The G20 Leaders and Global Governance

Ngaire Woods

October 2010

GEG Working Paper 2010/59

UNIVERSITY COLLEGE OXFORD

DEPARTMENT OF POLITICS AND INTERNATIONAL RELATIONS

The Global Economic Governance Programme was established at University College, Oxford in 2003 to foster research and debate into how global markets and institutions can better serve the needs of people in developing countries. The three core objectives of the programme are:

- to conduct and foster research into international organizations and markets as well as new public-private governance regimes;
- to create and maintain a network of scholars and policy-makers working on these issues;
- to influence debate and policy in both the public and the private sector in developed and developing countries.

The Programme is directly linked to Oxford University's Department of Politics and International Relations and Centre for International Studies. It serves as an interdisciplinary umbrella within Oxford drawing together members of the Departments of Economics, Law and Development Studies working on these issues and linking them to an international research network. The Programme has been made possible through the generous support of Old Members of University College.

Ngaire Woods

Ngaire Woods is founder and director of the Global Economic Governance Programme at Oxford University which was established in 2003 to conduct research into how global economic institutions could better meet the needs of people in developing countries. She is also Dean of Graduates and Fellow in Politics and International Relations at University College. Her most recent book *The Globalizers: the IMF, the World Bank and their borrowers* was published by Cornell University Press in March 2006 and rated by US Librarians (Choice) as one of the Outstanding Academic Books of 2006. She has previously published *The Political Economy of Globalization* (Macmillan, 2000), *Inequality, Globalization and World Politics* (with Andrew Hurrell: Oxford University Press, 1999), *Explaining International Relations since 1945* (Oxford University Press, 1986), and numerous articles on international institutions, globalization, and governance.

Ngaire Woods was educated at Auckland University (BA in economics, LLB Hons in law). She studied at Balliol College, Oxford as a New Zealand Rhodes Scholarship completing an M.Phil in International Relations (with Distinction) and D.Phil. She won a Junior Research Fellowship at New College, Oxford (1990-1992) and subsequently taught at Harvard University (Government Department) before taking up her Fellowship at University College, Oxford.

In 2005-2006 Ngaire Woods was appointed by the IMF Board to a three-person panel to report on the effectiveness of the IMF's Independent Evaluation Office. Since 2002 she has been an Adviser to the UNDP's Human Development Report. She was a member of the Helsinki Process on global governance and of the resource group of the UN Secretary-General's High-Level Commission into Threats, Challenges and Change, and a member of the Commonwealth Secretariat Expert Group on Democracy and Development established in 2002 which reported in 2004.

Other recent professional activities include: member of the Advisory Group of the Center for Global Development (Washington DC) and the Board of the Overseas Development Institute (London); editorial board of the series Cambridge Studies in International Relations; advisory boards of: Prospect (a British monthly); The Round Table: Commonwealth Journal of International Affairs; Demos (the British policy think-tank); the Journal of Global Social Policy; International Relations of the Asia Pacific; the International Spectator; the Link Foundation for UK-NZ Relations; and the Wingate Foundation Scholarships Committee; Governor of the Ditchley Foundation.

The G20 Leaders and Global Governance

BY
NGAIRE WOODS
OXFORD UNIVERSITY

This paper was prepared and presented at the G20 Seoul International Symposium, "Toward the Consolidation of G20 Summits: From Crisis Committee to Global Steering Committee", hosted by the Korea Development Institute, the Brookings Institution, and Dong-A Ilbo, in Seoul 27-29 September 2010.

This paper presents a short, analytical history of the G20 Leaders group. It examines the impact of the G20 on <u>outcomes</u> in international cooperation, and its impact on <u>processes and institutions</u> of global governance. The first part of the paper traces the trajectory of the G20 across its first four meetings, highlighting that after the initial "crisis committee" phase of the G20, the cooperation achieved by the grouping waned dramatically. The second part of the paper examines whether the global agenda has been broadened or influenced by the inclusion of emerging economies. The third and final part of the paper examines the prospects for the G20 looking forward, sketching out four major areas in which the G20 needs to act as an agenda-setter and orchestrator of global governance. To foreshadow the conclusions, the G20 is uniquely placed as an informal agenda-setting group, to push forward global cooperation in four key areas: financial regulation, development assistance, exchange rates, and international institutional reform.

The trajectory of the G20 Leaders Group

The immediate precursor to the G20 Leaders' group was an informal forum for discussion among officials from the G7 countries and a select group of "systemically significant" developing countries in the wake of the 1997 East Asian financial crisis. The G20 Finance group emerged because it became clear (at least to some) that G7 discussions on dealing with the global crisis of 1997 needed to include countries who were not part of the informal G7 network which for a long-time had been driving policy in the IMF.

What impact did the Finance G20 have? Two studies of the G20 Finance Ministers Grouping at work reveal much about the outcomes and process of the group.[1] In its early years it was a powerful forum for consensus-building in crisis management. It forged consensus on a framework for debt restructuring (collective action clauses and voluntary standards) and on the need for IMF quota reform. That said, G20 Finance outcomes were not so different to the G7. During its early years, the Finance G20's formal statements echoed those of the G7 Finance. It is true that as time passed this became less true; the group's positions and agenda became more distinctive from the G7. Equally however, the group's agenda also became less pressing. The influence of the G20 Finance declined – until the financial crisis of 2008 reminded people of the existence of an informal network more

[1] See Chapters 1 and 2 of Leonardo Martinez-Diaz and Ngaire Woods (eds) *Networks of Influence: Developing Countries in Networked Global Order* (Oxford University Press, 2009).

representative than the G8.

The life-cycle of the G20 Finance suggests an interesting possible trajectory for the G20 Leaders Group. Te G20 Finance sprang to life as part of crisis-management at the global level. It may not have produced instantly different outcomes to those of the pre-existing G7 but it's composition sowed seeds of change for the longer term. It was a recognition of the shift in global economic power. It reinforced a growing concern about the anachronistic power balance in existing institutions of global economic governance. It created a blueprint for a grouping through which to broaden participation.

The G20 Finance group was informal[2] in the sense that it had no formal rules of membership, no formal authority to make rules, and no formal processes for decision-making or resolving disputes. These are equally attributes of the G7 and G8 and G20 Leaders groupings. This helps clarify what these groups do and what they do not. They are not formal international organizations to which states have delegated power. This gives the G20 freedom to do other things such as: agenda-setting, coordinating policies and distributing tasks across existing institutions, and building consensus around norms and knowledge.

(i) A crisis committee of leaders is formed in 2008

When President George W. Bush called the first meeting of G20 Leaders in November 2008, the failure of Lehman Brothers had shaken confidence in markets across the world. The sight of the leaders of the world's largest economies meeting in Washington DC was reassuring to many.

It was crucial to include emerging economies since leaders needed collectively to agree to stimulate domestic demand, and not to use protectionism. Without the cooperation of China, India, Brazil and others, the G7 countries could have found themselves agreeing to row against a tide which would overwhelm them.

The G20 Leaders also agreed to work towards new global financial regulation. The 2008 agreement by the G20 Leaders set out a workplan more detailed and practical than any G8 communique (reflecting many would say, its roots as a grouping of finance ministers and central bank governors).

On development, the G20 Leaders reaffirmed the agreement reached at the Monterrey UN conference on financing for development. That said, the results of this agreement and the Leaders pledges to assist developing countries resulted in rather pauce outcomes.[3] The pledges relied upon the IMF and World Bank to deliver, and these institutions needed time to rearrange their mechanisms for lending and to lend in ways which met their precautionary policies and safeguards. It is difficult to see that the broader G20 membership made a difference on this issue.

[2] For these reasons, Leonardo Martinez Diaz and I describe it as a network: see "The G20 – the perils and opportunities of network governance for developing countries", at www.globaleconomicgovernance.org.
[3] See Ngaire Woods, "International responses to the impact of the financial crisis on developing countries", Paper for European Parliament 2009 (see www.globaleconomicgovernance.org).

On institutional reform, the G20 Leaders together voiced the need for more reform in existing institutions. The G20 (unlike the G8) specified the need for a broader membership of emerging economies in the Financial Stability Forum and for better collaboration between that body and the IMF. Here the addition of emerging economies clearly pushed institutional reform a little higher on the agenda. It had long been on the G8 agenda, but had been taken forward at a glacial pace.

This first meeting of the G20 Leaders set a new agenda with priorities for action and the beginnings of detailed instructions for international organizations. This agenda-setting could not have been done in the IMF, or the United Nations, or the World Bank, or in the World Trade Organization. Not least, because each of these organizations has some formal authority delegated to them by governments on condition that the power only be used in decision-making processes and structures – which also make these institutions difficult to use, to change, or to adapt, at high speed. Existing institutions could not range across each others' mandates. Furthermore a broader leadership group (than that which existed in each) needed to give a steer to each. The G20 highlighted both the need for an informal forum (such as the role played by the G7) and the need to broaden representation in such a forum.

The G20's most important impact on global governance was signaled clearly at the first summit. A new, broader, group was sitting in the cockpit of the global economy and this was widely picked up by the world's media. The Indonesia press reported: "During the November 2008 Summit in Washington D.C., the leaders of advanced economies stood on an equal footing with their emerging nations' counterparts addressing the global economic and financial issues candidly."[4] Al Jazeera reported: "If you go through the document, you see words like 'reform of financial markets,' 'transparency,' integrity' – it doesn't really amount to a hill of beans […] But what it does amount to is that we have seen for the first time under one roof […] 20 of the key economic nations in the world. The crucial thing is that the emerging markets – the developing nations – are at the table as well."[5]

(ii) The London meeting - a high point in international cooperation?

Armed with a substantive agenda (and the workplan created in DC) leaders came to London in April 2009 to agree a seemingly dramatic set of measures. Leaders promised to give the IMF access to some $500 billion of new resources and they also agreed to support a new SDR allocation which would inject $250bn into world economy – what some would call global quantitative easing. They reaffirmed their commitment to refrain from protectionism. They agreed to work towards extending regulation and oversight to all systemically important financial institutions, instruments and markets, including, for the first time, systemically important hedge funds. On development assistance, leaders called for at least $100bn additional lending by the MDBs, and a promise of $250bn of support for trade finance. They also agreed to use additional resources from agreed IMF gold sales for concessional finance for poorest countries, together with surplus income, so as to provide $6bn in additional concessional and flexible finance for the poorest countries over 2-3 years.

---

[4] "Indonesia and the G20." *The Jakarta Post*, 3 April 2009.
[5] "G20 agrees on financial action plan." *Al Jazeera English*, 15 November 2008.

On institutional reform, leaders agreed to establish a new Financial Stability Board (FSB) as successor to Financial Stability Forum (FSF), including members of all G20 countries, FSF countries, Spain, and EC. They agreed that the FSB should collaborate with the IMF to provide early warning of macroeconomic and financial risks and actions needed to address them. Leaders also committed to implementing the package of IMF quota and voice reforms which had been agreed in April 2008, and called on the IMF to complete the next review of quotas by January 2011. In respect of the World Bank, leaders committed to implementing the reforms agreed in October 2008. The G20 Leaders also agreed that heads and senior leadership of IFIs should be appointed through open, transparent and merit-based selection process.

The London G20 Summit demonstrated that the G20 Leaders could set a new cooperation agenda and create new mandates and institutions. That said, it was clear that implementation would rely on national governments and formally constituted international institutions. The role of the G20 was to set priorities for organizations.

(iii) The waning of the "crisis committee"

In hindsight, the London Summit was a highpoint of cooperation. However, it was accompanied by serious media questioning as whether the actions of the G20 leaders would match their words and pledges. Trade protectionism was scrutinized. The Jakarta Post for example wrote

> "The G20 Summit in London […] saw the group vow their opposition to trade protection, specifically promising not to raise barriers to trade before the end of 2010. Five months have passed since then. The Global Trade Alert group has reported over 100 protectionist measures have been implemented by the G20 members over that period. The G20 has no sanctions it can apply to transgressors […]".[6]

Similarly other journalists across the world picked up this theme, highlighting reports that 17 of the 20 had used protectionist measures since they had pledged not to do so in Washington DC [add FN of WB report].

On financial regulation, there was skepticism about progress. The *Financial Times*, in its report entitled "Large numbers hide big G20 divisions", wrote that "the emphasis on quantities rather than concrete agreements also serves to mask the big missing element in the communiqué: a new and binding commitment to specific measures to clean up the toxic assets of the world's banking systems.".[7] In other reporting, the same newspaper noted that: "The summit text included commitments to curb 'risky' bank bonuses, but offered little new on monetary policy or efforts to clean up bank balance sheets."[8]

On institutional reform, there was some progress. The emerging economies began to push harder for a greater voice in the IMF and World Bank. The G7 economies had as priorities were financial regulation and a coordinated strategy on growth and stimulus, but they recognized they would need to concede on governance reform. That said, divisions within

[6] "What is the G20 Really Fighting For?" *The Jakarta Post*, 19 October 2009.
[7] "Large numbers hide big G20 divisions." *Financial Times*, 2 April 2009.
[8] "G20 leaders hail crisis fightback." *Financial Times*, 3 April 2009.

the G7 slowed negotiations on this.

There were doubts about institutional innovations. The *Economist* questioned the role of the new FSB:

> "Collaborating with the IMF, [the FSB] is meant to ferret out macroeconomic and financial risks. But if it warns, who will listen? Imagine the scene in Congress in 2015. The economy is booming, but Americans cannot get mortgages because some pen-pusher in Basel says the banks are taking too much risk. The banks would be freed faster than you can say 'swing voter.'[9]

The Pittburgh G20 meeting was far less dramatic than London. As one report at the time suggested:

> "The Group of 20 Leaders' summits, born in crisis less than a year ago, may be suffering from a return to normal times. Leaders arriving in Pittsburgh yesterday splintered into an array of differing priorities […] the G20 is down to more nitty-gritty issues, making it more difficult to rally popular support. As a result, its unity is coming under strain, stoking concern that its accomplishments will shrink in scale."[10]

The G7 priorities were growth and pressing ahead with global financial regulation. The emerging economies' priorities were to push for further governance reform – to give them more voice – in the international financial institutions, and to restart the Doha multilateral trade negotiations.

On financial regulation, leaders committed to developing by end-2010 internationally agreed rules to improve both the quantity and quality of bank capital and to discourage excessive leverage. They agreed to act together to raise capital standards, to implement strong international compensation standards aimed at ending practices that lead to excessive risk-taking, and to improve the OTC derivatives market, creating more powerful tools to hold large global firms to account for the risks they take.

However, two opposing views of financial regulation had begun to emerge in the wake of the London Summit. G7 countries with global financial sectors were pushing for global regulation. Emerging economies preferred a more nationally differentiated approach. This was expressed (subtly) by Rajat Nag, managing director of the Asian Development Bank: "My feeling is that countries, including China and India, would want to see financial regulations that are more comprehensive and transparent, but at a national level, I don't think anybody would want a supra-national regulator."[11]

The G20 as an institution had acquired legitimacy but attracted some criticism when it designated itself as "the premier forum for our international cooperation" in Pittsburgh. Some smaller emerging markets not in the G20 club, such as Thailand and Chile, expressed annoyance.[12] Other non-G20 policy-makers to complain that they would henceforth be

---

[9] 'Spin and substance; Buttonwood." *The Economist,* 11 April 2009.

[10] "G20 will replace G8 as global economic forum; World leaders near agreement on new banking regulation." *The Globe and Mail*, 25 September 2009.

[11] "Indonesia warns on over-regulation." *Financial Times*, 5 March 2009.

[12] "Cosmetic surgery? The role of emerging markets." *The Economist*, 3 October 2009.

expected to comply with rules of which they might not even be notified – the G20 having no formal apparatus of decision-making or report.

The outcome of Pittsburgh highlighted the beginning of a return to politics as normal. The real lifting work of the G20-inspired agenda needed to be taken up by international organizations and national governments. The G20 capacity had been to permit cooperation to be agreed, to give a stage on which it could be announced.

(iv) Challenges for a Global Steering Committee?

At the time of writing this paper, the last G20 Leaders Summit was that held in Toronto in 2010. That meeting highlighted three tensions for the G20.

First, as an agenda-setting group, the G20 Leaders Summit in Toronto achieved little. The agenda was riven with divisions among members, including a growing divide between global versus national economic regulation and coordination which is to some extent a divide between industrialized and emerging economies. Equally the summit was marked by a rift between the United States and Europe on stimulus spending versus deficit reduction strategies. Greece's sovereign debt crisis had focused European politicians on deficit reduction as a way to ensure market confidence. The United States administration remained concerned about jobs and growth. The result was a fudge voiced as support for "growth-friendly" austerity measures, and deficit reduction "tailored to national circumstances". In essence, wrote the New York Times, "the leaders were blessing their decision to go their own ways". The one issue on which there was agreement was institutional reform where the Toronto Summit endorsed a package of reforms which would result in a shift in voting power towards developing countries in the World Bank Group (IBRD and IFC) by a total of 4.59% since 2008.

Second, in the run-up to Toronto, the long-standing issue of China's exchange rate and US concerns about it had reared up once again and some saw this as dominating US international efforts. This highlights the ongoing lack of an international cooperative mechanism to deal with exchange rate disputes (such as the return to an authoritative role for the IMF in exchange rates).

Third, the G20 Toronto Summit attempted to be more inclusive than others. It was marked by a much wider participation of non-G20 countries, including Algeria, Colombia, Egypt, Ethiopia (NEPAD), Haiti, Jamaica, Malawi (African Union), the Netherlands, Nigeria, Senegal, Spain, Vietnam (ASEAN). This reflected growing concerns that the G20 would make agreements without the input or information, and without reporting back to non-G20 countries. How? Because the G20 was instructing international organizations (such as the IMF) to do things and thereby informally bypassing the properly constituted decision-making process of that organization.

Has the G20 been influenced by its emerging economy members?

The G20 has included emerging economies in a leaders grouping which has rapidly superseded the G8. But an underlying question which needs posing is whether the emerging economies have in fact influenced the outcomes of the G20? The first section of this paper noted that the Finance Ministers' G20 somewhat shadowed the G7 Finance Ministers, at least in the early years of the Finance G20. By contrast, in the G20 Leaders group, the inclusion of emerging economies has been crucial to agreements on several core issues.

In the wake of the 2008 crisis, the global economy suffered a massive shock. Global trade and production shrank dramatically. Industrialized countries had as a first priority the goal of restoring growth and refraining from protectionist measures. Emerging economies were crucial to this. It took agreement from the high growth economies such as China, India, Brazil, and Korea, for the world economy to make a swift recover

On financial regulation, emerging economies have also been crucial. Members of the Basle Committee have subsequently reflected that the presence of China, India, and Brazil in the G20 has decreased back-sliding which might have occurred as some G7 members encountered opposition to regulation by their powerful global financial sectors. Having wrought the crisis, major financial sector actors were quick to recover profitability after the crisis. At equal speed they began to lobby against regulation.

On institutional reform, the participation of emerging economies in the G20 has had an interesting effect. Small incremental changes to voting power had already been underway in the IMF.[13] The G20 (Finance Ministers and then Leaders) has kept the issue on the agenda. It has also provided a forum for emerging economies to coordinate their own positions and thereby to bargain harder for changes. This has been most obvious in the negotiations on new arrangements to borrow - the credit-lines offered by a group of countries to the IMF thereby permitting it to lend more if necessary (and if the group of creditor countries agrees). In the aftermath of the crisis, emerging economies were reluctant to extend credit lines if they did not have a significant voice as to when the credit lines could be activated. After robust negotiations, China, Brazil, Russia and India succeeded in pushing for an arrangement by which the four of them could collectively veto the activation of the credit lines.[14]

The one issue on which emerging economies have left less of a mark on G20 decisions is development assistance and mitigating the impact of the crisis on developing countries. However, this may well be about to change as Korea puts its mark on the G20 in Seoul November 2010.

An agenda for the Global Steering Committee: building on lessons from the G20 history

The G20 has shifted the definition of legitimacy in global governance. A comparison of G8 and G20 communiqués (see Appendix) highlights the growing marginalization of the G8 as an economic coordinating body. Much of the 2009 L'Aquila communiqué merely reaffirms commitments made by the G20 in London and provides little in the way of new initiatives. The 2010 G8 communiqué addresses only the issue of trade (with a blanket statement to

13. Ngaire Woods, "Global Governance after the Financial Crisis: A New Multilateralism or the Last Gasp of the Great Powers?", *Global Policy*, Vol.1, Issue 1, Pages 51 - 63 (2010).

[14] The politics of these negotiations are discussed at greater length in Ngaire Woods, "Global Governance after the Financial Crisis: A New Multilateralism or the Last Gasp of the Great Powers?", *Global Policy*, Vol.1, Issue 1, Pages 51 - 63 (2010).

resist protectionism) and poverty reduction, which informs the crux of its content. The 2010 G8 communiqué is devoted entirely to matters of development (especially in sub-Saharan Africa), environmental sustainability, and international peace and security. However, the issue of development is likely to shift squarely into the G20 remit in Seoul 2010.

Korea's chairing of the G20 is a very significant development. As the first emerging economy to chair the global steering committee, Korea is underscoring an updated vision of the group's agenda. This is most obvious in Korea's work to put development high on the agenda.[15] This is important. Until now emerging economies and the G7 have been working in different parallel worlds on development.[16] The G20 has a powerful, unique capacity to overcome that divide. At present G7 or "traditional" donors meet in the OECD/DAC and also coordinate in various donor groups. Most importantly of all, they are seen by emerging economies as clinging to a common aid agenda focused on social spending. A different view of development is propounded by China, Brazil, Korea (albeit an OECD member), India, Saudi Arabia and other emerging donors, and their aid is increasing. The increasing aid from emerging economies has in the past been somewhat of a parallel universe to that of the traditional donors who have tended to interpret new aid flows outside of their own rules and norms as threats.[17]

The G20 presents an opportunity to open up a dialogue on equal footing, on neutral territory, between different kinds of donors. The Seoul Summit could well give guidance to this in a **Seoul Principles on Development**, which could bring together a vision for development beyond the Millenium Development Goals, highlights assistance for growth and infrastructural agenda which could permit developing countries to meet the MDGs in ways which depend less on ongoing assistance from Western donors.

In addition to development, there are three other items of unfinished business on which it is crucial that the G20 leaders deliver. These are actions on which they have already embarked, and <u>on which the G20 alone can deliver</u>.

Financial regulation is crucial. In 2008 industrialized countries – led by the US and UK – moved quickly to bail out their banks and attempt to mitigate the damage wrought by their banks on the global economy. In turn, the banks have recovered extremely quickly, having found new opportunities for high profits in their governments' crisis management and stimulus policies. The result is that the same banks which caused the crisis have now recovered, marshalled information and resources, and successfully returned to lobbying their governments to forestall or postpone regulation. They have been remarkably successful. Counterveiling their efforts are (a) emerging economy governments (who face different pressures) at the G20 table (b) public opinion (the Pew Foundation figures show very strong support, particularly in the United States and Europe for stricter financial regulation).

---

[15] At the Toronto Summit leaders agreed to create a High-Level Development Working Group which would offer guiding principles on development to the G20 centred around growth, mutual accountability, a focus on outcomes, and systemic issues.

[16] Ngaire Woods, 'Whose aid? Whose influence? China, emerging donors and the silent revolution in development assistance', *International Affairs* Vol 84, No.6, November 2008 pp.1205-1221.

[17] Ngaire Woods, "Whose aid, whose influence?", as above.

The G20 is uniquely placed to bring together a balance of governments some of whom are influenced by powerful financial sector interests, and some of whom are influenced by industrial or other economic interests. It is also uniquely placed to orchestrate (and distribute tasks among) the large number of international organizations now involved in financial regulation including the IMF, the FSB, the BIS, the World Bank, European regional institutions, IOSCO, and the IASB.

In spite of all this, the proposals prepared for the G20's attention are weak. At the time of writing there was still no proposal on dealing with institutions too big to fail. The Basle negotiations on bank capital and liquidity standards have produced a long transition period which is likely to be treated by banks as an opportunity for ongoing lobbying further to dilute the new standards. Little has been agreed on derivatives or on shadow-banking. Much work remains to ensure that the new Financial Stability Board has an appropriately universal membership, a clear mandate and authority, and adequate staffing and capacity.

The Seoul G20 Summit needs to focus the attention of leaders on reinforcing efforts to take forward robust financial regulation, such as by agreeing a **Seoul Actions on Financial Regulation**.

The emergence of a "currency war" (Brazilian Finance Minister, Financial Times, 27th September) reminds us that the G20 leaders have not come to an agreement on exchange rates. The Mutual Assessment Programme launched in earlier Summits provide an important starting point for this. But they need teeth. There are still no agreed rules on exchange rates (or an agreed benchmark against which to measure whether fair or not) and further progress is required to strengthen the IMF capacity and authority not just to conduct bilateral surveillance, but to continue (within the organization) moving to reverse the bilateral culture of its work in surveillance. In Seoul the G20 might take a first step in these directions in a **Seoul Mandate on Exchange Rates** for the IMF.

Finally, institutional reform in the IMF and in the World Bank is proceeding in small increments and will continue so to do. Missing from the attention to the shift in power towards emerging economies has been attention to how much of the price is being paid by developing countries. The head of the Secretariat of the G24 (the Intergovernment Group representing developing countries in the IMF and the World Bank) has calculated that the lion's share of the shift in voting power is a shift from developing countries to emerging economies. This fact highlights that governance reform has long since fallen into a set of quid pro quo negotiations obsessed with relative power calculations among powerful countries. For this reason, a determination by G20 Leaders to lift the debate is crucial. G20 Leaders might match their commitments to ensure equity for non-G20 members with actions on governance reform which do this. A **Seoul Agreement on Governance Reform** could refocus efforts on reforms which really would equip each of the IMF and World Bank to deal with twenty-first century problems, ensuring at the very least, accountable headships, effective representation, and instruments and staffing which permits the organizations to meet the collective action problems faced by members in all regions.

The G20's effectiveness has sprung from its informal, non-institutionalized form. The G20 has operated as an informal network, signaling the intent of powerful countries to cooperate, providing a stage for them to commit to cooperate, and crafting jointly agreed (where they could be) priorities for cooperation. What the G20 has not been, and can not be if it to be a nimble crisis-manager and agenda-setter is an institution which can implement. The task of implementing agreements made by G20 Leaders falls to international organizations endowed with formal rules of membership, decision-making, and a formal authority to implement.

An effective Global Steering Committee will need to travel light, convening with rapidity (as occurred in November 2008), unencumbered by rules and structures, but being inclusive enough to command a minimum of legitimacy. G20 leaders will need to find ways to ensure that as a group they do not ride rough-shod over the interests of non-members (as they are doing on governance reform). They will need to ensure that the formal institutions to which they remit implementation (such as the IMF, the Financial Stability Board, the World Bank) are fully representative and accountable, balancing the light, nimble flexibility of the G20, with the full legitimacy and authority of formal organizations.

APPENDIX. THE G20 AND G8 COMMUNIQUÉS COMPARED ALONG KEY POLICY ISSUES[18]

Issue Area	Year	G8	G20
Capital account liberalization and capital controls	2008	Encourage actions by financial markets regulators "through various approaches that can facilitate cross-border capital markets services, including the […] mutual recognition of comparable securities regimes"	Authorities should "ensure financial institutions maintain adequate capital in amounts "necessary to sustain confidence;" international standard setters should set out "strengthened capital requirements for banks' structured credit and securitization activities"
	2009	Recognize the importance of international cooperation in dealing with distressed assets, and in assessing adequacy of banking capital and reserves; ask FSB to monitor developments in the "strong coordinated approach" to public capital injections; "We will work to reverse the recent decline in FDI, by fostering an open, receptive climate for foreign investment, especially in emerging and developing countries"	*London:* "We are committed to take all necessary actions to restore the normal flow of credit through the financial system;" agreed to treble resources available to IMF to $750bn, support new SDR allocation of $250bn, and support at least $100bn of additional lending by MDBs *Pittsburgh:* "We need to shift from public to private sources of demand;" committed to developing by end-2010 internationally agreed rules to improve the quantity and quality of bank capital and to discourage excessive leverage
	2010	-----------	Support phasing in of Basel II capital framework (along national timeframes) with aim of implementation by end-2012; "The amount of capital will be significantly higher and the quality will be significantly improved when the new reforms are fully implemented"
Standards and codes	2008	-----------	Enhance guidance for valuation of securities, the valuation of complex, illiquid productions, especially during times of stress; address weaknesses in accounting and disclosure standards for off-balance sheet vehicles; enhance required disclosure of financial instruments by firm-to-market participants; work "intensively toward the objective of creating a single high-quality global [accounting] standard"; speed efforts to reduce systemic risks of CDS and OTC derivative transactions; insist market participants support exchange traded or electronic trading platforms for CDS contracts
	2009	Emphasize need for "an enhanced global framework for financial regulation and supervision" addressing matters of "compensation structures, definition of capital/appropriate incentives for risk management of securitization, accounting and prudential standards, regulation and oversight of systemically important hedge funds, standardization of OTC derivative markets, and regulation/ transparency of credit rating agencies"; establish "Lecce Framework" to identify/fill regulatory gaps – includes areas of corporate governance, market integrity, financial regulation and supervision, tax cooperation, and transparency of macroeconomic policy and data"	*London:* Extend regulation and oversight to all systemically important financial institutions, instruments and markets; this will include, for the first time, systemically important hedge funds; achieve a single set of high-quality global accounting standards; extend regulatory oversight and registration to credit rating agencies *Pittsburgh:* Committed to "act together to raise capital standards, to implement strong international compensation standards aimed at ending practices that lead to excessive risk-taking, to improve the OTC derivatives market and to create more powerful tools to hold large global firms to account for the risks they take"; OTC derivative contracts should be traded on exchanges or electronic trading platforms and cleared through CCPs by end-2012; non-centrally cleared contracts should be subject to higher capital requirements
	2010	-----------	Accelerate measures to improve transparency/regulatory oversight of hedge funds, credit rating agencies and OTC derivatives; support IMF/WB Financial Sector Assessment Program, peer review through FSB; all standardized OTC derivatives contracts must be traded on exchanges or electronic trading platforms and cleared through CCPs by 2012; re-emphasized "importance of achieving a single set of high quality improved global accounting standards and the implementation of the FSB's standards for sound compensation"

[18] With thanks to Aleksandra Gadzala for producing this table.

Developing country representation in new forums	2008	-----------	FSF must "expand urgently" to broader membership of emerging economies, and "other major standard setting bodies should promptly review their membership";
	2009	Support the completion of IMF quota review by January 2011 and the agreement on the 2nd phase of voice/representation reform in WB by 2010	*London:* Commit to implementing package of IMF quota and voice reforms agreed in April 2008 and call on IMF to complete next review of quotas by Jan. 2011; commit to implementing WB reforms agreed in Oct. 2008; "agree that heads and senior leadership of the [IFIs] should be appointed through an open, transparent, and merit-based selection process
			Pittsburgh: Committed to shift in IMF quota share of at least 5% from over-represented to under-represented countries; stressed importance of adopting a formula at the WB that generates an increase of at least 3% of voting power for DTCs
	2010	-----------	Endorse WB voice reforms to increase voting power of DTCs by 4.59% since 2008; resolve to ensure ratification of 2008 IMF Quota and Voice Reforms and expansion of NAB; endorse voice reforms at IFC to bring DTC voting power to 39.48%
AML-CFT	2008	Call for ratification of UNCAC by all countries; urge countries "that have not yet fully implemented the OECD standards of transparency and effective exchange of information in tax matters to do so without further delay;" strengthen enforcement of OECD Convention on Combating Bribery of Public Officials in International Business Transactions	"We commit to protect the integrity of the worlds' financial markets by [...] preventing illegal market manipulation, fraudulent activities and abuse, and protecting against illicit finance risks arising from non-cooperative jurisdictions (NCJs)"; implement national/international measures that protect against uncooperative/non-transparent jurisdictions that pose "risks of illicit financial activity;" FATF should continue "important work against money laundering and terrorist financing"; tax authorities should continue efforts to promote tax information exchange
	2009	OECD Global Forum on Transparency and Exchange of Information must implement peer-review process that assesses implementation of international standards by all jurisdictions; efforts should be made to implement information exchange and increasing number, quality and relevance of agreements that adhere to international standards; progress needs to be made to enable DTCs to benefit from the new tax environment, including through increased participation in the Global Forum	*London:* Agree to "take action against NCJs, including tax havens"; "We stand ready to deploy sanctions to protect our public finances and financial systems. The era of banking secrecy is over." (para. 15)
			Pittsburgh: "We are committed to maintain the momentum in dealing with tax havens, money laundering, proceeds of corruption, terrorist financing, and prudential standards. We welcome the expansion of the Global Forum […] We stand ready to use countermeasures against tax havens from March 2010;" ask FATF to help detect and deter proceeds of corruption via strengthened standards on customer due diligence, beneficial ownership and transparency (especially in DTCs)
	2010	-----------	Fully support the work of the Global Forum; encourage Forum to report to Leaders by Nov. 2011 on countries' progress in addressing legal framework required to achieve effective exchange of information; support work of FATF
IFI Reform	2008	"We encourage ongoing open dialogue and work on reforming and adapting international institutions so that they be able to respond effectively"	FSF should expand to a broader membership of emerging economies; IMF and FSF should collaborate to "better integrate regulatory and supervisory responses […] and conduct early warning exercises"; should review adequacy of resources of IMF, WB and other MDB and "stand ready to increase them where necessary"
	2009	-----------	*London:* Establish a new FSB which includes all G20 countries, FSF members, Spain, and the EC; FSB should collaborate with IMF to provide early warning of macroeconomic and financial risks and actions needed to address them
			Pittsburgh: "We designate the G20 to be the premier forum for our international economic cooperation"; establish FSB to

			include major emerging economies;
	2010	-----------	Endorse voice reforms agreed by shareholders at the WB, which will increase voting power of developing countries by 4.59% since 2008; endorse voice reforms at IFC which will provide total shift of 6.07%, brining DTC voting power to 39.48%
Trade	2008	Reaffirmed commitment to "resist protectionist pressures and […] work towards the conclusion of an ambitious, balanced and comprehensive WTO Doha agreement"	Reject protectionism; refrain from raising new barriers to investment/trade, imposing new export restrictions, or implementing WTO-inconsistent measures to stimulate exports; affirm commitment to conclusion of Doha Development Agenda
	2009	Refrain from raising new barriers to investment/trade, imposing new export restrictions or implement WTO-inconsistent measures to stimulate exports; commit to reaching "ambitious, balanced and comprehensive" conclusion of Doha Development Agenda; reaffirm G20 pledge of $250bn for trade finance taken at London Summit	*London:* Ensure $250bn of support for trade finance; refrain from raising new barriers to investment/trade, imposing new export restrictions, or implementing WTO-inconsistent measures to stimulate exports; remain committed to the "ambitious and balanced" conclusion of Doha
			Pittsburgh: "We will fight protectionism. We are committed to bringing the Doha Round to a successful conclusion in 2010" (para. 28)
	2010	Resist protectionism; promote liberalization of trade/investment under WTO through national reduction of barriers, bilateral/regional negotiations; renew commitment to conclusion of Doha Development Agenda	Renew until end-2013 commitment to refrain from raising barriers/imposing new barriers to investment/trade or implementing WTO-inconsistent measures to stimulate exports; support bringing Doha Development Round to a "balanced and ambitious conclusion as soon as possible"
Debt relief and poverty reduction	2008	Support developing countries long-term external debt sustainability via sustainable lending practices; reaffirm principle of ownership of development agendas, especially in Africa, as laid out in Monterrey	Reaffirm development principles agreed at 2002 UN Monterrey Conference on Financing for Development, which emphasized country ownership and mobilizing all sources of financing for development.
	2009	"At the London Summit we have agreed a substantial increase of resources available through the IFIs for crisis support and sustaining growth. As G8 we remain firmly committed to the London decisions"	*London:* Increase resources available to IMF through immediate financing from members of $250bn, subsequently incorporated into an expanded and more flexible NAB, increased by up to $500bn; use additional resources from IMF gold sales for concessional/flexible finance for poorest countries over the next 2-3yrs; reaffirm commitment to MDGs and achieving ODA pledges, esp. Africa
			Pittsburgh: Affirm commitment to meet the MDGs and ODA pledges, especially to sub-Saharan Africa; agreed to support spread of new modes of financial service delivery capable of reaching the world's poor; launch G20 Financial Inclusion Experts Group to identify innovative approaches to financial service provision to these groups
	2010	"Support for development, based on mutual responsibility, and a strong partnership with developing countries, particularly in Africa, remains a cornerstone of the G8's approach;" Muskoka Initiative: reduce the number of maternal, newborn and under-five child deaths in developing countries	"Narrowing the development gap and reducing poverty are integral to our broader objective of achieving strong, sustainable and balanced growth and ensuring a more robust and resilient global economy for all."
Sovereign debt restructuring	2008	Encourage IMF and OECD to identify best practices for sovereign wealth funds and recipient countries	-----------
	2009	-----------	*London:* -----------
			Pittsburgh: -----------
	2010	-----------	Halve national deficits by 2013 and stabilize or reduce government debt-to-GDP ratios by 2016; surplus economies should shift from external demand to domestically lead growth

DEPARTMENT OF POLITICS AND INTERNATIONAL RELATIONS

The Global Economic Governance Programme was established at University College in 2003 to foster research and debate into how global markets and institutions can better serve the needs of people in developing countries. The three core objectives of the programme are:

- to conduct and foster research into international organizations and markets as well as new public-private governance regimes
- to create and develop a network of scholars and policy-makers working on these issues
- to influence debate and policy in both the public and the private sector in developed and developing countries

The Global Economic Governance Programme
University College, Oxford OX1 4BH

Tel. +44 (0) 1865 276 639 or 279 630
Fax. +44 (0) 1865 276 659
Email: geg@univ.ox.ac.uk
www.globaleconomicgovernance.org