

THE FUTURE OF THE G20



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The 2010 Group of Eight (G8) and Group of Twenty (G20) summits, taking place respectively on June 25–26 in Muskoka and June 26–27 in Toronto, Canada, are unusually significant events. For the first time, these two systems for global governance will be held in tandem. For the first time, the G20 will embark on its new mission, proclaimed at its last summit in Pittsburgh in September 2009, to serve as the world’s premier, permanent forum for international economic governance. The twin summits in Canada will provide the expanded global governance capacity to address many pressing global issues across the financial and economic, social and development, and political and security domains. But the greatest pressure to prove its worth is on the newly recast G20.

It sprang to life as a summit in November 2008 at a special meeting of heads of state and government called in response to the great global financial and economic crisis erupting at the time. Now its members must deal with the many entrenched global problems that remain in reinforced form after the galvanizing effect of the crisis has passed.

When the G8 leaders leave their two-day Muskoka meeting to join their other G20 colleagues in Toronto for discussions on the evening of June 26 and the next day, they will focus on the critical issues of economics and finance. Many will still have vivid memories of the recent global financial and economic meltdown, and its continuing costs for some member states’ job and housing markets. All will likely be re-energized by the new sovereign debt crisis that erupted in Europe in the spring.

Their first task is to stay the course on stimulus until private-sector-led recovery is assured, while simultaneously designing and implementing smart exit strategies to convince nervous markets that they have credible medium-term plans for fiscal consolidation. A closely related challenge is implementing and improving the Framework for Strong Sustainable and Balanced Growth they invented in Pittsburgh, by ensuring that all

members produce their promised national plans with precise numbers. This is a prerequisite for a proper analysis of how the plans fit together to achieve shared global objectives and to identify the options that are available for necessary adjustments. Only then can the leaders at Toronto credibly signal their determination to make the balanced and broadly shared exchange rate, fiscal, microeconomic, and social policy changes required to put a durable recovery in place.

The second task is to modernize G20 members’ domestic financial regulations and supervision in a more comprehensive, forward-looking, and internationally coordinated way. Here the priorities, which leaders will likely achieve, are to tighten consen-



Last year in Pittsburgh: The G20 has emerged as a summit of leaders facing great pressure to prove its worth.

sus on definitions and higher quality and quantity of bank capital and liquidity, to avoid getting bogged down by divisive, politically driven debates over new taxes or levies on banks, and to advance stronger, shared standards on accounting and derivatives.

The third task is to open trade and investment in order to fuel private-sector-led growth and development, especially in the emerging and developing economies upon which future global prosperity increasingly depends. G20 leaders will again promise to avoid and redress protectionism and get the overdue Doha development round of multilateral trade negotiations done. But they could, following the lead of their Canadian co-chair, more usefully cut tariffs unilaterally, forge ambitious bilateral and plurilateral trade, investment, and regulatory agreements, and create regimes to contain financial protectionism, eliminate nuisance tariffs, and foster

freer trade in environmentally enhancing services and goods.

The fourth task is to reform the international financial institutions. This starts with shifting 5 percent of the voting share at the International Monetary Fund (IMF) from relatively shrinking established economies to rapidly rising emerging ones, and doing so in ways that make it easier for legislatures in all member countries to ratify the change. Also important is expanding resources and improving governance within the IMF and World Bank, as well as considering their role in any future large financial support packages that embattled countries other than Greece might need.

Outside this financial and economic core is an array of social issues that the G20 will again wish to advance. These include climate finance, starting with the delivery of the \$30 billion a year in new money promised to developing countries at the United Nations’ Copenhagen conference in December; the reduction of inefficient fossil fuel subsidies; the promotion of green growth; the mainstreaming of the environment; the generation of good jobs and training; and following

up on the first G20 labour ministers’ meeting in Washington. Other priorities include addressing food security, health, development, tax havens, and terrorist finance. G20 leaders will want to act in ways that support their larger political security goals.

Beyond the challenges of managing these tightly interconnected issues, the leaders face the institutional challenge of developing the new permanent G20 club. They must demonstrate that the G20 is a global club of equals that can meet the challenge of global economic governance. They must establish the G20 as a real summit so it can deal as an equal with the G8 and other plurilateral summit institutions. Leaders must demonstrate that they can provide the integrated, innovative initiatives in accountable and effective ways that a more open global economy, society, and political community wants and needs.