bank have introduced new forms of social protection and have reduced the number of conditions attached to new loans, many of the remaining conditions (including public sector wage freezes or cuts, pension freezes, utility price hikes and rising interest rates) will undermine these attempts to increase social protection. In 2010, G20 leaders have the opportunity to begin transforming the global economy—both its systems and institutions—so that it can deliver decent work and sustainable development to all parts of the globe.

Through fairer international rules and policies for trade and finance and the reform of the international financial institutions (IFIs), the G20 can address the structural flaws that have exacerbated the financial crisis and help build a strong public sector that can support measures to moderate its most adverse affects. To do this, it is critical to have a leader’s forum that addresses the needs and interests of a diverse range of countries, as well as the broader public interests of the global community.

G8 and G20 leaders must commit to transition to a more representative forum; one that adheres to principles of transparency, responsibility and taking into consideration the difficulties that affect world’s poorest nations. Such a transition must be done within the extensive context of strengthening multilateralism more generally, and the role and place of the United Nations in the international system in particular. The Toronto G20 Summit (on June 2010) should build on the conclusions of the United Nations Commission of Experts on Reforms of the International Monetary and Financial System and the
resulting document of the United Nations Conference on the World Financial and Economic Crisis and its Impact on Development, by announcing specific G20 initiatives aimed at a sustainable global economic recovery that serves as a transition towards a low-carbon green economy. There are some opportunities that must be aimed:

- **ensuring global economic recovery for all**
  Provide emergency grants for developing countries to follow their own counter-cyclical policies, including introducing social safety nets, measures to protect incomes of the poor, and to strengthen the public provision of essential services. Such grants should be without the harmful policy conditions that limit democratic ownership of country-led development priorities. Provide 100% debt cancellation for all indebted poor countries, taking account of the impact of the triple crises of finance, food security and climatic change. A renewed G8 debt initiative should support the establishment of a sovereign debt workout mechanism that is fair, transparent and independent. Such a mechanism should help ensure the responsible nature of future lending and advance the debate on odious and illegitimate debts.

- **making global rules and institutions fair**
  Initiate a process with other countries to transform the current structure of the G20 into a forum that kick-starts a new era of multilateral cooperation – one that models democratic principles of inclusion, representation, transparency and responsibility. Lead efforts to transform and democratize the World Bank and International Monetary Fund through meaningful accountability to the United Nations and to internationally agreed standards for human rights, labour and the environment. The G20 should respect the development of regional monetary and financial initiatives that promote sustainable human and economic development. Commit to full civil society involvement in decision making at the national level and in the world’s workplaces. Basic freedoms and rights to participate should be a hallmark of G20 summit decisions, including for workers and trade unions to engage employers for needed production changes and for the poor and vulnerable groups to shape a future that addresses their concerns.

- **the implementation of new rules for trade and finance**
  Create new rules for regulating both the mechanisms and the flows of global finance, including for hedge funds, tax havens and speculative capital flows. Such rules should ensure that financial institutions, markets and financial products are transparent and publicly accountable. Commit to a new multilateral trade deal that prioritizes development. This should include new mechanisms to regulate the volatility of commodity prices, tools to support infant industry and small farmers in developing countries, and the rapid elimination of harmful agricultural subsidies. Such a deal should allow for more space for poor countries to protect jobs and public health and to control the pace and extent of liberalization, particularly in financial and other services.

- **a transition to a sustainable economy**
  Promote a coordinated international recovery strategy that emphasizes green and decent job creation and public investments. Measures should be introduced to reduce the risk of unemployment and wage losses, and to support the purchasing power of low-income earners, including single earner households that are overwhelmingly female-headed and households with a parent with a disability. Support innovative financial mechanisms to meet urgent financial requirements for climate change, development and achievement of Millennium Development Goals.

Its relationship with other bodies also suggested a robust role for its members. It would operate within the framework of the Bretton Woods institutions, involve their representatives and the European Union completely in its substantive discussions, in order to ensure that its work was well integrated. It would help co-ordinate the activities of other international groups and organizations, such as the Financial Stability Forum, facilitate deliberations in the new International and Monetary Financial Committee, and potentially develop common positions on complex issues to accelerate decision-making in other international institutions. Its potential importance was supplementary suggested by its institutional characteristics. These included the solid control of the management by the G8, the two year rotational cycle, the linkage of its meetings to those of the G8 meetings at the start of each year, the presence of a deputies process to prepare for and support the meetings, its ability to call on the resources of the IMF, World Bank and outside experts, and its ability to form working parties to examine and make recommendations on issues related to its mandate.

Great changes in the economic and political balance among countries, global threats and an antiquated global governance system confront the world community today. With the economic crisis as a high priority, the G-20 summit format has the potential to make a real transformation in the global economic order in which a new set of values underline the way countries and people cooperate across borders. All the actions initiated in this direction accentuate common interests in a global society, the
need for multilateral action and understanding for alternative approaches to economic and political development. This is very hopeful.

The success of the G-20 in addressing the global economic crisis could lay the foundation for a new global order and provide the impulse for the many other necessary global governance reforms. However, Europe, China and India are also essential for progress. We may see a long period of transition with only gradual improvement in current institutions. In the meantime, pressures for increased regionalism, bilateral deals among the big players, geopolitical competition among power blocs and growing instability and threats from the “excluded countries” will undermine international cooperation and the whole idea of a global order.

Globalization will liberalize the world economy from unnecessary bureaucracy and trade barriers; when nation states remove all barriers to global competition, the movement of goods and services, capital, multinational operations and financial institutions will bring greater efficiency to and better utilization of the resources at international level (Lee, K., Carter, S., 2005, p.12). The G-20 summit forum represents a great opportunity for world leaders to begin to put into action the principles of a new global order. It will allow them to address the instantaneous global financial and economic crisis in a collaborative spirit. And in suitable course the G-20 summit can also serve as a platform for addressing other pressing global issues, including trade, climate change, energy and food security and reform of global institutions. Many people believe that International Monetary Fund, World Trade Organization and other international institutions must be reformed in response to the changed nature of global economy. (Gilpin R, 2001, p.389).

4. Conclusions

The G20 was created as a deliberative rather than decisional body, but one designed to encourage the formation of consensus on international issues. However it was one with a policy focus, a mandate to promote international financial stability. It will focus on translating the benefits of globalization into higher incomes and better opportunities everywhere, including working people around the world. Although concentrating on longer term rather than immediate policy issues, for the G20 there is virtually no major aspect of the global economy or international financial system that will be outside of the group's attention.

Substantively, the central objective was to avoid having the body generate the traditional north-south divide. The members of G20 wanted to keep the Group focused on sharing (distribution) experiences, and open discussion, rather than the statement of hard positions. Their emphasis was increased by the views of some, such as another newly included finance minister, who saw the new Group as an excellent opportunity for the "South" to press its issues against the "North."

There are thus concerns about whether this new Group constitutes a sufficient degree and form of institutionalized association with the G8. One doubt arises from the view of some who see the G20 as part of the "G8-ization" of the world. In this view, the G20 was born to legitimate G8 initiatives to the wider world, by securing a broader consensus for G7-generated ideas. The G20's eleven non-G8 members are thus destined to affect issues merely on the margin, to be informed of G8 initiatives, and to be given some semblance of participation. The G20 underscores the fact that the G8 does not want to leave the reform of the international financial system to the IMF or World Bank, where developing countries have an institutionalized role.

Driven by its role in addressing the impact of the global economic crisis, the G-20 organization - finance ministers and central bank governors from the world's top 20 economies - is being viewed by some as the dominant power bloc in a new era of global governance. The G-8 has served in various forms as the world's leading economic forum since 1975 but at its summit in Pittsburgh in September 2009, the G-20 announced that its leaders had endorsed the G-20 as the premier forum for their international economic cooperation.

While the G-8 focuses more on issues such as security and climate change and leaves its economic and financial policy to the G-7 - essentially the finance ministers of the G-8 minus Russia - the rise of the G-20 and the expansion of its powers has some experts wondering how long the G-8 and G-7 can survive in the face of an increasingly influential, more inclusive global decision-making body.

The G-8 - if it survives at all - will be a much less powerful gathering and for a very good reason. In the wake of the financial crisis everybody could witness the level of interdependence in the world. And it became clear that a political structure that excludes important rising countries such as India, China and Brazil simply does not have the scope to deal with those global issues. As with other institutions of global governance, like the United Nations, it became clear that the structure of the G-8 does not reflect global
realities enough. If global problems of the magnitude of the financial crisis persist, which is very likely, and then the real power of the G-8 will permanently shift to the G-20 or some other form of broader political structure.

5. References

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