

The Gs and Global Challenges:  
Pathways forward for the G8, the G20 and the Rest

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The most important and immediate problem facing the world is the global financial crisis. The second G20 summit in London on April 2 is a critical moment in addressing the financial crisis but also represents a confluence of political, institutional and economic change. For Gordon Brown, the London G20 summit is an opportunity for his economic experience, expertise and leadership to shine. For Barack Obama the April meeting will be his first summit as president, placing him in the global limelight not within the Euro-centric, western setting of the G8 by bringing him together with leaders of major nations from all regions. Asia is under-represented and under-whelmed by the transatlantic power structure of the IMF and the World Bank. Four Asian emerging market economies (China, India, Indonesia and Korea) are in the G20. No Islamic countries are in the G8; three Islamic countries (Indonesia, the most populous Muslim nation, Turkey and Saudi Arabia) are in the G20 grouping. Australia, Brazil, Russia, South Africa and Mexico are in the G20, all pivotal strategic powers in most global challenges, but all but Russia are not in the G8. Politically, the April 2<sup>nd</sup> G20 London summit gets the Obama presidency off to the right start internationally.

The confluence of global challenges make it imperative that the April summit make progress on four major issues. First, there needs to be a concerted effort to coordinate fiscal policy expansion and public investment by most G20 countries. The Chinese led off with a \$686 billion dollar program in November; the Obama administration is proposing a commensurate fiscal stimulus package just under \$1trillion which is roughly equivalent as a percentage of GDP to the Chinese stimulus. British leadership needs to bring other G20 countries to undertake similar measures. Proportionate, as contrasted with differentiated, expansionary actions by G20 countries would multiply the multiplier effects, as it were, and keep exchange rate divergence within moderate boundaries as well.

Second, there needs to be a decision on what international mechanism to use to catalyze concerted forward movement on the strengthening of domestic processes, mechanisms and institutions for oversight, supervision, and regulation of financial markets. The public is now aware that no one was minding the store in keeping an adequate watching-brief on financial markets in the U.S., in other major economies and internationally. The public needs to see that governments are willing and able to take greater responsibility for financial volatility. A hands-off approach is unacceptable; the invisible hand obviously is insufficient; and pure laissez faire models of financial markets are passé. As a result, G20 leaders on April 2<sup>nd</sup> need to propose a site in the international system where concerted

discussion, comparative experience, peer review, and peer pressure can be developed to correct weaknesses in national prudential financial supervision. Relations and roles of the IMF and the Financial Stability Forum in Basel need to be sorted out. No one is better positioned to lead on this than Gordon Brown, with some help perhaps from Trevor Manuel, long-time finance minister of South Africa and chair of the IMF-World Bank ministerial-level development committee for many years.

Third, the UN sponsored conference on climate change in Copenhagen is in December, by which time the expectation is that there will be a post-Kyoto climate change agreement on the table for discussion and agreement so that parliaments can ratify the treaty over the next three years before the end of 2012. Progress so far has been glacial. G20 leaders need to each appoint a climate negotiator, an inter-ministerial, politically potent personality who can bridge domestic divides within countries and contribute to a global consensus internationally. On April 2<sup>nd</sup> G20 leaders need to mandate their climate negotiators to meet frequently and interact intensively to develop an agreed framework of crucial elements for a post-Kyoto climate change agreement that can be provided to the rest of the international community for further discussion, debate and decision well before the Copenhagen UNFCCC in December.

Fourth, the reform of the international financial governance architecture, especially the IMF and the World Bank, long discussed and delayed in deciding, needs to be dealt with decisively on April 2<sup>nd</sup>. A significant signal of intention to make deeper and more detailed institutional reform of the Bretton Woods structures could be made if European and American leaders could decide now to make the process of leadership selection at the Bank and the Fund open, merit-based and voted on by the membership, abandoning the current practice wherein the president of the World Bank is selected by the president of the United States and the head of the IMF is selected by Europeans, most recently by the president of France. This would signal to emerging Asia that the West is serious about transforming the Bretton Woods agencies from transatlantic institutions into truly global institutions with Asia's full-fledged involvement.

Without bold strokes on April 2<sup>nd</sup> in these four areas and others, confidence will not return to markets, global demand will continue to plummet, the prices of oil and money will continue to neglect scarcity value, and the international financial institutions will not have the clout to exercise influence on the global economy.

If the April 2<sup>nd</sup> G20 summit is a success, then there will be a third G20 summit in the fall, the processes put in motion in London will drive the G8 summit in July in Italy, and the G20 leaders will set the agenda for the annual meetings of the Bank and the Fund in October in Turkey and the UN climate change conference in Copenhagen. It will have established itself as the apex summit, replacing the

G8 as the global steering mechanism, and the G8 will become a western caucus feeding ideas, proposals and recommendations to the G20 leaders for further deliberation and decision. The urgency of the global financial crisis, of international institutional reform and of consensus on climate change arrangements will have forced a foundational reform in global governance by transforming the apex summit from small group of western industrial countries to a larger group of major economies from diverse regions, cultures and income levels. A paradigm shift will have occurred.

While the inclusiveness of the G20 is undoubtedly better than the G8, there is still a glaring absence of the smaller, lower income countries. Serious arguments can be marshaled to suggest that the G20 grouping of countries needs to be rethought to become fully legitimate in the eyes of those from less important countries. There are several ways that these issues of representation can be dealt with both now and in the future.

First, there can be regional caucuses for gathering diverse views from neighboring countries which are not members of the G20 group. For example, Brazil, Mexico and Argentina could agree among themselves that for each summit, one of them would take it upon itself to use some of its time in the summit meetings to articulate, represent and advocate perspectives and views from other Latin American countries not in the G20. A similar procedure could be adopted in Asia and the Mediterranean. South Africa already makes a decided effort to represent the views of Sub-Saharan Africa in G20 meetings. At some point, a chair at the G20 summit might be given to the African Union presidency which rotates among African countries. *The principle here is that part of the responsibility of global leadership is to represent not only one's own nation but the people of other countries as well who have no other means to have their views heard in the G20 forum.*

Second, another way to get other countries involved in G20 work is to have working group meetings on specific issues with smaller sub-groups of G20 members but which could accommodate additional non-G20 countries in their deliberations while still keeping the total number of participants below twenty. Third, regional summits, such as the ASEAN plus 4 summits and the Summit of the Americas could focus concentrated attention on forging regional perspectives and proposals to be considered at G20 summits. Fourth, a G20 secretariat may come into being, which could be open to input from regional institutions such as the UN Economic Commissions and the regional development banks and organizations like the Commonwealth Secretariat and the Africa, Caribbean, and Pacific (ACP) group which could become channels into G20 work. *The principle here is to use existing mechanisms which sort out views within regions to project those ideas beyond the confines of specific regions to the international community as a whole using the G20 as a focal point for differentiated regional*

*viewpoints and a potential mechanism for incorporating them into integrated global approaches.*

Pressure to be more inclusive will not stop nor should it cease with the transition from the G8 to the G20. Steps can be taken by G20 countries and non-G20 countries alike to make the G20 a porous mechanism for absorbing diverse views and reconciling them into pragmatic approaches to global problems. And the G20 membership itself should not be taken as a given for the next thirty years the way that the G7 membership has remained the core of the G8 summits since the London summit in 1977. But, for the moment, given the urgency and political saliency of this moment, the G20 should be taken as the new global steering committee replacing the G8. For the next two years, the issue of “who is in, and who is out” of the summit grouping should be debated in think tanks and academic circles for future decision but kept out of official summit deliberations for all of 2009 and 2010. Two years from now, when hopefully economic recovery is underway, progress has been made in reforming the international financial architecture and a post-Kyoto climate change treaty has been agreed to by negotiators, the issue of the country composition and criteria for membership in the apex summit grouping could be undertaken without distracting from the urgent agenda now facing the world. In the interim, the steps identified above could be taken to infuse regional interests and non-G20 country viewpoints into summit deliberations and decisions.

But, to keep the world focused on urgent priorities, the world needs a focal point for addressing them. For now, that focal point is the G20 summits. The G20 country grouping is not perfect; its criteria for membership is murky. But the G20 exists. It has a track record of accomplishment at the ministers of finance level. It has established a network of communications and practice that is valued in international economic policy circles. There is a level of familiarity, trust and confidence among economic officials from G20 countries. And the G20 is a vast improvement over the G8 in terms of representativeness and legitimacy, even with its shortcomings. We need to seize the moment and seize the expanded summit mechanism we have before us and deal with global challenges ambitiously and forcefully. Special efforts for increased inclusiveness need to be undertaken by both G20 countries and non-G20 countries and existing regional groupings and organizations now and over the next two years. And then, in 2011 we can come up for air, look around, examine the track record of the G20 summits, and ask then whether improvements can be made in the membership and representativeness of the grouping of countries which presently constitutes the G20. For now, let's get to work making the new summit mechanism work for the good of the globe.

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