The G-20: A »Global Economic Government« in the Making?

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June 2010

- In autumn 2008, the world economic system stood at the edge of an abyss. The international community was confronted by the biggest financial and economic crisis since the Great Depression of the 1930s. The leading industrialised and emerging countries, within the framework of the newly formed »Group of 20« (G-20), reacted to the first global financial and economic crisis of the twenty-first century with a series of world economic summits, at which, among other things, economic support measures on an unprecedented scale were agreed in order to rescue the global economy. What began as an ad-hoc meeting of heads of states and governments for the purpose of crisis management seems to have developed into an established leaders' forum. At the same time, the G-20 seems to have to superseded the G-8 as the premier forum for global economic governance.

- Can the G-20 deliver what is expected of it and really become the central coordinating body for steering the world economy, an effective kind of »global economic government«? Noted political economists Andrew F. Cooper and Eric Helleiner examine this issue in their policy paper in the first part of this publication and develop specific recommendations on the further development of the G-20. The second part of the publication consists of brief fact sheets on individual G-20 member states, assessing the importance and the role of the G-20 from the point of view of each member state.

- The main thesis of this publication is that the G-20 must extend its mandate beyond economic crisis management if it wishes to establish itself permanently as a key global governance body. With this publication, the Friedrich-Ebert-Stiftung would like to contribute to the debate on the further development of the G-20 in the run-up to the G-20 summit at the end of June in Toronto, Canada.

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Preface

In autumn 2008, the world economic system stood at the edge of an abyss. The international community was confronted by the biggest financial and economic crisis since the Great Depression of the 1930s. However, the reaction of governments was different this time: cooperation instead of isolated pursuit of national strategies. The international community reacted to the first global financial and economic crisis of the twenty-first century with a series of world economic summits, at which, among other things, economic support measures on an unprecedented scale were agreed in order to rescue the world economy. What was special about this was that in this crisis the heads of state and government of the Western industrialised countries could no longer decide the fate of the world economy on their own. For the first time, the leaders of ten emerging economies sat at the negotiating table on an equal footing. A new forum was born: the summit of heads of state and government of the so-called »G-20«, which met for a crisis summit for the first time in Washington in 2008. A first assessment of the crisis gives grounds for optimism that, through coordinated action, the outcome will be less dramatic than at the time of the Great Depression.

What began as an ad hoc summit for the purpose of crisis management seems, in the meantime, to have become an established institution. The G-20 is likely to supersede the G-8 as the most important world economic coordination forum and to take on the role of a »world economic government«.

Naturally, the G-20 must first prove that it is not merely a paper tiger. In the event, the laudable summit resolutions on world economic crisis management and reform of the world financial order have so far not been followed up by deeds. Financial market reforms at national and EU level are progressing slowly; the USA, Europe and Japan are in the throes of a public debt crisis, and large banks and hedge funds are once more registering profits in the billions. In other words, the G-20 has yet to face its severest test.

Can the G-20 perform what is expected of it and really become the central global coordination forum, in the sense of an effective »world economic government«? Noted political economists Andrew F. Cooper and Eric Helleiner examine this issue in their policy paper in the first part of this publication. They analyse the G-20's achievements so far, pointing to successes, threats and possible fault lines for and within the G-20. They also investigate the question of the G-20's mandate, as well as the problem of legitimacy and primacy in relation to the G-8 and the UN. The policy paper ends with specific recommendations on the further development of the G-20, which are summarised below.

The second part of the publication consists of brief country fact sheets. Experts analyse the post-crisis economic situation in a particular country, as well as the significance of G-20 resolutions for national economic policy, the country's interests in the G-20 process and the role it attributes to the G-20.[1]

With this publication, the Friedrich-Ebert-Stiftung would like to contribute to the debate on the further development of the G-20. The G-20 summits in Toronto at the end of June 2010 and in Seoul in mid-November 2010 will be decisive with regard to whether the G-20 can establish itself permanently as a credible and effective global coordination and negotiation forum, with the role of an informal »world economic government«. We therefore hope to arouse considerable interest and would like to thank all participating authors for their involvement.

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1. The fact sheets went to press on 14.5.2010. More recent developments therefore could not be taken into account.

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Policy recommendations for strengthening the G-20 as a global governance body (as proposed by Andrew F. Cooper and Eric Helleiner in their policy paper)

- G-20 leaders should continue to push for a forward-looking regulatory reform agenda. In that regard they should embrace a broader principles-based approach to international standard-setting, with a view to speeding up implementation of agreed reform measures at the national level by allowing considerable national policy space.

- The international regulatory reform agenda needs to be widened to address the macro-prudential role of capital account restrictions, sovereign debt restructuring mechanisms, environmental risk disclosure and the risk of private sector capture.

- In order to overcome global economic imbalances, the G-20 should not expect too much from the new Framework for Strong, Sustainable and Balanced Growth. Alongside the Framework, global imbalances could be addressed in a more concrete and durable manner by continuing to boost the SDR's role as a reserve currency. Also important is the task of re-cultivating trust in the IMF among large reserve-holding countries through significant reforms to the governance of that body.

- The Financial Stability Board (FSB) must address the legitimacy problems created by its narrow membership if it is to take on the role of a fourth pillar of global economic governance.

- Institutionally, the relationship between the G-20 and the G-8 should be mutually reinforcing. Rather than pushing to tighten the organisational format the best approach may be to increase the looseness, encouraging the engagement of a number of other external groupings.

- In the post-crisis era, the G-20 needs to ambitiously expand its mandate as the window of support for tackling a wider set of global problems beyond economics may be short-lived. At the next G-20 summits in Canada and South Korea, the G-20 must go on the offensive and show that it has the functional capability to deal with pressing global issues.

- By targeting a key set of global public goods – climate change, food security and global health – the G-20 can deepen the nature of its policy networks beyond the ambit of states. As the global economy reorients itself, the G-20 is in a strong position to develop innovative forms of financing and encourage transfers of knowledge, wealth and technology.

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The G-20: A »Global Economic Government« in the Making?

Introduction: Challenges of the Global Financial and Economic Crisis

The global financial and economic crisis that began in 2007 has been the worst the world has experienced since the Great Depression. It has presented the world community with a number of difficult challenges.

At the level of crisis management, policy-makers have had to take decisive action to provide liquidity to institutions and markets in distress, preferably in an internationally coordinated manner because of the interconnected nature of global financial markets. Emergency international assistance has also been required for countries – particularly poorer countries – experiencing balance of payments crises. In addition, international cooperation has been needed to facilitate the orderly winding-down of bankrupt international firms. As the impact of the crisis spilled beyond the financial markets, the slump in the real economy has had to be addressed with monetary and fiscal stimulus programmes whose effectiveness could be bolstered if coordinated across countries.

In addition to stabilising financial markets and the macroeconomy, policy-makers have faced the challenge of seizing the moment to launch international reforms that would address the root causes of the crisis. The crisis has highlighted severe weaknesses in existing national and international financial regulatory and supervisory practices that were supposed to safeguard financial stability. The financial crisis has also revealed the dangers of the large global imbalances that had accumulated in the years leading up to 2007; the US financial bubble was fuelled by very large inflows of foreign capital from countries, such as China, with high savings and large current account surpluses.

Policy-makers have responded much more effectively to these challenges than their counterparts in the era of the Great Depression. Internationally coordinated crisis management and stimulus activities have ensured that the fallout from the crisis has been much less severe than that in the early 1930s (or than what was predicted by many analysts when the current crisis began). Governments have also proactively launched important international reform initiatives to address the causes of the crisis, such as regulatory failure and global imbalances. The contrast with the failed international reform initiatives in the early 1930s, such as the 1933 London Economic Conference, has been striking.

What explains this contrasting experience? Key lessons have been learned from the experience of the Great Depression, of which the need for an international cooperative response to global financial and economic crises has been one of the most important. The creation of the new G-20 leaders' forum in November 2008 has played a central role in fostering this cooperative response.

Policy Measures and Reform Proposals in Response to the Crisis within the G-20 Framework

G-20 crisis management

From the start, the G-20 leaders' forum played a catalytic role in fostering closer cooperation in crisis management. At their first meeting in November 2008, the G-20 leaders (2008: 2) committed to using »fiscal measures to stimulate domestic demand to rapid effect«. This commitment helped to catalyse new fiscal initiatives in many countries, including in emerging countries, such as China, which announced a large fiscal stimulus programme at this time.

At their second summit in London in April 2009, the G-20 leaders went much further, supporting not just national fiscal and monetary expansion, but also a 1.1 trillion US dollar programme to help jumpstart the world economy. The latter involved a massive increase in the resources available to the IMF for crisis lending, the largest ever allocation of the IMF's Special Drawing Rights (SDRs) (250 billion US dollars) and new lending by the multilateral development banks and support for trade finance. As the leaders put it at the time, »together with the measures we have each taken nationally, this constitutes a global plan for recovery on an unprecedented scale« (G-20 Leaders 2009a: 1). At the same time, the London summit communiqué announced the commitment of the G-20 countries »to take all necessary actions to restore the normal flow of credit through the financial system and ensure the soundness of systemically important institutions« (G-20 Leaders 2009a: 2). At their third summit, in Pittsburgh in September 2009, the G-20 leaders (2009b: 5) reiterated their commitment to »continue to implement our stimulus programs to support economic activity until recovery clearly has taken hold«.

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Re-regulating the global financial markets

Alongside these decisive initiatives relating to crisis management, the G-20 leaders immediately launched a forward-looking international reform agenda. At the first G-20 summit in Washington, most of the final communiqué was devoted to the task of outlining a very detailed roadmap for the reform of international prudential regulation. Although this roadmap drew heavily on an agenda that had been developed within the Financial Stability Forum (FSF) earlier in the year, the G-20 leaders prioritised key reforms and assigned strict deadlines for national officials, international institutions and international standard-setting bodies to follow. The G-20 leaders continued to give high priority to international regulatory reform at their subsequent summits, driving the reform process forward with new priorities and deadlines for officials to meet.

A key objective of the G-20 leaders has been to strengthen the regulation and supervision of banks, including through new liquidity rules, improved risk management and disclosure standards, stronger capital standards, as well as the creation of new colleges of supervisors from different countries to monitor the world's largest financial institutions. They have also endorsed, for the first time, a set of specific international principles for compensation practices for significant financial institutions that are designed to restrict excessive risk taking. In addition, the leaders have backed the strengthening of rules for accounting and credit rating agencies, as well as new kinds of regulation governing hedge funds and over-the-counter (OTC) derivatives.

All of these initiatives have been welcome, but their implementation at the national level is still not complete. Many of the agreements reached through the G-20 process require major legislative changes and thus the support of domestic politicians, whose views do not always correspond to those of officials involved in the G-20 networks. Heated legislative debates are now under way in the US Congress, European legislative bodies and elsewhere that will determine the extent to which the international regulatory initiatives backed by the G-20 are actually implemented at the national level.

Debates are particularly intense relating to another aspect of the reform agenda endorsed by the G-20 leaders: the incorporation of »macro-prudential« concerns into international financial regulatory standards. Before the crisis, international financial regulation was focused primarily on the stability of individual financial institutions. The crisis highlighted the need to complement these micro-prudential rules with macro-prudential ones that address the stability of the system as a whole. The G-20 leaders' support for this new macro-prudential regulatory philosophy is extremely important, but they have yet to agree on many of the details of its implementation.

For example, the leaders have backed the important principle that »systemically important« financial institutions should be subject to special kinds of regulation which are »commensurate with the costs of their failure« (G-20 Leaders 2009b: 9). But there is little consensus on precisely how these institutions should be regulated. Some policy-makers favour size limits; others prefer to restrict these firms from high-risk financial activities; and still others argue that the institutions should simply be subject to tighter regulation and supervision and be forced to prepare »living wills« that outline how they will be wound down in times of trouble. Disagreements also exist on the question of whether these firms should be forced to pay for bailouts. There is a risk that policy debates on these topics within and between countries may delay, or even inhibit altogether, reform in this area.

The focus of the international regulatory reforms has also been narrower than it might have been, in several respects. The G-20's macro-prudential regulatory agenda has not devoted much attention to the role that capital account restrictions could play in preventing speculative cross-border capital flows from exacerbating domestic financial booms and busts, particularly in developing countries. Also neglected has been the need for mechanisms to facilitate more orderly sovereign debt restructuring – a need that the Greek crisis of May 2010 has made particularly evident. G-20 leaders have also failed to link international regulatory reform to environmental issues; they could, for example, have engaged with the calls of some investor groups and environmentalists to incorporate environmental risk disclosure in prudential standards (Helleiner and Thistlethwaite 2009). Finally, the G-20 leaders have not addressed squarely the question of private sector »capture« of regulatory policy-making, despite the fact that many analysts assign considerable blame for the crisis to this phenomenon (Helleiner and Porter 2010).

Reducing global imbalances: a framework for strong, sustained and balanced growth

Although the G-20 leaders focused their international reform agenda on regulatory issues during their first two summits, they had also begun to address global imbalances by the time of the Pittsburgh summit. The final communiqué of that summit endorsed a new »Framework for Strong, Sustainable and Balanced Growth« that was described as »a compact that commits us to work together to assess how our policies fit together, to evaluate whether they are collectively consistent with more sustainable and balanced growth and to act as necessary to meet our common objectives« (G-20 Leaders 2009b: 2). Under the Framework, the G-20 countries will agree on shared policy objectives and engage in »mutual assessment« of each other's medium-term policy frameworks in light of those objectives, with the IMF and World Bank helping to analyse how these fit together. The results of the first mutual assessment will be reviewed at the June 2010 Toronto summit, where the leaders will be presented with a basket of policy options to consider with a view to reaching shared objectives. The Framework is also underpinned by a set of »Core Values for Sustainable Economic Activity«, which include a responsibility to adopt policies that »help avoid unsustainable global imbalances« (G-20 Leaders 2009b: 20).

The Framework signals a welcome commitment to strengthening international macroeconomic cooperation and a move towards a more balanced pattern of global growth. Whether it will achieve much, however, remains unclear. There have been many failed initiatives in the past to boost global macroeconomic cooperation, including the 2006 IMF multilateral consultation exercise. Those initiatives that have met with more success, such as during the late 1970s or mid-1980s, were generally short-lived. Given the centrality of monetary and fiscal policy within national political economies, policy-makers are wary of international constraints on their freedom of action in these policy spheres.

The G-20 leaders' support at the London summit for the allocation of 250 billion US dollars worth of new SDRs provided a more concrete initiative to address the problem of global imbalances. One of the key causes of the growth in global imbalances over the past decade has been the growing demand for official dollar reserves in many developing countries (Mateos y Lago et al. 2009). In the wake of the East Asian financial crisis of 1997-98, many developing countries built up their reserves as a form of protection against external shocks and dependence on the IMF, whose actions in the crisis were widely criticised as being counter-productive, too intrusive and overly influenced by US goals. Under the dollar-based international reserve system, this growing »precautionary« demand for official reserves could be met only by the United States running larger and larger current account deficits. By boosting the allocation of SDRs, the G-20 leaders provided a new supply of reserves that was no longer dependent on the balance of payments position of the US. This new allocation, the first since 1981, boosted the share of SDRs in the world's non-gold official reserves from less than 0.5 percent to around five percent overnight (Williamson 2009).

The G-20 need to follow up this one-off allocation of SDRs with support for a more regular new supply. The precautionary demand for reserves is likely to continue to grow in the coming years because policy-makers have seen that countries with large war chests of reserves were less vulnerable to the crisis than those which had not. If the G-20 backed a regular annual issue of SDRs, it would help to meet this demand without reinforcing the pre-crisis pattern of global imbalances (Bergsten 2009). At the same time, the attractiveness of the SDR as a reserve asset could be boosted if the G-20 governments made more efforts to cultivate private markets for SDRs through initiatives such as issuing SDR-denominated securities (Eichengreen 2009).

Reforming the international economic and financial architecture

Another mechanism for addressing countries' demands for »self-insurance« would be to restore confidence in the IMF's multilateral insurance mechanism. But the rebuilding of trust in the IMF among many of the large reserve-holding countries is dependent on the implementation of substantial governance reforms. The G-20 leaders have committed to reforming the governance of the IMF in order to give emerging and developing economies greater voice and representation by January 2011. They have already agreed that the heads and senior leadership of the Bretton Woods institutions should be appointed through an open, transparent and merit-based selection process (the London summit) and that

IMF quota shares will be shifted to emerging markets and developing countries by at least five percent (the Pittsburgh summit). The task of delivering on these and other meaningful IMF governance reforms should continue to be a top priority of the G-20 leaders.

The reform of the governance of the Bretton Woods institutions is not the only aspect of global financial governance that has attracted the attention of the G-20 leaders. One of their most important governance initiatives was to transform the FSF into the Financial Stability Board (FSB) at the London summit in April 2009. Like the FSF, the FSB has been given a mandate to promote global financial stability by strengthening international prudential standards, assessing vulnerabilities affecting the global financial system and encouraging coordination and information exchange among national financial authorities, international financial institutions and international standard setting bodies. It has also been given a strong organisational structure and new functions relating to early warning exercises, mandatory peer review for members, strategic reviews of the work of international standard-setting bodies and the creation and guidance of supervisory colleges for all major cross-border financial institutions. The international standard setting bodies were also required to report to the FSB on their work in order to provide »a broader accountability framework« for their activities (FSB 2009: 3).

The most important improvement over the FSF, however, concerns the FSB's membership. While the FSF's country membership had been restricted to the G-7 countries, Australia, Hong Kong, the Netherlands, Singapore and Switzerland, the FSB added all G-20 countries, along with Spain and the European Commission. This wider membership gives the FSB more legitimacy to play a role as what US Treasury Secretary Tim Geithner has called a kind of »fourth pillar« of the architecture of global economic governance, alongside the IMF, the World Bank and the WTO (US Treasury 2009). Although this change is an improvement, the FSB's membership remains very narrow in comparison to the other three pillars of global economic governance. Because the G-20 leaders have encouraged the FSB to promote worldwide compliance with the standards that it endorses, its legitimacy *vis-à-vis* non-members remains problematic and needs to be addressed. To meet the ambitions of its creators, the FSB also needs to be given a larger secretariat (Helleiner 2010).

The G-20 as the Main Global Economic Body: Opportunities and Limitations

Coordinating international economic and financial policies

Experience so far indicates that the G-20 has a number of opportunities to be a transformative forum for global economic governance. At one level, it can provide ad hoc and short-term measures to deal with the recession. At another level, it can elevate itself from a recession-beater to the premier hub of global economic governance. The short-term role hinges on a limited technical agenda, keeping up the momentum of the stimulus packages and then winding them down through a coordinated exit strategy. The sustained role is far more open-ended, centring on the G-20's ability to act as a new form of »steering committee«. In terms of substantive and institutional ambition, the mandate of the G-20 would be widened considerably.

Indeed, abundant risks exist for the G-20 if it does not ambitiously expand its mandate for coordination and delivery. Arguably the greatest is the emergence of another economic or social crisis, brought on by one of the multitude of global challenges lingering on the sidelines. As the economic crisis recedes, and without a reinvigoration of the agenda, an exit strategy will be implemented not only with regard to the stimulus spending but also with regard to the leaders' involvement with the G-20.

The relationship between G-8, G-20 and UN

The emerging G-20 nexus of multilateralism, with hub and spoke institutions, has privileged the IMF and the re-configured FSB in a manner far superior to that of other international bodies. The United Nations had initially embraced the notion of a G-20, including apparent signs that Secretary General Ban Ki-Moon would offer the UN's New York headquarters as the summit site. However, even after another such invitation, this overture was declined. Instead of establishing itself as a central component of the G-20 model, therefore, the UN was gradually marginalised from the process.

Although Secretary General Ban did attend the Washington G-20, a considerable distance appeared between the UN and the G-20 approach on the eve of the Summit. In a news conference on 11 November (the G-20 being on 14-15 November), Ban focused his attention on the need for »inclusive multilateralism«, with a focus on protecting the well-being of the developing countries, as well as major UN development goals, including climate change, food crisis issues and financing for development (Ban 2008). If laudable as an overall objective, this strategy was overtaken by the items on the G-20 crisis committee's agenda.

To some extent, this distancing trend was reinforced by the response of specific members of the UN General Assembly. Rather than working more systematically to integrate its agenda into that of the G-20, the UNGA became the main site of organisational resistance to the G-20. In principle, the main source of contestation came from the move by the GA President to convene a panel of experts, chaired by Joseph Stiglitz, in contradistinction to the G-20. Organisationally, the main alternative focal point became the UN Conference on the Global Economic Crisis at the end of June 2009.

The relationship between the G-8 and the G-20 can be seen as competitive. The G-8 has many cultural attributes of a like-minded club with a shared history, identity and method of doing things. Although the agenda has become increasingly stretched out, the G-8's style continues to be informal, with some considerable space for unscripted policy discussions. By way of contrast, the core of the G-20's personality rests on the image of crisis readiness and enhanced legitimacy via representation, including both the traditional world powers and a cluster of »rising« states from the global South.

National interests in favour or against strengthening the G-20

Up to the Pittsburgh summit the US was the strongest supporter of the G-20. The G-20 pre-empted other designs, including the G-13 or G-14, as favoured by France. The G-20 allowed the US to be seen as rewarding allies. In general geo-political terms, this meant the inclusion of countries such as South Korea, Indonesia, Australia, Turkey and Saudi Arabia. Functionally, it allowed a composition that included the MEM grouping, vital to President Obama's approach to tackling the climate change agenda. Since Pittsburgh, however, the US's position has become more ambiguous – with support for the G-20 on the economic agenda being balanced by more open support for the »likemindedness« of the G-8. The G-8 is even more vigorously championed by Canada, Italy, Japan and, to some extent, Russia.

Alliances and coalitions within the G-20

If the G-8 can be seen as one distinctive element within the G-20, another potential coalition is the core group of big »rising powers«, as defined by either the BRICS or BICS (Brazil, India and China without Russia). Any hardening of these categories could eventually lead to the erosion of the centrality of the G-20.

There is an emerging debate about whether geographically-based caucuses should be established within the G-20, notably an Asian caucus to develop united positions. Indeed, a similar caucus system has developed informally through a South African initiative via the regional »Committee of Ten« finance ministers to allow a cluster of African countries at least indirect access to the G-20.

The G-20 and its relationship with non G-20 countries

The main opposition to the G-20 from outside the forum is animated by concerns that the G-20 is a »concert« of big countries that can dictate the new rules to all the others. This attitude was expressed in the UN General Assembly most vehemently by Venezuela, Bolivia, Cuba and Nicaragua during the June 2009 »G-192 Summit« on the financial crisis and international development.

Through some of its issue-specific targeting the G-20 reinforces this impression. The classic case is the »tax haven« controversy. Without representation, small states concentrating on this type of offshore (or, in some cases, onshore) activity found themselves in the firing lines of efforts to name and shame. Thus, for both symbolic (exclusion) and instrumental (eroding competitive advantage) reasons, a number of small states began to combine in rival institutions.

Signs of mobilisation along these lines may be apparent in groupings such as the Global Redesign Initiative sponsored by Qatar, Singapore and Switzerland within the World Economic Forum, as well as the Singapore-driven Global Governance Group or 3G. Both tap into a palpable sense of frustration that the G-20 does not adequately reflect the concerns of small states that are not members, even though these states face the same challenges. Notably, the 3G scheme is made up of middle-sized and small states from a wide range of regions, initially Singapore, Malaysia, Brunei, the Philippines, Vietnam, Bahrain, Qatar, United Arab Emirates (UAE), Sweden, Belgium, Ireland, Luxembourg, Switzerland, Liechtenstein, Monaco, San Marino, New Zealand, Chile, Uruguay, Costa Rica, Guatemala, Panama, Jamaica, Barbados, the Bahamas, Rwanda, Senegal and Botswana.[1]

Notably, however, the 3G initiative does not reject the G-20 outright but rather promotes a more inclusive and consultative form of global governance. Links to the G-20 have been promoted by South Korea through enhanced forms of outreach (for example, with ASEAN).

Strengths and weaknesses of the G-20 compared with other international organisations

The main strength of the G-20 continues to be its combination of efficiency (as against the UN) and legitimacy (as against the G-8). Its weaknesses are its inability so far to »finish the job« in terms of implementing a coordinated approach beyond its original impressive performance in offering combined stimulus packages. Internal divisions continue to exist on regulatory issues, preventing the move from being a recession-beater to a steering committee.

Moreover, from the outset the G-20 suffered from some deficiencies concerning its size and geographical makeup. Although some have claimed that the make-up of the G-20 more accurately reflects the structural shifts in global power at the start of the twenty-first century, the hold of Euro-centrism leaps out with regard to its composition. In addition to the big four established members of the G-8 (the UK, France, Germany and Italy), the President of the European Commission also gained entry. Moreover, since the first G-20 Summit at Washington, the door has been left open for other European entrants. Spain has been the most successful of these additional countries, eventually obtaining the status of »permanent guest«.

1. For more information on the 3G initiative please refer to the Appendix where we have reproduced an official letter dated 11.3.2010 from the Permanent Representative of Singapore to the United Nations addressed to the UN Secretary-General on behalf of the informal Global Governance Group (3G). The letter has a document entitled »Strengthening the Framework for G-20 Engagment of Non-members« attached to it (The editors).

The issue of membership has been made even more sensitive by the nature of ownership in the G-20 process. Up to now, all of the major organisational decisions have been taken by the G-8 members. US President George W. Bush called the G-20 into action at the Washington summit. US President Barack Obama orchestrated the rationalisation of the G-20 at Pittsburgh, deciding to have back-to-back G-20/G-8 summits in Canada at the end of June 2010 plus a stand-alone summit in South Korea in November 2010.

Recommendations

The G-20 leaders' forum has shown its capacity for fostering cooperation in crisis management since its creation in late 2008, but it must continue to be alert to new financial vulnerabilities and take the lead role in fostering cooperative solutions to new sources of systemic instability, such as the emerging sovereign debt crises in Greece and elsewhere.

The G-20 leaders have also demonstrated their ability to drive a forward-looking international regulatory reform agenda. But as time passes and momentum fades, the G-20 leadership role in driving regulatory reform is becoming increasingly constrained by the politics of implementation at the national level. Differing national perspectives on the details of implementing macro-prudential regulation may compound the difficulties of harmonising rules in a detailed manner. In these circumstances, the G-20 leaders should embrace a broader principles-based approach to international standard setting which allows for considerable policy space at the national level but ensures that national distinctiveness is not used as a smokescreen for inaction. The international regulatory reform agenda also needs to be widened to address the macro-prudential role of capital account restrictions, sovereign debt restructuring mechanisms, environmental risk disclosure and the risk of private sector capture.

The G-20 leaders' new interest in addressing global imbalances is encouraging, but expectations with regard to the new Framework process should not be set too high. Alongside the Framework, the G-20 leaders could address global imbalances in a more concrete and durable manner by continuing to boost the SDR's role as a reserve currency. Also important is the task of restoring trust in the IMF among large reserve holding countries through significant governance reforms. The one institution that the G-20 has created so far – the FSB – must also address the legitimacy problems created by its narrow membership if it is to grow into the role of fourth pillar of global economic governance.

At the institutional level, more can be done to redefine the relationship between the G-20 as a larger, more representative and diverse grouping than the G-8. However, questions surrounding the relationship between the G-20 and the G-7/-8 should not be treated in terms of »either/or«. The G-20 will consolidate its leadership mantle if it shows it possesses instrumental legitimacy: that is to say, by working effectively. If the likemindedness which might enhance the sustainability of a G-7/-8 is preferred, this may foster a competitive environment which is unlikely to help to achieve greater efficiency. If pragmatism trumps likemindedness as a basis for position-taking then a cooperative rather than a competitive environment is more likely to develop, which will benefit the efficiency and effectiveness of summit outcomes. Rather than pushing to tighten the organisational format, the best approach may be to increase the looseness, encouraging the engagement of a number of other external groupings.

While the crisis was brought on by successive policy and regulatory failures, a concentration exclusively on these issues may not solidify the G-20 as the hub of global governance. First, many of the regulatory issues (including bank bonuses, the regulation of hedge funds and derivatives) continue to be disproportionately the preserve of the Western members of the G-20. And second, these issues stretch the limits of the leaders' ownership of the G-20 process. During moments of crisis, leaders pick up on issues that would otherwise be under the purview of cabinet ministers and their bureaucrats. The sustainability of such an involvement is questionable. With a return to »normalcy« (although that condition is likely to be contested), leaders will, in turn, be attracted to traditional roles. That is to say, they will want to establish themselves as strategic »steerers« of a small number of pivotal issues, not as tactical »doers« with regard to a range of complicated technical issues.

As the immediacy of the crisis subsides, a much longer list of tasks and responsibilities has begun to emerge. While very important, the attention paid to private greed in global commerce – through better regulation and institutional reform – has led to the overlooking of many of the social challenges amplified by the crisis. At the forefront of these ensuing priorities – more by default than design – is climate change. In the post-Copenhagen context, a number of state officials have looked to the G-20 as an alternative forum. While negotiation of a post-Kyoto framework should not be »forum shopped« away from the UNFCCC, the composition of the G-20 (the US, the EU and the BASIC group) offers an alternate venue for breaking the stalemate. Beyond emissions targets, the G-20 can flesh out strategies for the financing of adaptation and mitigation in developing countries.

Next, arguably, is the issue of global food security. In 2008, both the G-8 and the United Nations targeted this issue, but have suffered, respectively, from deficiencies of restricted membership and organisational fragmentation. Bridging the North and South, the G-20 offers a credible forum for addressing the vacuum of leadership on food security. Action at the leaders' level creates an opportunity for synergies in alternative energy policy and agricultural management, limiting the unintended consequences of the traditional »siloed« approach. Also high on the list, and often neglected, is global health. While still embedded in the sovereign system of states, health challenges cross borders indiscriminately – one of the classic »problems without passports«, as former UN Secretary-General Kofi Annan termed them. Pandemics such as H1N1 serve as a reminder of our collective vulnerabilities and the need for international coordination. While the World Health Organization provides frontline services, it has become dwarfed in terms of funds and programmes by private institutions such as the Gates Foundation (significantly, Korea plans to have Bill Gates preside over the corporate social responsibility session at the G-20 Business Summit, to be held immediately before the leaders' G-20 meeting). The G-20 can provide catalytic leadership in global health governance, mobilising efforts across agencies and sectors.

Abundant risks exist for the G-20 if it does not ambitiously expand its mandate. Arguably the greatest is the emergence of another economic or social crisis, brought on by one of the multitude of global challenges hovering on the sidelines. As the economic crisis recedes, and without a reinvigoration of the agenda, an exit strategy will not only take place from stimulus spending but is also likely for the leaders' involvement with the G-20.

The G-20 has at its potential disposal a variety of policy instruments and, more importantly, a degree of political momentum to implement widespread reforms. Its informal structure and near-limitless purview provides many comparative advantages over the traditional international institutions. The window of support for tackling a wider set of global problems, however, may be short-lived amid temptations to revert to normal practices in which longer-term international commitments are subordinated to shorter-term domestic priorities.

Timely and innovative policy solutions, which signal a break from business-as-usual approaches to international development, are thus imperative. Incrementally, the G-20 appears to be gravitating towards a wider set of issues and policy options. At the November 2009 meeting of finance ministers and central bank governors at St Andrews, Scotland, support was given for replenishment of international development assistance, termination of fossil fuel subsidies and exploration of climate financing options. The communiqué advanced the coordination of all »financing channels« to tackle climate change, emphasising public-private partnerships.

In areas of mutual interest and competencies, partnerships between governments, corporations and philanthropic foundations can yield results not possible when each acts alone. Initiatives such as the Global Alliance for Vaccines and Immunization have shown that public donors can leverage significant private investment and that cross-sector cooperation can work to fulfil foreign policy objectives. Structured partnerships also produce mutual accountability and hold the promise of efficient delivery on commitments.

Moving forward towards the 2010 leaders' summits – in Canada at the end of June and in South Korea in November – the G-20 will face intense pressure to both resolve the core economic concerns and clarify the G-20's role in the post-crisis era. Passing this diplomatic »stress test« is vital. The G-20 must go on the offensive and show that it has the functional capability to deal with these pressing global issues. Moreover, by targeting this key set of global public goods – climate change, food security and global health – the G-20 can deepen the nature of its policy networks beyond the ambit of states. As the global economy reorients itself, the G-20 is in a strong position to develop innovative forms of financing and encourage transfers of knowledge, wealth and technology.

Through its dual existence, first as a forum of ministers and then as a leaders' summit, the G-20 has shown itself to be capable of robust action. Rather than sticking to a set formula, when the global financial shocks hit, the G-20 capably re-invented itself. The challenge that lies ahead is to not let its successful steps, especially its role as a crisis committee, temper its ability to promote an extended array of bold and original solutions.

As a crisis committee, the G-20 has made some headway. Faced with an economic emergency, the G-20 quickly established itself as the pivotal go-to forum for collective response management. As a more extended project, however, more work needs to be done by all G-20 members to strengthen their own actions within the G-20 so that it generates deeper and more significant outcomes.

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Country Fact Sheet – Argentina

1. Argentina's crisis-related challenges

Argentina has run current account surpluses consistently since 2002. Hence, Argentina did not suffer a characteristic »sudden stop« in capital inflows, in contrast to emerging markets running current account deficits. Nor was the balance sheet of Argentina's financial sector exposed to toxic assets prior to Lehman Brothers' collapse.

Rather, as in other Latin American countries, the economic and financial crisis hit Argentina in the form of a trade shock, compounded by a record-high drought which severely affected Argentina's agricultural exports in 2008-2009 (exports fell by 23 percent between the first three quarters of 2009 and the same period of 2008; half of that fall is explained by declining agricultural exports). The single most important challenge that Argentina still faces, therefore, is related to the uncertainty regarding the recovery of global aggregate demand.

In connection with international financial markets and the functioning of the international monetary system, Argentina faces similar challenges to those faced prior to the outbreak of the economic and financial crisis, namely:

- Typical emerging market exposure to unstable international liquidity cycles (in order to dampen this volatility, Argentina has applied short-term capital controls to inflows/outflows since 2005);

- The absence of an international lender of last resort (Argentina's policy of international reserve accumulation is related precisely to this flaw: according to the Argentine authorities, self-insurance in the form of international reserve accumulation is still warranted despite the establishment of the IMF's Flexible Credit Line (FCL));

- Insufficient finance from multilateral development banks (the shortage in multilateral development lending worsened with the sharp increase in demand after the outbreak of the international crisis);

- Instability of international commodity prices, including the influence of derivatives markets on spot prices (which, yet again, according to the Argentine authorities, merit exchange rate intervention and international reserve accumulation as a countercyclical device).

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2. Relevance and consequences of the G-20 outcomes for Argentina's economic policy

Coordinated countercyclical actions increased global demand and hence helped to boost demand for Argentine products (as argued above, Argentina's most vulnerable point has been the fall in its exports).

The general SDR allocation approved in August 2009 (equivalent to one percent of GDP in the case of Argentina) eased the government's financial constraints and helped to sustain domestic demand.

Argentina's inclusion in the Financial Stability Board (FSB), by engaging the Argentine authorities in international dialogue, has also influenced their concern with proper financial regulation.

More generally, the G-20 – as a more legitimate steering committee with enhanced representation of developing nations – helped to reaffirm the critical role of government intervention in the economy. Against this backdrop, Argentina's authorities showed a more clear-cut commitment to revamping and extending the perimeter of financial sector regulation. For example, Argentina strengthened the requirements of international financial transactions with non-cooperative jurisdictions to a large extent relying on the renewed international drive for increased regulation of offshore, non-transparent financial activities. Also, Congressional support for the renationalisation of private pension funds could not have been achieved in different circumstances.

3. Argentina's stance on the role of the G-20

Argentina attaches the highest importance to the G-20 process as the new »steering committee« of the global economy. In particular, Argentina has sought to make the most of G-20 meetings in order to deepen strategic alliances with both advanced and developing countries within the G-20, including the BRIC countries. Also, Argentina has successfully championed the introduction of labour- and employment-related issues, which had not previously been considered in the discussions related to global institutional reform. For example, Argentina struggled to prevent the relaxation of labour standards in the midst of the international economic and financial crisis. At an institutional level, Argentina's head-start regarding labour market issues led to the inclusion of the International Labour Organization (ILO) in G-20 summits and to the first meeting of Ministers of Labour in Washington, in April 2010.

At the macroeconomic level, Argentina believes that reforming the international monetary system is crucial in order to prevent imbalances in global demand and uncoordinated exchange rates from leading to another international economic and financial collapse. The Argentine authorities consider the allocation of SDRs to be a very positive measure, albeit a temporary one. A more stable and systematic international liquidity allocation system should be put in place – for example, the periodic issue of SDRs – and a more coordinated effort to harmonise the exchange rate policies of the major economies should be sought more forcefully.

Argentina has had some success with short-term capital controls. It therefore believes that the G-20 should pay more attention to the regulation of international capital flows, as recently acknowledged by the IMF itself. According to the Argentine authorities, for many developing countries – such as Argentina – damping the volatility of short-term capital flows would increase policy room, reduce the risk of asset price bubbles and exchange rate misalignments and may eventually permit the slackening off of self-insurance reserve accumulation policies, a growing concern among advanced economies.

At the financial level, the discussion on the need for stronger regulation of uncooperative financial jurisdictions and credit rating agencies was considered of the utmost importance by the Argentine government. Taxing the banking system could be another priority area.

Given Argentina's unfortunate recent history with the IMF, the Argentine authorities have welcomed the renewed discussion on the IMF's role, the efficacy of its lending facilities and the shortcomings in its governance structure, but still find the breadth of change and debate to be somewhat limited. For instance, the inequitable voting balance at the international financial institutions (IFI) has not been revised sufficiently.

Concerning its engagement within the G-20, Argentina is actively participating in all issues. An internal task force has been created and periodic meetings have been taking place among Finance Ministry representatives, Central Bank officials and other relevant authorities, including the Foreign Office and the Ministry of Labour. In particular, Argentina was very active in the G-20 working groups related to IFI reform, especially governance issues, as well as in working groups related to financial regulation, seeking to provide a developing country's view of the most challenging issues regarding macro-prudential regulation.

No formal alliances have been established with other G-20 members, but Argentina has strong links and common interests with the BRICs. Informal coalitions have been agreed with various countries on specific issues. For example, Argentina joined with the US and the UK in the promotion of SDR allocation, and with the Eurozone countries in favour of stronger financial regulation. G-20 meetings have facilitated bilateral coordination with Brazil at various levels.

The G-20 process has gained impetus and is opening up in many areas. Its key feature is its high political engagement and its capacity to deliver specific commitments and policy actions jointly between advanced and developing nations. However, advanced countries within the G-20 still seem to prevail in key strategic decisions and in setting the group's agenda. In that context, according to the Argentine authorities, the lack of enforcement capacity tends to play against developing countries.

As the global crisis recedes, the challenge will be to maintain the momentum for other critical reforms and ensure continuous effectiveness and sufficient engagement from all parties. There is a strong risk that, as the crisis recedes, needed financial reforms will be postponed and incentives for international coordination – which worked well in the midst of the crisis – will fade away. The same applies to the reform of the international financial institutions: the initial drive to improve developing countries' representation and other governance issues seems to be finding more resistance as deadlines come nearer.

However, it must be acknowledged that the G-20 has agreed broad principles for reforming these institutions and many of the commitments pursued have been made operational by the IFIs and are currently being discussed within executive boards or among governors.

Concerning the relationship of the G-20 to multilateral organisations, Argentina has championed the inclusion of the ILO in the latest G-20 Summit. With this focus on labour issues, it also hopes to mainstream the participation of Labour Ministers in the future.

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Country Fact Sheet – Australia

1. Australia's crisis-related challenges

Australia's economy largely escaped a severe downturn following the global financial crisis. Although growth in the Australian economy faltered, Australia's GDP fell in only one quarter after the onset of the crisis.[1] Growth is now 2.7 percent and is forecast by the Reserve Bank of Australia (RBA) to rise to 3.25-3.5 percent through 2011.[2] Also, although unemployment rose from 4.1 percent in August 2008 to 5.8 percent in October 2009, it has since steadily fallen to 5.1 percent.

Thus, unlike much of the G-20, the economic challenges facing Australia do not revolve around recovery from the financial crisis. Its official debt is very low compared to the world's major economies. It is expected to peak at just under 14 percent of GDP, compared to between 60 and 80 percent of GDP in the UK, the EU and the USA.[3] Its inflation rate, at about 2.5 percent, remains within the official target range and RBA analysis predicts this to remain so for the projected future.[4]

Australia's major economic challenges revolve around three major issues. These are:

- how it manages the likely surge in demand for its resources as its major trading partners, principally China and the countries of north and east Asia, recover from the global financial crisis and return to very high rates of economic development;
- the effects of climate change on both its cities and its hinterland;
- its need to balance the demand for labour with its supply, especially from immigration, in a sustainable way.

First, Australia has to be able to meet efficiently the likely increased demand for its resources to maintain its comparative advantage. This requires substantial investment in both physical infrastructure and human capital. These requirements are a significant challenge for Australia's governments: not only the Commonwealth government, but the State and Territory governments that comprise the Australian Federation. There are two interrelated challenges here: improving the capacity to raise revenue and spend efficiently, and doing so within the context of the constraints of Australia's federation.[5]

Second, Australia seems to be especially vulnerable to the consequences of global warming. Its vast agricultural hinterland, vital for food supply and agricultural exports, depends critically on water flows in the Murray-Darling basin. This region has now been suffering severe drought (perhaps the severest in 1,000 years) for the better part of ten years, with the lowest water inflows since records commenced in the nineteenth century. Thus, the imperative for governments (and, again, this is a problem that involves Federal–State relations, given that four States and the Commonwealth are all stakeholders in the Murray-Darling system) is to devise policies that address the general problem of global warming.

This imperative is made worse by the fact that Australia's cities are very large relative to the size of the national population.[6] The urban sprawl that results generates a large carbon footprint and puts enormous pressure on water supply. The per capita carbon-intensity of Australia's cities is amongst the highest in the world.[7] Australia is also a major producer of carbon-intensive resources. As policy remedies for these environmental issues lie as much in international relations as in domestic policy, Australia has a vital interest in multilateral negotiations on climate change policy. Inevitably, this means the G-20.

Third, Australia has crucial population challenges. Throughout its history since European settlement, it has both been a target for international immigration and has required immigration to exploit its economic potential. The current era is no exception. However, balancing the needs of the economy with environmental and social sustainability is a severe challenge, made greater by the rise in international terrorism. Added to this mix is the demography of an aging population.

1. Australian Bureau of Statistics (ABS), Australian National Accounts, cat 5206.0.

2. Reserve Bank of Australia (RBA), Statement on Monetary Policy, February 2010, p. 3.

3. RBA, Statement on Monetary Policy, February 2010, p. 9, and Budget Strategy and Outlook 2009-2010, Budget paper No. 1, pp. 3-9.

4. RBA, Statement on Monetary Policy, February 2010, p. 59.

5. At present, an extensive inquiry is being conducted into Australia's tax system, Australia's Future Tax System Review, under the chairmanship of the Secretary of the Treasury, Dr Ken Henry. Dr Henry has canvassed these issues recently in Treasury Economic Round-up, 1, 2010.

6. Over 60 percent of Australia's population lives in its five largest cities.

7. US Energy Information Administration. Available at: http://tonto.eia.doe.gov/cfapps/ipdbproject/iedindex3.cfm?tid=90&pid=45&aid=8&cid=&syid=2004&eyid=2008&unit=MMTCD (last accessed on 13.4.2010).

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Of course, these challenges are interrelated and progress in meeting any one of them puts pressure on the others. Australia's mineral and natural resource wealth place it at the forefront of countries in the G-20 to benefit from the changing balance of economic power in the developed and developing worlds, especially the shift of economic power to the East and away from the North Atlantic. As much of this change is occurring within the G-20, it gives Australia an especially strong reason to involve itself in the organisation with vigour, purpose and strategic intent.

2. Relevance and consequences of the G-20 outcomes for Australia's economic policy

Australia has been in the vanguard of countries that support the development of the G-20. The Australian government regards the organisation as pivotal because of its size and reach.[8] It sees the G-20 as being of critical importance in at least four areas of international policy coordination:
(i) the coordination of economic responses to economic crises, and especially responses to the global financial crisis;
(ii) reform of the international financial system in the wake of the crisis;
(iii) the promotion of trade liberalisation and the completion of the Doha Round of trade negotiations;
(iv) achieving economic growth which is sustainable, both financially and environmentally.[9]

The Australian Government sees the actions of the G-20 in coordinating major stimulatory fiscal and monetary responses to the global financial crisis as the reason why the crisis was addressed speedily and a longer and more severe world recession avoided.[10]

It also sees the G-20 as the best way of improving the architecture of international economic and political organisations that now, over fifty years after Bretton Woods, are in serious need of reform, due to the changed economic and political circumstances, characterised by post-colonialism, globalisation and economic development in East Asia.

3. Australia's stance on the role of the G-20

Australia sees the need for »a new ›driving centre‹ of global politics and the global economy – a group of nations, both developed and developing, sharing a broad commitment to make the existing institutions of global governance solve the problems«[11] facing the global economy and polity. It regards the G-20 as that »driving centre«. It especially sees the G-20 as important from a strategic point of view because it is the first time that Australia has been represented at head-of-government level on the world's pre-eminent economic council.[12]

The interests Australia associates with its membership of the G-20 are as follows:

Core economic issues after the global financial crisis:

- completion and implementation of the financial market reform programme to prevent future economic crises, including:
  – reform of the IMF to reflect changing economic structures and the increasing importance of Asia, especially China and India;
  – reinforcing the Basel Accords and other aspects of the capital adequacy requirements of banks and major financial institutions;
  – reviewing the incentive effects of executive pay structures;

- an agreement on a framework for the coordinated withdrawal of the fiscal and monetary interventions carried out in response to the global financial crisis; and

8. See Prime Minister Rudd's address to the Foreign Policy Association, New York, 24.9.2009. Available at: http://www.pm.gov.au/node/6222 (last accessed on 13.4.2010).

9. These themes were stressed in Prime Minister Rudd's address to the General Assembly of the United Nations, 23 September 2009. Available at: http://www.pm.gov.au/node/6223 (last accessed on 13.4.2010).

10. Prime Minister Rudd, interview in Pittsburgh at G-20 Summit, 25 September 2009. Available at: http://www.pm.gov.au/node/6223 (last accessed on 13 April).

11. Prime Minister Rudd's address to the Foreign Policy Association, New York, 24.9.2009. Available at: http://www.pm.gov.au/node/6222 (last accessed on 13 April).

12. »The G-20 provides Australia with a voice in the decisions of the management of the global economy, which directly affects us – a seat at the top table for the first time, which we have not had before at Head of Government level, and a table where the decisions on the future of the global economy are taken.« Prime Minister Rudd, interview in Pittsburgh at the G-20 Summit, 25.9.2009. Available at: http://www.pm.gov.au/node/6223 (last accessed on 13 April).

- the development of a coherent plan to achieve sustainable economic growth.[13]

Other critical issues

There are also other key issues that Australia sees as crucial to the agenda of forthcoming G-20 activities. These include:

- the need to fashion a »Grand Bargain« between the developed and developing countries to deal with the immense problem of climate change and, especially, reaching agreement on targets for and methods of abatement of greenhouse gas emissions;

- curbing protectionist tendencies and furthering the completion of the Doha Round of trade negotiations.[14]

With regard to the G-20 and Australia's bilateral and multilateral relations, although the Australian government sees the organisation as one of its major multilateral initiatives, it is by no means the only one. First and foremost, Australia's most important strategic ally is the United States. The modern form of the alliance was forged during the darkest period of the Second World War, when Australia's existence as a free country was in peril, and has continued to this day. Importantly, it is not under any challenge in Australian politics. This alliance is as much economic and cultural as related to defence and foreign affairs.[15] It continues to be the anchor of Australia's foreign policy and is likely to remain so for the foreseeable future.

However, since at least the 1950s, under Prime Minister Menzies, but notably under former Prime Minister Paul Keating and now under Prime Minister Rudd, Australia is attempting to forge critical alliances in Asia and in the Asia Pacific region. Primarily because of its economic relationship and the importance of the Japanese market for Australia's exports, but also as part of post-Second World War reconciliation, Australia has sought and largely achieved close relations with Japan. Although not a part of the Association of Southeast Asian Nations (ASEAN), Australia has long sought close ties with it. However, these ties have never been formalised.[16] Instead, they have been furthered through an outgrowth of ASEAN, the East Asia Summit (EAS).

With regard to more recent regional initiatives, Australia has been active in the formation of APEC (Asia Pacific Economic Cooperation). Looming over the Asia Pacific region is the rise of China and India as economic and political powers. It makes no sense for important world or regional multilateral organisations not to have an important role for these countries, and Australia has been very active in regional associations and alliances that include China and India. Of course, the same pressure was felt by the G-7 and G-8 and thus the same pressures gave rise to their evolution into the G-20.

Most recently, the Australian government has been canvassing the idea of an Asian Pacific community (APC). Given the plethora of regional groupings and organisations, this may seem redundant. However, the Australian government perceives that none of the existing organisations or institutions has either the required breadth of membership (none of them have all the regional and global major powers as members: India, China, the USA, Japan or Russia) or the mandate given by head of state-level discussions to adequately do the job of coordinating major policy issues across the region. The government also recognises that the regional organisations field is crowded and that an additional organisation would be difficult to establish. For that reason, it appears to be advocating an expanded role for APEC and/or the EAS.[17] In many ways, the Australian government is advocating a regional version of the G-20, with a similar reach and mandate. Thus Australia sees its interests being served not only by the G-20 but also through its often overlapping multilateral and bilateral regional relationships.

13. Prime Minister Rudd, address to the General Assembly of the United Nations, 23.9.2009. Available at: http://www.pm.gov.au/node/6223 (last accessed on 13 April). See also Prime Minister Rudd, »A strategy for sustainable economic recovery – the role of the G-20«, Berlin, 7.7.2009. Available at: http://www.pm.gov.au/node/5056 (last accessed on 15 April) and interview with Prime Minister Rudd, Pittsburgh, 25.9.2009. Available at: http://www.pm.gov.au/node/6224 (last accessed on 15 April).

14. Prime Minister Rudd, address to the General Assembly. Available at: http://www.pm.gov.au/node/6223 (last accessed on 13 April).

15. This was made abundantly clear (yet again) by Australia's current Prime Minister in his address to the Foreign Policy Association, New York, 24.9.2009. Available at: http://www.pm.gov.au/node/6222 (last accessed on 13 April).

16. There is an inherent tension between Australia and some of the members of ASEAN who see Australia as not part of Asia. (And, indeed, as a separate continent – at least geographically – it is not.) This tension waxes and wains, but still probably prevents a more formal association between Australia and ASEAN, despite close bilateral ties between Australia and most of the members of ASEAN.

17. These issues were canvassed by Prime Minister Rudd in his address to the Asia Pacific community conference in Sydney, 4.12.2009. Available at: http://www.pm.gov.au/node/6368 (last accessed on 18 April).

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Country Fact Sheet – Brazil

1. Brazil's crisis-related challenges

While, in past decades, Brazil managed to become infected by every stray financial crisis wandering around the globe, it has now – with all due caution – passed its economic school-leaving certificate at the very time that the majority of the industrialised countries are flunking. As one of the beneficiaries of the lending glut of recent years, during the height of the crisis it had its fair share of failures in terms of portfolio investments, but the course of the crisis, with regard to both the financial system and the real economy, was comparatively mild.

Brazil was better prepared than in previous crises. The reduction of the inflation rate, the repayment of foreign debt and the accumulation of foreign currency reserves stabilised the country's economic fundamentals. But the structure and management of the Brazilian financial sector and, in particular, the strong position of the public institutions, the banks' modest liabilities abroad and refinancing via the national market have helped to shorten the transition out of the crisis. Public banks, responsible for almost 40 percent of lending, play a major role and only 30 percent of bank deposits are in foreign ownership.

In contrast to previous crises, Brazil's healthy economic fundamentals have allowed the government some scope for action in the current crisis. There was a rather more significant earthquake in Brazil's monetary policy: in the course of 2009, the so-called SELIC rate – the Central Bank of Brazil's overnight lending rate – was gradually lowered from 13.75 percent to 8.75 percent, bringing it into single digits for the first time since 1960. The fiscal policy crisis strategy encompassed an extension of credit lines by the state development bank, an intensification in the already agreed economic stimulus programme, the PAC, and tax cuts on the purchase of cars and consumer durables. However, the costs of these countercyclical measures, at 1.5 percent of GDP, were significantly lower than those in other countries. The deterioration of the public debt ratio will, as a result, be somewhat milder and even in 2010 the government has a certain budgetary leeway, albeit very limited.

Based on the low proportion of exports in GDP – 13 percent – and the increasing export diversification with regard to both products and trading partners, the global fall in demand has affected Brazil less than other countries. At the same time, the crisis of the domestic market – primarily with regard to private consumption – finally proved to be the locomotive of the Brazilian economy. The stable labour market, the continuing increase in the minimum wage and the massive social transfers all helped consumer confidence to weather the crisis relatively unscathed. Although Brazil, too, finally slid into recession, the -0.2 percent growth predicted for 2009 changes little with regard to the positive overall scenario and the favourable prospects for the coming years. Already for 2010 growth rates of between 4.5 percent and 5.5 percent are expected.

Confidence in the Brazilian economy appears to have increased during the crisis. By mid-2010 foreign direct investment is expected to reach 2008 levels, while exports are set to normalise by 2012. Investors, too, have already bet on Brazil being one of the first countries to exit the crisis: »hot money« remaining in the market was directly attracted by Brazilian financial products. Immediately after the crisis months, Itaú/Unibanco and Bradesco were among the world's most highly capitalised banks, and even the stock exchange is already well above its level before the crash of Lehman Brothers. One consequence is the appreciation of the Brazilian real by 33 percent (between January and November 2009), which is increasingly proving to be a headache for the country's exports. Given the attractive interest rates and the stable economic development the flow of capital is unlikely to ease off in the coming years. By means of buying foreign currency and a new two percent tax on short-term capital inflows the government is trying to counter the appreciation of the real.

2. Relevance and consequences of the G-20 outcomes for Brazil's economic policy

Given the favourable development of the crisis for Brazil, the G-20 is of only secondary importance in coping with it. The G-20's narrower agenda – restoration of credit flows, (fiscal) stimulus, preventing protectionism, financial market regulation and special assistance arising from the collapse of financial flows in the emerging and developing countries – largely coincides with the stance of the Brazilian government. From its standpoint, the first meetings were a success and some of its key demands have already been met. The regulation of the financial markets taken up by the

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G-20 was supported by Brazil – which can be considered an adherent of Keynesian regulation – but does not represent a core concern. The domestic financial market is already strongly regulated and after the crisis of the 1990s the banking supervision and the central bank kept it on an even shorter leash: the minimum reserves and capital requirements are stricter and rights of supervision more far-reaching than in most other countries, not least with regard to hybrid financial instruments. The G-20's regulatory efforts have so far led to few substantial changes in Brazil; only a law limiting bankers' bonuses is to be set in motion by mid-year. The Brazilian government also supported the recapitalisation of the IMF, itself making available financial resources – albeit modest – for the purpose. Above all, Brazil, as one of the main beneficiaries of the dynamic south-south trade, has pushed for simplified loan allocation by the Fund, in order to underpin its customers' ability to pay. Given its narrow fiscal scope, Brazil reacted very hesitantly with its own economic stimulus packages, but benefited above all from China's spending programme, Brazil's most important trading partner.

A long-running issue in Brazilian trade policy is the criticism of growing protectionism on the part of the industrialised countries. In this connection, Brazil is trying – also within the G-20 – to forge alliances with other countries in order to increase the pressure on the EU and the USA. Recently, the country was able to chalk up a victory in its eight-year battle against US cotton subsidies. However, like the majority of G-20 countries Brazil has not abstained from protectionist measures in the crisis and has initiated numerous anti-dumping proceedings, for example, against shoes and synthetic fibres from China or PVC from the USA. Finally, Brazil seems in a sense to be the »last of the Mohicans«, still energetically pursuing a conclusion to the elusive WTO Doha Round. Although the members of the G-20 reaffirmed their interest in a continuation at the Pittsburgh summit, there is little chance of this core demand of Brazil being fulfilled. Brazil would also like to see international monetary policy on the agenda, although it has so far been unable to make up its mind between scepticism with regard to the dollar-based trade system, mistrust of trade in local currencies and (mild) criticism of the undervalued Chinese yuan. At the BRIC summit in April in Brasília the topic's significance seems to have receded somewhat. However, Brazil offered China and Russia, the most outspoken critics of the dollar, to invoice bilateral trade in future in the respective national currencies.

3. Brazil's stance on the role of the G-20

More important for Brazil than the specific agenda, however, is the political significance of the forum. In common with the other large emerging countries, Brazil's global role is founded primarily on its integration in the global trade and financial markets. The shaping of this new trade map, in the form of a »diplomacy of development«, which brings Brazil's interests more decisively to the fore, is a central aim of Brazilian foreign policy.

Brazil was one of the earliest advocates of an upgrade for the G-20 of Finance Ministers, with a view to diminishing the influence of the G-8 and burying the extremely unpopular Heiligendamm process. Brazil therefore sees in the Pittsburgh Declaration, in accordance with which, in future, the G-20 will be the most important forum for international economic policy, the G-20 process's greatest success so far. While the Heiligendamm process, but also the G-20 of Finance Ministers, was always perceived by Brazil as a vehicle for the interests of the G-7, albeit with somewhat broader legitimacy, Brazil regards the new forum as offering a real opportunity to further establish itself as an architect of international trade and financial markets.

The Brazilian government therefore has no desire to give up the new instrument and is pressing for a further institutionalisation and deepening of the forum, for example, in the form of a sub-committee at ministerial level, convening at regular intervals. By means of the coordination between the BRIC countries driven decisively by Brazil the idea is that the forum will become established as a counterforce. The joint BRIC position paper in the run up to the London Summit bore the hallmark of Brazil above all. In Brazil, the G-20 is regarded as catalyst and testing ground for the more balanced participation of emerging countries in the formation of the international economic order, the outcome of which is hoped to be a roadmap for the reform of all international economic institutions. Brazil regards its recent accession to the Financial Stability Board, the anticipated reform of voting rights at the IMF and the at least promised »opening up« of the chairmanship of the Fund as a good start.

At the second presidential summit of the BRIC countries Brazil fell in with the more aggressive course of the other states, criticising the sluggish reform process and demanding fundamental change in power relations at the World Bank and the IMF, which will take place – and here the country is in agreement with the USA – largely at the expense of the smaller European countries.

However, it appears – also with regard to the G-20 – that Brazil is finding it increasingly difficult simultaneously to be part of the rich countries' club, the partner of emerging countries, spokesman for South America and advocate for the global South. For example, there is a lack of coordination of positions with the other two Latin American G-20 countries, Argentina and Mexico. Brazil secured the support of its neighbours by accepting Argentina's bilateral import restrictions, which are not permitted under WTO rules. Real coordination with a view to a common strategy is something else altogether. Brazil's preference for reform of the international financial institutions, moreover, is in sharp contrast to the »Bolivarian bloc«, led by Venezuela, which is calling for the abolition of the IMF. Cooperation with the other BRIC states is a priority, although it has already reached its limits. There is still considerable agreement on the question of reforming the Bretton Woods institutions. With regard to trade policy, however, the differences are greater, for example, between Brazil and India on the liberalisation of the agricultural commodities market. The Brazilian government is also keen on the development policy passages in the Pittsburgh Declaration, although the G-8 already had these in its programme at Gleneagles. It remains to be seen whether, with the admission of the emerging countries and, above all, Brazil, to the economic policy power centres, their policy will change substantially, principally with regard to those which had to remain outside.

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Country Fact Sheet – Canada

1. Canada's crisis-related challenges

In contrast to other G-8 and G-20 countries, the crisis has had only a limited impact on Canada's banking system: the World Economic Forum and Moody's Investors Service both ranked Canada's banks as the world's soundest, and the IMF declared that Canada's financial sector has shown remarkable stability, bolstered in good part by strong supervision and regulation. No major Canadian financial institutions failed, and none required bailouts from the government, so they are still entirely in the private sector.

Despite this, Canada is still facing a few challenges related to the economic and financial crisis. First, unemployment remains high, and the government recently confirmed that it thinks it is too early to abandon stimulus programmes. Second, the deficit hangover from these stimulus programmes is a concern and, while the programmes are still active, the government's most recent budget already included a plan to reduce the deficit and return to balanced budgets in the medium term. This is consistent with the government's position, ahead of the next G-20 meeting, which insists on the need to continue the pursuit of stimulus measures, while simultaneously starting to think about a strategy to exit from them. Finally, raising interest rates from their currently low levels is going to be difficult: whichever G-8 country does it first will inevitably run the risk of currency appreciation. Since the Canadian dollar is already at a high level, this is a challenge that the country's monetary authorities will have to face sooner or later.

2. Relevance and consequences of the G-20 outcomes for Canada's economic policy

Since Canada's financial sector has shown few flaws in comparison to those of other G-20 countries, the relevance and consequences of the related G-20 summits with regard to its economic policy are limited. Canada's position is to push for reforms in other countries' banking systems. Canada opposes any new levy or tax increase, presenting itself as a model of a privately owned, well-regulated banking sector. The main consequences of the summits for Canada's economic policy will probably be the commitments to ensure strong, sustainable and balanced growth, according to the framework agreed at the Pittsburgh summit. Part of this framework is the eventual implementation of a system of peer review of each member country's economic policy.

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3. Canada's stance on the role of the G-20

Canada has been very supportive of the G-20 since its creation, and chaired or co-chaired the first three meetings between 1999 and 2001. It saw in the G-20 a broader and more formalised consultative structure that was linked to other institutions, and in which the United States's control and preferences were less dominant, compared to Canada's perception of the earlier G-22. Moreover, an important Canadian objective was to ensure that the group would not repeat the traditional north-south divide, putting the focus on open discussion instead of the assertion of hard positions.

With regard to the G-20 agenda, Prime Minister Harper stated recently[1] that the discussions at the Toronto summit should be less about new agreements than accountability for existing ones. The theme for the summit is »Recovery and New Beginnings«, and consequently the focus is intended to be on recovery from the global economic and financial crisis and on the implementation of earlier commitments. Canada's top priority is to ensure that there is no premature withdrawal of stimulus spending, while it will emphasise the need to start considering strategies to exit them, as Canada itself did in its last budget.[2]

Next, Canada wants to focus on the implementation of the Framework for Strong, Sustainable and Balanced Growth. This should enable countries to identify specific actions at the Seoul Summit next November. Along with these discussions will be ones based on strengthening their financial and regulatory systems, by implementing reforms already agreed upon. Prime Minister Harper has said this has become a matter of urgency, and must be done within the agreed time frame.[3] Also on the agenda are reforms of the international finan-

1. Speech at the World Economic Forum in Davos, Switzerland. Delivered on 28.1.2010.

2. Plans for the Fourth G-20 Summit. Jenilee Guebert, Director of Research, G-20 Research Group, University of Toronto, 26.3.2010. Available at: http://www.G-20.utoronto.ca

3. Statement at the G-20 Sherpas' meeting in Ottawa. Delivered on 18.3.2010.

cial institutions. Canada wants the G-20 to work on advancing quota and other reforms of international financial institutions, and to make sure these bodies are provided with the tools and resources they need to do their work.

Finally, Canada continues to urge other countries to resist protectionism and to promote trade and investment, as it itself did in its 2010 budget by lowering tariffs. This echoes the concept of »enlightened sovereignty«, presented by Prime Minister Harper at the World Economic Forum in Davos, where he declared that countries must be »enlightened« when pursing their national interests, by considering the long-term necessities of the global economy.

Concerning its engagement within the G-20, Canada, along with India, chaired the Working Group on Enhancing Sound Regulation and Strengthening Transparency in preparation for the London summit in 2009. In 2010, Canada and India are co-chairing the Working Group on the G-20 Framework for Strong, Sustainable and Balanced Growth. But given Canada's prominent role in the coming Toronto summit, it is safe to say that it is actively participating on all issues.

With a view to building coalitions or even alliances within the G-20, Canada – along with the United States, France, the United Kingdom and the Republic of Korea – was co-signatory of the letter from five G-20 leaders, published in late March 2010, which stressed the importance of continued commitment to the objectives agreed upon in Pittsburgh.[4] Moreover, its collaboration with India on previous and current working groups, and with Korea for this year's two summits, has produced a spirit of cooperation with these countries, with which Canada is working closely.

Although prudence is needed when evaluating the importance of informal alliances, the G-7 countries certainly represent an influential smaller group of which Canada is part. Moreover, there is a natural alliance with likeminded Anglo-Saxon countries that share similarities in their economic structures, namely the United Kingdom, the United States and Australia. Finally, it needs to be mentioned that the G-20 is still a new coalition. Since it works by consensus, there is little chance for a group within it to force a discussion.

When it comes to the scope and possible limits of the G-20 as a governance body, the current Canadian government firmly believes in the utility and appropriateness of the G-20 for dealing with economic recovery and financial system reform, and stands behind the Framework for Strong, Sustainable and Balanced Growth. At the same time, Canada recognises that other bodies should take care of particular issues instead of the G-20. The Canadian Prime Minister, for example, stated in January 2010 that the smaller G-8 will still be influential and should now focus on security concerns, human welfare, nuclear proliferation and the environment.[5] As President of the G-8 for 2010, Canada's role in shaping the agenda of both the G-8 and the G-20 meetings is influential, and it has chosen, with regard to the former, to champion a major initiative to improve the health of women and children in the world's poorest countries.

Finally, concerning the relationship of the G-20 to multilateral and regional organisations, Canada's position on this issue is a direct consequence of the structure of the G-20. Since the International Monetary Fund and the World Bank have a seat at the table and participate in meetings, the country sees little problem in allocating them specific tasks related to issues on which they have renowned expertise. Cooperation with these institutions is seen as important for the smooth functioning of the G-20 meetings.

4. Joint letter from G-20 leaders. Washington, DC: The White House, Office of the Press Secretary, 30.3.2010. Available at: http://www.whitehouse.gov/the-press-office/joint-letter-G-20-leaders

5. Statement on Canada's G-8 Priorities. Published on 26.1.2010.

JIEMIAN YANG

Country Fact Sheet – China

1. China's crisis-related challenges

In order to counter the difficulties brought by the sharp fall in external demand, China adopted an unprecedented fiscal stimulus package in early November 2008, comprising a four-trillion yuan (585.3 billion US dollars) government investment programme over two years. China also relaxed its monetary policy, resulting in a surge of 9.59 trillion yuan (1.4 trillion US dollars) in new loans in 2009, almost double the 2008 total. This combination of strong measures effectively countered the downward pressure on the Chinese economy and maintained growth at 8.7 percent in 2009.

However, as Premier Wen Jiabao declared, if 2009 was the most difficult year, 2010 would be »the most complicated«. First, the biggest dilemma the Chinese government faces in 2010 is when and how to exit its stimulus package. The government has confirmed that it will continue to implement a proactive fiscal policy and moderately loose monetary policy in 2010, with the the emphasis on »moderately«. The stimulus package fuelled the surge in asset prices that had started before the global crisis. China's Consumer Price Index (CPI) rose 2.7 percent on an annual basis in February and the National Statistics Bureau chief economist, Yao Jingyuan, indicated that keeping the inflation rate under three percent in 2010 would be a very tough job. Concerns are mounting about whether the Chinese economy will suffer a »hard landing« this year. Given the fact that the crisis occurred, coincidentally, at a key time for China, which was engaged in the structural adjustment of its economy, the question of how to balance growth and stability only becomes more challenging.

Second, the »complexity« of 2010 also derives from the international markets. The pressure on China from trade protectionism has intensified since the outbreak of the global financial and economic crisis. In 2009, Chinese exports declined by 16 percent, but still suffered from 116 trade remedy investigations, a third of the world total. The world economy is now on the path of recovery, but the improvement of the employment situation in Western countries is likely to lag behind by more than a year, according to past experiences. Therefore, the situation for China in the near future will continue to be very difficult. The US domestic debate on the RMB exchange rate is flaring up again, signalling the volatility of China-US relations in the post-crisis era.

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2. Relevance and Consequences of the G-20 Outcomes for China

In general terms, the past three G-20 summits in 2008 and 2009 aimed at achieving international policy coordination on three major issues: stabilising and reforming the financial system, countering recession in the real economy and combating protectionism. The Chinese banking system was largely immune to the subprime mortgage crisis thanks to rigid regulation and its relatively less developed financial derivatives market.

But as already mentioned, China's real economy was severely affected by the collapse in exports, even before the first G-20 Summit in Washington, when China adopted its comprehensive fiscal and monetary stimulus package, which was thought of as something of a »gold standard«. China's fiscal stimulus package was also the largest among the major economies as a percentage of GDP, which played a very positive role in bringing the world out of recession. Despite its own difficulties, China endorsed the G-20 proposal to recapitalise the IMF in the amount of 50 billion US dollars. China also signed six bilateral currency swap agreements with South Korea, Indonesia, Malaysia, Argentina and others, totalling 650 billion yuan (95 billion US dollars).

China has been the largest victim of various forms of protectionism for many years. Therefore, China has more than welcomed the G-20's repeated pledges to resist protectionist pressures. However, China was also accused of breaching this commitment. A notable example was the Circular co-issued by the National Development and Reform Commission (NDRC) and seven other authorities in early June 2009, calling for a »Buy Chinese« policy with regard to government expenditure. This was thought to be retaliation to the »Buy American« clause in the US stimulus bill. China was embarrassed by this complaint, although the document was issued to curb the prevailing discrimination against domestic products in government procurement. Nevertheless, given the sensitive circumstances, the document did appear at the wrong time.

3. China's Interests and Positions in the G-20

President Hu Jintao attended each of the three G-20 summits and for the first time expressed publicly China's views on how to improve the world economic system, indicating a very positive attitude toward the new forum. For China, the G-20 is a more equal and amenable forum than the G-8+5 for exchanging views on international economic policy coordination. China hopes that the G-20 can mobilise top-level political resources to improve, rather than replace, the global economic institutions, such as the IMF, the World Bank and the World Trade Organisation. In addition, China believes that regional economic cooperation is a necessary complement to global economic governance. Therefore, motivated by the crisis, China is also actively pushing East Asian financial and economic cooperation within the framework of ASEAN +3.

Three structural facts are essential for understanding China's interests in the G-20. China is often referred to as the second largest economy in the world, but it is not in the top 100 in terms of per capita GDP. China became the largest exporter of commodities in 2009, but mostly supplies labour-intensive manufactured goods with very low value-added, and therefore suffers most from various forms of protectionism. China is also the largest holder of foreign reserves, of which 70 percent are in US dollars. Indeed, China has enjoyed a sharp rise in influence and reputation during the crisis, due to its abundant resources, although it still puts development at the top of its agenda rather than global leadership. Exit strategy coordination is undoubtedly China's immediate interest. Besides, China has extensive long-term development interests in the G-20 due to its deep integration in the global economic system.

First, China would like to see real progress in international monetary system reform, particularly the fulfilment of the G-20's promise to transfer at least five percent of IMF quotas and three percent of the voting rights at the World Bank assembly from overrepresented countries to underrepresented ones. A more fundamental goal being pursued by China is greater diversification of international reserve currencies and less dependence on US dollars. But China does not want the G-20 to infringe its sovereignty on the exchange rate issue. The US and some European countries had been pressing for RMB appreciation long before the crisis, both unilaterally and through multilateral mechanisms such as the IMF and the G-7 meeting of finance ministers. Temporarily becalmed by the crisis, this issue is now rising again and is set to be a matter of long-term disagreement. The US Treasury Secretary Tim Geithner has expressed his intention to put the issue on the agenda of future G-20 meetings.

Second, China hopes that the G-20 will push through the Doha Round negotiations and combat trade protectionism. China has global trade interests and believes that the process of globalisation is irreversible. Promoting domestic consumption and rebalancing the world economy do not mean eliminating international trade. The current Chinese tariff rate is less than 10 percent, on average, lower than most developing countries. China has opened up more than 100 service sectors under the GATS agreement, which is close to the level of developed countries.

Finally, China is calling for more attention to be paid to the developing world and promoting more equal world development at the G-20 – for example, by promoting more efficient IMF and World Bank lending in emergencies. China is of the opinion that the real world economic imbalance lies in inequality of income and wealth distribution. China is keenly aware of the increasing expectations of the wider developing world.

Despite the fact that the G-20 may need more to ensure its sustainability, China is currently not in favour of including the security and climate change issues on the G-20's agenda. China takes the view that these issues should be discussed within the framework of the UN.

Historically, China has been committed to the doctrine of non-alignment in its foreign policy. It does not like the idea of a »G-2« of China and the US, either. But China is now becoming more active and pragmatic in pursuit of coordination with other emerging countries. Following the successful example of the cooperation between Brazil, India, South Africa and China at the 2009 Copenhagen Conference, China may seek more institutionalised coordination with regard to its interests within the G-20. President Hu attended the second summit of the BRIC nations in the middle of April.

However, China believes that the main deficiency of the G-20 lies in its lack of clear operational principles and rules, such as how to decide the sequence in which members host summits; how to ensure more effective deliberations; and how to arrange third-party participation. Fewer rules mean more room for manipulation, which is dangerous for an institution characterised by such diverse national interests. The Chinese government believes that all members should work together and establish more solid rules for the G-20 in 2010, so that it can play a bigger role in global economic governance, based on the principles of democracy, transparency, equality and legitimacy.

JÖRN GRIESSE[1]

Fact Sheet – The European Union

1. The European Union's crisis-related challenges

Although the financial crisis did not originate in Europe, it hit the EU early on. Several European banks suffered liquidity shortages or incurred serious losses related to toxic assets and required government bailouts. Regarding the wider economic consequences, countries with high levels of household debt, such as the UK, Ireland and Spain, or large external deficits, such as the Baltic countries, seemed most vulnerable initially. However, traditional export and manufacturing centres, such as Germany and Italy, as well as emerging production locations in Central and Eastern Europe, soon also started to be affected by the collapse in global demand. Over the course of 2008-2009, the EU granted balance-of-payments assistance to three of its member states (Hungary, Latvia and Romania), in close collaboration with the IMF, and doubled the maximum amount available for this support instrument for non-euro-area EU member states twice over the same period to, currently, 50 billion euro.

However, the biggest challenge for the EU did not emerge until early 2010, at a time when recovery was already taking hold across many countries, within and outside the EU. The Greek debt problem poses serious challenges for EU and, particularly, euro-area governance. It has exposed serious deficiencies in the Eurozone's fiscal rules and the lack of a crisis management mechanism. Moreover, Greece's initial attempt to cover up its difficulties by providing »embellished« statistics has also raised burning questions about economic supervision. It took a financial crisis of historic dimensions, with a general reappraisal of risk in capital markets, to lay bare the inconvenient truth that EU economic governance was inappropriate for weathering a storm (see Pisani-Ferry/Sapir 2009). While the EU is trying to keep the Greek crisis and the associated euro-area governance problems off the G-20 agenda, other G-20 members are likely to continue to challenge their European peers on this topic, until the crisis subsides. Indeed, the G-20 can sensibly claim to have a legitimate interest in Greece's sovereign debt problem, as long as possible bond market contagion poses a risk to global recovery. Moreover, the EU's G-20 partners also see the related issue of intra-euro-area trade and competitiveness imbalances as a topic that the G-20 should tackle within its »Framework for Strong, Balanced and Sustainable Growth«.

1. This article reflects the personal opinion of the author.

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2. Relevance and consequences of the G-20 outcomes for the European Union's economic policy

Despite the EU's special status among the G-20 members, as an organisation of regional integration with policy competences in many but not all of the areas covered by the G-20 agenda, several important G-20 agreements have a strong bearing on EU policy-making. For example, the »standstill agreement«, whereby G-20 members renounced protectionist measures, had to be implemented at the EU level, reflecting the status of trade policy as an exclusive Community competence. The EU – like most other G-20 members – has largely kept to this commitment (WTO/OECD/UNCTAD 2010). Perhaps even more importantly, the G-20 commitments on financial market reform are of key relevance to EU policy-making, as large parts of financial regulation are drawn up at EU level under the Single Market. Indeed, the European Commission has taken a range of initiatives in line with the G-20 agreements: new legislation has been introduced on topics as diverse as capital requirements for banks and insurance companies, transparency in derivatives markets, bankers' pay, hedge funds and credit rating agencies. On the institutional side, a new macro-prudential supervisory agency, the European Systemic Risk Board, is being created, and three existing coordination bodies are being strengthened to ensure greater cross-border cooperation among EU member state financial supervisors (even if micro-prudential supervision – that is, the application of financial regulation to individual institutions – will remain primarily a national task).

That said, some of the headline G-20 agreements are of less direct relevance to policy-making at the EU level. For example, the EU is not itself a member of the Bretton Woods institutions, so the resource increase for the IMF delivered at the G-20 summit in London in April 2009 came out of national balance sheets, even if the EU played a coordinating role among its 27 member states. Meanwhile, the responsibility for the European contribution to the global stimulus that the G-20 has been calling for is shared between the EU and its member states. The lion's share came from the member states, through fiscal expansion and bank rescue, while the EU loosely coordinated its member states' national programmes under the umbrella of the European Economic Recovery Plan of November 2008. In addition, within the means of its relatively small budgetary resources, the EU also took some stimulus measures, for example, increasing flexibility in the use of EU Structural Funds and front-loading disbursements. Moreover, the European Commission has been an important actor regarding member states' bank-rescue and industry-support measures, through its responsibility for competition policy, which includes state aid control. Finally, the monetary stimulus for the euro area was delivered at the European level by the ECB.

3. The European Union's stance on the role of the G-20

The EU is taking the G-20 very seriously. This is due, first, to the group's rapid emergence as an important forum for economic governance, at least in the initial phase of crisis response. Second, G-20 membership increases the standing of the EU as a player on the world stage. The EU therefore has an institutional self-interest in retaining its G-20 membership, which it is trying to achieve against possible detractors by playing an active and recognised role. While the EU is a full member of the club,[2] it is not always perceived as such by other G-20 members. In particular in Asia, where national sovereignty is deeply rooted in political cultures, it remains conceptually alien that a supranational organisation can have important legislative and executive powers and be a relevant interlocutor on a par with foreign governments for many areas covered in the G-20.

That said, the EU's unwieldy representation has not always made it easy for its partners to understand its role. When the G-20 was solely a forum for finance ministers and central bank governors – that is, from 1999 to 2007 – the EU was represented by the EU Council Presidency and the ECB. However, as European Commission President José Manual Barroso played a key role in launching the G-20 leaders' process in late 2008 (he visited George W. Bush alongside Nicolas Sarkozy[3] at Camp David in October 2008 to urge the convocation of a global crisis summit), he secured a seat at the table for the Commission as well (incidentally, in line with the practice in the G-8). A further complication is added by the fact that the EU Council Presidency rotates every six months, meaning that a head of government from a different member state has taken their place behind the EU flag next to Commission President Barroso at every G-20 summit held so far.[4] Last but not least, four EU member states (Germany, France, the UK and Italy) are themselves full members of the G-20, while Spain and the Netherlands also secured summit participation in 2008-2009. This situation has contributed to perceptions of European overrepresentation in the G-20.

Whether the creation of the post of permanent European Council President following the entering into force of the Lisbon Treaty in December 2009 will bring greater clarity remains to be seen. Commission President Barroso and Council President Herman van Rompuy announced an agreement in March 2010 that they would both participate in forthcoming G-20 summits, but that only one of them would speak on each topic. However, some observers doubt that this will ensure »full coherence, complementarity and clarity« in the EU's representation at G-20 summits, as claimed by a Commission spokesperson (Pop 2010).

Furthermore, it is not entirely clear what this means for the lower levels of the G-20, that is, meetings of ministers, senior officials and working groups. The permanent Council President lacks the political and administrative structure of a full government (in simple terms, van Rompuy has no finance minister whom he could send to G-20 ministerial meetings). It is therefore conceivable that the rotating Council Presidency will want to continue to participate at the lower levels of the G-20. Spain, the current holder of this function, does participate at all levels, but this does not necessarily set a precedent for the future since Spain also took part in the G-20 in a national capacity in 2008-2009. Prime Minister Yves Leterme of Belgium – the country that will hold the rotating Council Presidency in the second half of 2010 – has so far only announced that he would not seek a seat for himself at G-20 summits, leaving it to the permanent Council President (Falletti 2010). However, no announcement has been made concerning the ministerial and lower levels. Meanwhile, the European Commission is likely to retain the status of full and active participant at all levels of the G-20, including workshops and working groups, in line with the practice

2. The only difference between the EU and other G-20 members is that the EU has (at least so far) been excluded from the rotation system that determines the hosting and chairing of G-20 meetings.

3. France held the rotating EU Presidency in the second half of 2008.

4. At the first summit in Washington in November 2008, the EU Council Presidency was held by France, which also has a national seat in the G-20. The London summit in April 2009 and the Pittsburgh summit in November 2009 fell in the Czech and Swedish presidencies, respectively.

established over the course of 2008-2009.[5] Importantly, this ensures continuity of the EU-level representation in the G-20 beyond the six-month rotation horizon of the Council Presidency.

While G-20 participation is taken very seriously at the EU level, the G-20 is by no means uncontroversial among EU member states. In particular, smaller member states with a deep-routed allegiance to multilateralism have misgivings about what they see as the G-20's lack of legitimacy. As a consequence, the European Commission and Council Presidency make a point of representing in the G-20 the views of the EU as a whole – including those of non-G-20 EU member states – by drafting common positions ahead of G-20 meetings,[6] debriefing the EU membership of the outcomes of these meetings and keeping non-G-20 EU member states informed of key G-20 documents.

The scepticism *vis-à-vis* the G-20 in some EU member states may also inform EU positions on where the limits of the G-20 should be. For example, the EU seeks to avert any G-20 interference with the EU treaty framework, such as on economic policy, supervision and fiscal rules. Furthermore, the EU treads a cautious line with regard to the G-20's relations with multilateral organisations (in large parts of the EU, the latter are seen as more legitimate due to their near-universal membership). For instance, when the Framework for Strong, Balanced and Sustainable Growth was drawn up, the EU tried to prevent the G-20 from taking on too much of the supervisory role that institutionally pertains to the IMF and to avoid giving the impression that the IMF was somehow subordinate to the G-20. Instead, the G-20 is rather seen as an informal steering committee for global economic questions, which is important but, for the implementation of many of its decisions, depends on international organisations with their legal mandates, legitimacy and independent technical capacity.

As regards the G-20 agenda, the EU generally favours keeping a tight focus on economic and financial issues and avoiding the thematic overload and mission creep from which the G-8 has arguably suffered. In the macroeconomic field, the EU stresses the need for exit strategies from governments' anti-crisis measures, in accordance with the emphasis on fiscal sustainability in the EU treaties. This line has sometimes pitted the EU against the US, Canada, Japan and others, which have tended to emphasise the need to maintain stimulus in order to avoid choking off the recovery.[7] The EU has also called for the coordination of exit strategies in the G-20, although it is not clear to all G-20 partners what this really means in practice – over and above keeping each other informed of the fiscal policy stance in a systematic way (for example, through a regular IMF report). The EU itself has certainly already laid out its own guidelines for member states' exit strategies, without awaiting a potential G-20 agreement on principles or exit sequencing.

On IMF governance reform, the EU is clearly on the defensive in the G-20, reflecting the interest of most of its member states in retaining their traditionally strong positions in terms of voting power in the Fund. At the Pittsburgh summit, a coalition of the US and large emerging market countries more or less bullied EU member states into accepting the numerical target of »at least five percent« for the agreed IMF quota shift. Since then, EU member states have been trying to ensure that »at least five percent« is interpreted as meaning »close to five percent« and that the shift takes place from over- to underrepresented countries, rather than necessarily from advanced to emerging and developing countries (the Pittsburgh communiqué is ambiguous on that). In an attempt to shake off their image as »footdraggers« when it comes to IMF reform, EU member states have been pushing for other governance reform elements besides quota redistribution, such as lowering the thresholds for required voting majorities (to abolish the US veto).

Perhaps the highest priority for the EU in the G-20 – and the area in which it can genuinely claim to have driven the debate – is the reform of financial regulation and supervision. While many of the complex technical details (for example, on banks' capital requirements and the

5. The ECB will also continue to take part in those areas that concern its responsibilities.

6. Depending on the level of G-20 meetings they refer to, these draft common positions are then discussed, modified and agreed by EU heads of state and government in the European Council, by finance ministers in the ECOFIN Council or by senior officials from member states in lower-level Council formations, such as the Economic and Financial Committee or its Sub-Committee for IMF-related issues.

7. That said, views on exit strategies also differ within the EU: the UK sometimes sides more with the US and Canada, while Germany and the European Commission have insisted on the need to plan at an early stage for a return to fiscal consolidation.

problem posed by banks being »too big to fail«) are being discussed in the Financial Stability Board, rather than the G-20, the EU has consistently pressed the G-20 for the retention of political momentum for financial system reform. This concerns primarily the timely and complete implementation of reforms that previous G-20 meetings already identified as necessary, such as on remuneration in the financial sector, tax havens and other non-cooperative jurisdictions, as well as the convergence of accounting standards. However, the EU is also bringing new issues to the table. For example, it is encouraging a discussion on a bank levy in the G-20, as a way of making banks contribute to the cost of financial rescue (Reuters 2010). Moreover, in light of the experience of the Greek crisis, it has raised the trading of credit default swaps as an issue to be included in the G-20's work on increasing transparency in derivatives markets (Wall Street Journal 2010).

The EU, often forced to expend energy on ensuring consistency and adherence to agreed positions among its own member states in G-20 meetings, has not entered into any »standing alliance« with other (non-EU) G-20 members. It rather seeks out its allies in accordance with the topic: for example, within the G-20's Framework for Growth it might side with the US to try to engage China in policy action to reduce global macroeconomic imbalances, while it has sought the backing of big trading nations such as Brazil to push for political impulses on the part of G-20 leaders to advance the WTO's Doha Round of trade negotiations. While it can be argued that the EU has, overall, been less successful – notably than the US – in systematically engaging the big emerging market countries to further its own agenda, the EU approach of topic-driven coalition-building can also be seen as pragmatic and constructive.

Overall, the presence of the EU in the G-20 has been a positive influence, driving some important topics, notably financial sector reforms, and increasing the group's legitimacy in the eyes of the EU member states without a national G-20 seat. However, the multi-institution (European Commission, ECB, rotating Council Presidency and, in the future, the permanent Council President) and dual-level (community and national) representation of the EU in the G-20 has sometimes been difficult to sell to other G-20 members, while also jeopardising consistency and unity. The challenge for the EU in the G-20 is thus similar to the one it faces in foreign policy and global governance more generally: to speak with one voice. EU-level coordination is a step in the right direction in the short term, but in the longer term a consolidation of EU representation into a permanent single seat – with a concomitant phase-out of national G-20 representation of EU member states – would be the most effective way to ensure coherence and to increase European influence in the G-20.

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SYLVIE MATELLY

Country Fact Sheet – France

1. France's crisis-related challenges

In 2009, French GNP fell by 2.5 percent, much more than previously anticipated – the worst growth rate since the Second World War – after 2008 growth of only 0.1 percent. In 2010, the growth rate is expected to be limited to one percent. The government anticipates a 1.4 percent growth rate for 2010 and the IMF 1.3 percent, but most economists and other experts consider this too optimistic, as consumption, exports and investments are still depressed. Furthermore, investment has decreased for eight consecutive quarters and unemployment may surpass 10 percent this year, putting a brake on the recovery, while the government has just announced that it will have to reduce public spending to limit the public deficit to 6 percent (instead of 8.5 percent in 2009).

The current European currency and debt crisis is considered to be a major threat to French economic recovery because it may reduce growth, demand and consumption in Europe even further, decreasing confidence and public spending. As France has an interest in stricter budgetary policy, it will probably support the idea of a weaker euro, which may energise European exports. Exchange rate policy and financial regulation will also be on the French agenda with regard to the G-20. Indeed, even if banks and the financial system were less affected by the crisis than in other countries, French bankers have claimed that they were much more virtuous, while French regulation was stricter, imposing a competitive disadvantage on them in relation to foreign banks before the crisis. In that perspective, they have encouraged the French government to support international, rather than national regulation. Today, the debate concerns primarily European countries within the EU, but the French government is convinced that it does not make sense if it does not include the US and emerging countries, and all within the G-20 framework.

2. Relevance and consequences of the G-20 outcomes for France's economic policy

In 2007, at the beginning of his Presidency, Nicolas Sarkozy tried to restore friendly relations between France and the US after 12 years of difficulties under Jacques Chirac. The President was persuaded that it was in the interest of France to be closer to the US and most of his advisers were considered Atlanticists in France. The French leadership was also probably convinced that it would be easier to reach agreement and compromise within the G-8. After chairing the EU in 2008 and in the context of the economic crisis, the situation had changed. France decided to support the G-20, being more representative of the new globalised world, and the reform of international organisations such as the IMF, the World Bank and the WTO. The main idea was that, within the framework of a new global economic governance system with reformed international organisations, the world needed leadership which the G-8 or G-20 could provide, but that the G-8 was less legitimate than the G-20 with regard to proposals for a new global economic order. However, after the G-20 summit in Washington in November 2008, the French leadership understood that, sooner or later, the G-20 would supersede the group of richest nations (G-8).

At the G-20 summit on 2.4.2009 in London, Nicolas Sarkozy, along with German Chancellor Angela Merkel, called for concrete measures on banking regulation which were stricter than the proposals of the US and the UK. While the US's main aim was to get countries to commit to increased discretionary fiscal spending, the French and Germans took the opposite view, fearing inflationary pressures and asserting that social safety nets in Europe create stronger fiscal stabilisers (Economist Intelligence Unit 2009). The Sarkozy-Merkel contingent declared that stricter regulation of banks, executive bonuses, hedge funds and offshore tax havens was a »red line« for their respective countries. They felt that the Anglo-Saxon approach to this issue was too soft and were dismissive of President Obama's declaration that, with regard to fiscal stimulus, »it can't just be the United States as the engine. Everybody is going to have to pick up the pace«.

Christine Lagarde, the French Minister of Finance, even told BBC News that President Sarkozy was determined to walk out of the meeting if greater financial regulation was not discussed. A similar threat was again made in the build up to the Pittsburgh summit on 24-25 September. One British journalist wrote: »The ritual pre-summit drum roll is designed to demonstrate to gullible French voters that their leader is standing up to les »Anglo-Saxons« (the American hyperpower and the perfidious British) and will not hesitate to say »non« in the manner of General Charles de Gaulle. His predecessor, Jacques

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Chirac, was also fond of these theatrics. But they pall with overuse« (The Guardian 2009). This is a good illustration of the scepticism of many outsiders towards France's G-20 stance. Indeed, in French newspapers across the political spectrum, from Le Figaro to Libération, President Sarkozy was praised for his tough stance during the summits. Ironically, the business journal Les Echos and the communist L'Humanité were more critical. This attitude has allowed Nicolas Sarkozy to prove that he is able to be pragmatic in the face of a major crisis, but also to convince French voters of his political will and »strength«.

Ultimately, the position of France within the G-20 is largely connected to the President's political agenda. In 2011, France will chair the G-20, only one year before the next Presidential election in France. At the G-20 summits in London and Pittsburgh, the French position centred on four main themes: (i) promoting the regulation and transparency of financial markets; (ii) reinforcing international cooperation and market integrity; (iii) reforming the IMF, the World Bank and other multilateral development banks; and (iv) supervision of speculation, tax havens and so on. Today, President Sarkozy seems more interested in monetary issues. The Eurozone crisis clearly explains this position.

French calls for greater regulation of banks, traders' bonuses, hedge funds and tax havens have been echoed by the Obama administration, but without the same zeal. The biggest point of contention was how such regulation should be implemented. Previously, at the international level, the fight against money laundering has been one area of strong Franco-American cooperation (Josselin 2004), and so shared views on the regulation of tax havens, speculation and hedge funds come as no great surprise. Le Figaro declared that agreements on regulating bankers' bonuses were »a European victory« (Le Figaro 2009). However, this was perhaps a little presumptuous, given the public disgust in the US and the UK over, for example, so-called »golden parachutes«.

However, while the Obama plan demanded consensus on how regulation should be carried out at the national level by governments themselves, the French plan seeks regulation by a supranational body. French suspicion of intergovernmental bodies is nothing new. For example, Bill Clinton's efforts in 1997 to transform the G-22 into a more permanent body were met with hostility by the French, who feared the undermining of the IMF and the increasing influence of the United States in policy-making (Josselin 2004: 64). Indeed, a common French refrain at the international level is the reinforcement of the IMF and Bretton Woods institutions in which France was overrepresented. The IMF is today chaired by an eminent French politician (supported by Nicolas Sarkozy, even though he is a Socialist and could be a rival in the next presidential campaign).

3. France's stance on the role of the G-20

In that context, France has pursued two courses. First, a search for alliances with its closest allies, such as Germany or the UK in Europe and Brazil among the emerging countries. (The choice of alliances was strongly related to the President's personal preferences, while he seemed to negotiate behind the scenes in order to obtain results.) Second, a desire to demonstrate real leadership, on the one hand, because the President believed that the dramatic situation required it and, on the other hand, because it was time for Europe to participate and perhaps to benefit from the reform of world governance.

The main results of the 2009 summits were announcements that the IMF's financial resources would be quadrupled and trade finance boosted, and also that there would be a crackdown on tax havens. The absence of Anglo-Saxon demands for a coordinated fiscal stimulus increase is remarkable (Economist Intelligence Unit 2009). However, given the weakened American position due to its role in the crisis, as well as Sarkozy's need to gain popularity at home, this becomes less surprising. Indeed, as for Sarkozy, in the blunt words of one journalist, »if the message was that all countries should spend more on stimulus programmes, then the unions and opposition Socialists would have gone for the jugular upon his return« (Daily Telegraph 2009).

Moreover, French aversion to American-led fiscal policies is based on de Gaulle's fears of the inflationary impact of American monetary policies. Second, French financial diplomacy serves broader diplomatic goals, such as independence from US domination by favouring supranational bodies (Josselin 2004: 61). Previously, development aid served as a vehicle for co-opting political programmes and allowed the French to present themselves as champions of African interests at multilateral summits (ibid). For his part, Sarkozy prefers to champion easy causes: ending corrupt financial practices and, more recently, redefining international regulation. Such moves are able to win him support across the domestic political spectrum and take away much political ammunition from opponents in government.

Last January, the French President was invited to open the World Economic Forum in Davos. He promised »to put the huge trade imbalances between the East and West at the centre of global financial reform when France takes over leadership of the G-8 next year« (Energy Bulletin 2010). He has talked about monetary dumping, pointing to the imbalances between the US dollar and the yuan and probably next year the euro. He defended his position in the US and in China during his state visits in March (US) and April (China). No doubt he will try to obtain an agreement: he needs one for domestic political reasons but also for European ones. Indeed, the current Eurozone crisis may lead to significant economic and political risks if European states and institutions are unable to find a solution.

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SEBASTIAN DULLIEN, HANSJÖRG HERR

Country Fact Sheet – Germany

1. Germany's crisis-related challenges

Germany was particularly hard hit by the subprime crisis and the ensuing collapse of the world economy in 2008 (real GDP growth of 1.3 percent) and, in particular, in 2009 (fall in GDP of 4.9 percent), due primarily to a dramatic export crash. Taking the Bundesbank's forecast (2009), growth rates in 2010 and 2011 will be 1.6 percent and 1.2 percent, respectively, based on expected strong increases in exports of 4.5 percent and 4.3 percent, as well as rising trade surpluses. With regard to the development of domestic consumer demand in 2010 and 2011 the assumption is a meagre 0.2 percent and 1.0 percent, respectively. The development of the consumption expenditure of general government (1.6 percent and 1.3 percent) and that of gross fixed capital formation (2.4 percent and -0.6 percent) also remain behind exports. One problem widely discussed in Germany is that, in the wake of the subprime crisis, the private commercial banks are showing a very low equity base and are attempting to rebuild their balance sheets by cutting lending. As a result, a credit crunch is looming, threatening the supply of loans to companies and private households.

The – albeit not very dynamic – upturn which is now emerging in Germany depends principally on the development of the world economy and the success of German exports. Despite Germany's high foreign trade surpluses and the imbalances in Europe and the world economy, in April 2010 German Minister of Economics Rainer Brüderle called for an export offensive in Germany, to be supported by economic policy. Criticisms from other European countries, such as France, made no impression on Brüderle (Manager Magazin 2010). Germany has barred the way to medium-term stabilisation through an expansive fiscal policy by means of the so-called »debt brake« (Schuldenbremse), incorporated in the Constitution in 2009. According to this rule, structural – that is, not in response to the state of the economy – net federal borrowing will be capped at 0.35 percent of GDP from 2016.

2. Relevance and consequences of the G-20 outcomes for Germany's economic policy

The German government's actions within the framework of the G-20 process are strongly oriented towards ensuring that the country will be able to continue its pursuit of an export-oriented growth model, which has a long tradition in Germany. For example, at the press conference (Press Conference 2009) after the G-20 Summit in April 2009 in London, Chancellor Merkel emphasised Germany's opposition to any kind of protectionist tendencies. Then Finance Minister Peer Steinbrück declared: »The Federal Republic of Germany, as an export-oriented country, has an enormous interest in extending these facilities, via international financial organisations, in such a way that our trading partners, including developing and emerging countries, get on the road to recovery«. Indeed, Germany supports the increase in the resources of the international organisations by 850 billion US dollars and of the export agencies of the industrialised countries by 250 billion US dollars agreed at the G-20 summit. Chancellor Merkel also backed a global »charter for sustainable economic activity« – with the G-20 states as core signatories (Focus 2009a) – and a world economic council. In comparison to other G-20 countries, Germany has called for comparatively far-reaching global coordination mechanisms to stabilise the world economy.

Although the international trade and current account imbalances undoubtedly contributed decisively to the profound economic crisis in 2009 and remain a major problem for both the world economy and the cohesion of the European Monetary Union (Dullien et al. 2009), the topic was virtually excluded from the G-20 summit. Apart from a vague avowal in an additional protocol at the meeting in Pittsburgh in September 2009 to avoid unsustainable global imbalances in future, there were no resolutions in this area. Evidently, surplus countries, such as Germany or China, have been able to keep global imbalances off the agenda of G-20 summits.

A number of other important problems in this connection were not raised at the G-20 summit either and were not urged by Germany. Nothing was said about a restructuring of the world monetary system, including the future role of the US dollar and the euro, or about a new reserve medium for central bank reserves, although these issues could capture the headlines over the next few years. The proposal made by Chinese Central Bank Governor Zhou Xiaochuan in the run up to the London summit for a global super currency, created by the IMF along the lines of special drawing rights, did not figure in the G-20 summit (Rogoff 2009).

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The G-20 had a number of consequences for Germany. In particular, at the G-20 summit in April 2009 the G-20 group committed itself to a common fiscal policy stimulation of the world economy via national measures. Germany, which was originally a sceptical opponent of massive fiscal stabilisation, accepted its responsibilities on this point in the form of fiscal support pacts and has contributed to stabilising economic developments (Vesper 2009).

As agreed at the G-20 summit, Germany has got new regulations under way designed to tie bonuses at banks and insurance companies more strongly to long-term success. These should become binding in the course of 2010. In order to protect tax payers against future crises, the financial sector should build up its own funds. The German government plans that in future all German credit institutions should pay into a new stability fund so that the sector will be able to cushion the impact of possible crises from its own resources. Annual contributions to these funds should be between 0.9 and 1.2 billion euros. Other European governments are planning similar funds and Germany is trying to obtain agreement at least at the European level.

There was also agreement at the G-20 summit to increase the capital requirements of financial institutions, to subject all financial institutions to regulation, and to step up banking supervision. For Germany in particular, initiatives in these areas are conducted at the European level (for an overview, see Dullien/Herr 2010). Conflict looms between Europe and the USA with regard to capital adequacy rules. Because of the different accounting standards American banks, in comparison to their European counterparts in the same economic situation, possess more equity capital. An increase in equity ratios would therefore affect European banks more strongly and represent a competitive disadvantage. Furthermore, for the German economy financing through bank loans is much more significant than for the US economy, which makes much greater use of the capital market. Another potential conflict area is a financial market transaction tax. European countries, including Germany, are calling for such a tax, while the USA, Canada and the IMF have rejected the idea (Focus 2009).

A not inconsiderable source of conflict within the G-20 is the fact that the European countries, including Germany, do not wish to give up their excessive – measured in terms of their proportion of world GDP – weight in the decision-making structures of international organisations, in particular the IMF, while the major emerging countries, such as China, Brazil and India, are demanding a much bigger say.

Finally, it should be stressed that Germany would like to see an extension of the G-20's fields of activity, which traditionally have primarily concerned financial issues – financial market regulation, reform of the IMF and so on – to include environmental protection issues, but has not yet been able to sell the idea.

3. Germany's stance on the role of the G-20

As far as the political significance of the G-20 is concerned, the German government regard it as the legitimate successor of the G-7 and G-8 processes and the latter as obsolescent. For example after the G-8 Summit in L'Aquila in Italy in July 2009, Chancellor Merkel said that she could imagine the extension of the G-8 summit to a G-20 summit in future (German Government 2009) and thereby the virtual phasing out of the G-8 process. »I think the G-20 should be the format that, like an overarching roof, determines the future«, Merkel stated in the German communiqué. Her proposal for a »charter for sustainable economic activity« and a world economic council also goes in this direction.

For Germany, the issue of conflicts between the G-20 and other multilateral organisations, such as the EU, barely arises. Indeed, in government circles in the medium term the G-20 is seen as an opportunity to coordinate the policies of the Euro group with the finance policies of important non-European countries. On this Germany clearly has a different position from smaller EU member states, which do not belong to the G-20. In terms of the substance of agreements, Germany has no permanent alliances. At recent summits, Germany was in agreement with France on a number of issues, and with the UK on a number of others. Where there are similar interests with other EU states, actions also tend to be similar.

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RAJIV KUMAR

Country Fact Sheet – India

1. India's crisis-related challenges

India has been actively associated with the G-20 since its inception in 1999 and also after its elevation to a summit-level process in November 2008, when President Bush called on the leaders of the largest economies to come together in Washington for a show of solidarity and a collective response to the financial meltdown in the US and the UK, unarguably the epicentres of the global financial system.

India had been practically unaffected by the Asian financial crisis and also escaped the backwash effects of the post-Lehman global financial meltdown. Even the global economic downturn that followed in the wake of the Lehman crisis had a limited impact on India, with the economy still managing a respectable, although undoubtedly lower GDP growth of 6.7 percent in 2008-2009. This economic performance was significantly better than the majority of Asian and OECD economies and, more importantly, was the result largely of conscious policy tightening effected by the authorities right up to August 2008. Moreover, with net exports contributing a negative (-) eight percent to India's GDP growth and its financial sector quite insulated from global financial flows, India was not seriously affected by either the turmoil in the global financial markets or the collapse of external demand. Thus, India's participation in the G-20 process does not arise from its direct or substantive concerns with regard to global financial and economic performance but rather reflects India's interest in safeguarding its vital interests by being present at apex global forums, whether economic or political. It is perhaps pertinent to point out that India's involvement is also largely a result of the rest of the world expecting a large and rapidly growing economy like India to be at the high table, since its absence would leave a large, unrepresented space in any apex forum, especially after India's role in the WTO and the Bretton Woods institutions in recent years.

The core issues that are of particular concern to India are to ensure that (i) despite the severe downturn and loss of employment, protectionist sentiments remain constrained in both advanced or large emerging economies; (ii) the movement of all categories of factors of production – namely capital, labour and technology – remains unimpeded across national borders and the overall framework of globalisation remains in place; (iii) global financial markets revert to their normal functioning, such that the Indian economy continues to benefit from inflows of direct investment and portfolio capital, and Indian firms have continued access to external debt markets; (iv) the global economy does not suffer from marked and persistent imbalances, as these are inimical to sustained growth; (v) global financial and economic governance is more equitably shared amongst advanced, emerging and developing economies with a greater role in »voice and vote« in major global financial and economic governance organisations; and (vi) the development deficit that is reflected in the form of growing intercountry divergences and rising intra-country inequities is not exacerbated and instead the global economy moves towards greater convergence, as envisaged under the paradigm of liberalised, open-economy globalisation.

2. Relevance and consequences of the G-20 outcomes for India's economic policy

Most agreements that have been reached in the successive G-20 summits have been of interest to India. These include the pledge in Washington to refrain from taking any new protectionist measures; the decision to raise the IMF's capital resources by 750 billion US dollars taken in London; the discontinuation of subsidies on fossil fuels in the context of reducing their consumption and encouraging the use of less carbon intensive energy resources; the expansion of the Financial Stability Forum into a larger, more representative Financial Stability Board; and the agreement to establish a Multilateral Surveillance Process that is applicable to all G-20 members and the decision, in principle, to have a more transparent, open and merit based system for the appointment of the heads of the Bretton Woods institutions. India has also effectively remained an observer on the issues of the nature of financial sector regulation in the future, on which the US and the Europeans have differing views, and also on measures for mitigating climate change, where there has not been any convergence of views so far.

Given that India had not been seriously affected by the global recession, and its economy and financial sector have been in relatively good health, it has not been a strong proponent of any particular position, except the reining in of protectionist sentiments. It has also not been substantively affected by any of the G-20 decisions

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so far. However, the G-20 commitment to dispense with hydrocarbon subsidies can and should be used by the Indian government to push forward this long overdue policy reform of doing away with petroleum subsidies and dismantling the administrative price mechanism for petroleum products.

India also stands to gain from the »new global norm« for the global financial sector which in all likelihood will make the sector smaller, less complex and with stronger regulatory restraints on profit generation and rewards. This will have a twin beneficial effect for an emerging economy like India. First, with lower expected returns to be made in advanced economies, a rapidly growing economy such as India can expect to attract greater capital flows to finance its much needed capacity expansion in infrastructure. Second, the lower wage and reward differential between the financial sector and other »real economy« sectors will allow India to attract much needed talent for building up its manufacturing, services and social sectors.

India will also benefit from the restructuring of the quotas in the Bretton Woods institutions and regional Multilateral Development Banks (MDB), as its own increased quota will permit it to borrow more from these bodies. Additionally, India can now also try to secure one of the top executive positions, although this should be fairly low on its list of priorities. Finally, India will also benefit from the global economy returning to a more balanced pattern of growth as this will involve a change in relative exchange rates which, in the event of Renminbi appreciation, would improve India's competitive position in global export markets and also permit it to export larger volumes to China, where domestic demand is likely to burgeon in the coming period on account of fiscal expansion and exchange rate appreciation.

3. India's stance on the role of the G-20

Because India has potentially non-marginal gains from a successful G-20 process, it has been active in the various working groups and overall summit process. It has been the co-chair of two Working Groups, one on Enhancing Sound Regulation and Strengthening Transparency in the Global Financial Sector and the other on the Multilateral Surveillance System. India has also been a member of several other working groups, such as Reform of the IMF, the World Bank and other MDBs and improving international cooperation to achieve systemic stability and integrity in global financial markets. However, India, like China, has so far refrained from staking a claim to hosting one of the summits or taking on for the first time the chairmanship of a major working group. This is perhaps because Indian economic growth is still largely domestically driven and it is unlikely that the financial sector will become more integrated in the global financial markets and flows.

Overall, India has clearly adopted a stance of »going along« with emerging global forums and institutions. This is apparent in India's participation in the G-8 plus O5 summits (the so-called Heiligendamm-L'Aquila Process) and the G-20 summits and also, at the same time, participating in the G-24, the G-77 and also the Major Economies' Process in the UN. It also brings the global economic issues to the table in the Non-Aligned Movement (NAM) process. This attempt to cover all bases is quite clearly a »defensive policy stance« which seeks to avoid any possible costs arising from non-participation. The key question is whether India can make a choice and focus on a particular forum, in the expectation that its action will render the other forums less effective and less credible and enhance the prospects of the formation that India does participate in. This cannot be anticipated and Indian policy-makers clearly do not want to risk having to bear the cost of being left out. Therefore, the present policy stance can perhaps be best described as one of »covering all bases«, while minimizing the costs of doing so. Whether this is an optimal policy stance, given India's own strengths, capacities and external circumstances, is an interesting question for further research.

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Country Fact Sheet – Indonesia

1. Indonesia's crisis-related challenges

With a population of around 230 million, Indonesia is the fourth most populous country in the world. It also has the highest Muslim population worldwide. Indonesia is a presidential democracy and is regarded as a democratic state.[1] According to the UNDP's Human Development Report 2009, Indonesia ranks among the states with »medium human development«. The country's Human Development Index (HDI) is 0.734, putting it in 111th place out of 182 states, in front of two other members of the G-20, South Africa (129-0.683) and India (134-0.612).[2]

Indonesia's GDP is the 19th highest in the world, standing at 519 billion US dollars in 2008, higher than G-20 member states Saudi Arabia (ranked 23rd), Argentina (30th) and South Africa (32nd).[3] The economic system is characterised by market economic structures with strong state intervention. Two-thirds of economic output is in the informal sector.[4]

The collapse of Lehman Brothers in the USA barely registered in Indonesia. At first, it was assumed that, thanks to strong domestic consumption (around 65 percent of GDP), its abundance of raw materials and its comparatively low integration in the world economy Indonesia would be relatively safe. When commodity prices – above all oil, gas, palm oil, rubber and coffee – fell rapidly and export demand declined the financial crisis had arrived in Indonesia too. Suddenly, the phantom of the Asian Crisis of 1997-98 returned, when the Indonesian economy contracted by 13 percent and it was eight years before the country had more or less recovered (Schweißhelm 2009).

The Indonesian government reacted more quickly this time, also because in April and July 2009 there were parliamentary and presidential elections. As a supplement to the 2009 budget, in April the government launched an economic stimulus programme amounting to 6.4 billion US dollars (around 1.4 percent of GDP). The programme included tax relief and subsidies for enterprises which were making a loss due to the crisis, as well as infrastructural measures and a boost for private consumption, including tax refunds to employees in the formal sector earning the equivalent of less than 330 euros a month. The base rate was gradually reduced from 9.25 percent to 6.5 percent. The national bank shored up the national currency by foreign exchange market interventions in order to stabilise import costs for raw materials and semi-finished goods at import-dependent firms (German Trade and Invest 2009).

Even though the crisis led to a significant reduction in imports and exports, economic growth in 2009 surpassed expectations at 4.5 percent (in comparison to 6.1 percent in 2008 and 6.3 percent in 2007). Despite the economic crisis, Indonesia, alongside China and India, is one of the fastest growing countries in the G-20.

Indonesia's experiences during the Asian Crisis in 1997-98 showed that too hesitant a reaction can lead to financial sector instability and this, in turn, to a loss of confidence, followed by bank runs and, ultimately, a considerable fall in national income. At the beginning of the current crisis Indonesia therefore found it necessary to apply all available economic and financial instruments as soon as possible to stabilise the market, in the knowledge that this intervention could only be effective if coordinated internationally.

2. Relevance and consequences of the G-20 outcomes for Indonesia's economic policy

The banking sector and credit industry were barely affected. The strict controls implemented by the central bank meant that domestic banks were not even tempted to invest in toxic securities. Indonesia's strict rules go far beyond the demands of the G-20.

One of the most important responses to the financial crisis was the tenfold increase in state guarantees on bank deposits (ibid). The extent to which this measure and the other economic stimulus programmes already mentioned were a consequence of the resolutions of the London G-20 summit is questionable, since Indonesia had learned its lesson a couple of years previously.

1. Available at: http://www.freedomhouse.org/uploads/fiw10/FIW_2010_Map_Asia-Pacific.pdf

2. Available at: http://hdr.undp.org/en/statistics (last accessed on 12 March 2010).

3. Available at: http://www.imf.org (last accessed on 12 March 2010).

4. Available at: http://www.auswaertiges-amt.de/diplo/de/Laenderinformationen/01-Laender/Indonesien.html (last accessed on 12 March 2010).

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3. Indonesia's stance on the role of the G-20

From Indonesia's point of view, the current economic and financial crisis has brought the developed countries to the realisation that the existing global economic system is far from perfect and urgently in need of systemic reform. An institutionalised and reinforced G-20 would be regarded by Indonesia as a first step towards the necessary reforms.

Indonesian president Susilo Bambang Yudhoyono praised the decision of the Pittsburgh summit to integrate the club of the eight largest economies in the G-20. He said that it was in line with Indonesia's expectations that the G-20 become a permanent institution and that this was a positive development, because the G-7 or G-8 are limited to the industrialised countries, which are mostly from Europe. Only one is from Asia, Japan (The Jakarta Post 2009).

In the speech he delivered at Harvard University directly after the summit in Pittsburgh, President Yudhoyono stated: »To me, the G-20 is one manifestation of the change taking place in global politics. The G-20 […] is not just an economic powerhouse – it is also a civilisational powerhouse«, thereby underlining Indonesia's place in the G-20 if not as an economic heavyweight, then at least as a civilisational heavyweight. After all, Indonesia is the largest Islamic country in the world. Its membership of the G-20, and on top of that as the sole ASEAN (Association of Southeast Asian Nations) member, is regarded by Indonesia as confirmation of its growing international significance. In addition, Indonesia has always pursued an independent and active foreign policy and has participated in various multilateral initiatives since the 1950s (for example, the Movement of Non-Aligned Countries, ASEAN, the Organisation of the Islamic Conference, G-77 and so on).

The international community expects that Indonesia will represent the Islamic voice in the G-20 and also demonstrate that Islam can play a positive role in global bodies (Sukma 2010). It is, however, questionable how far the Islamic world, in particular the Arab countries, will concede such a role to Indonesia.

Although for Indonesia the question of the legitimacy and representation of non-G-20 countries has not been definitively clarified, and it believes that the G-20 should seek to cooperate with non-G-20 economies, nevertheless, the Indonesian government sees the G-20 as the most appropriate and representative forum at present for making more efficient, effective and timely progress in the debate on internationally coordinated action, as well as for conveying its own political ideas at a summit of the most important countries in the world (Ministry of Finance 2009).

It is the G-20's new strategic significance which makes collaboration of interest to Indonesia. Naturally, any participation is to serve national interests in the first instance (Ministry of Foreign Affairs 2010), but this goes hand in hand with a desire to be a voice for the developing countries and to address such issues as poverty, lack of infrastructure and low foreign currency reserves.[5]

In preparation for the summit in London, Indonesia developed a position paper according to which the G-20 should help to ameliorate the effects of the crisis on the economy and to restore confidence in the financial sector. In the longer term, the G-20 should above all strengthen the financial system in order to avoid a repetition of the crisis, which includes resolving the deeper lying problems of global financial structures (Ministry of Finance 2009).

On the basis of this position paper, Indonesia introduced a series of initiatives, for example, on reform of the international financial institutions and their contribution to the support of emerging countries in overcoming the world economic crisis. Indonesia in particular welcomed the changes in quotas and voting rights in the two global financial institutions – according to Finance Minister Sri Mulyani, this gives the developing countries a bigger say.

In the run-up to the Pittsburgh summit, Indonesia identified three agenda points which it considered particularly important: strengthening the role of the IMF, improving banking supervision and the demand that the industrialised countries establish a donor organisation similar to the IMF, as an alternative development agency and a »stand-by agent«, complementing the IMF, which is orientated primarily towards dealing with emergency situations.[6]

5. Available at: http://thejakartaglobe.com/home/indonesian-business-leaders-praise-new-g-20-role/331912 (last accessed on 26.9.2009).

6. Available at: www.aseanaffairs.com (4.9.2009).

Together with France, Indonesia currently has the chair of G-20 Working Group 4 on Reform of the World Bank and Other Multilateral Development Banks, and is pressing above all for an acceleration of the reform process.

One need only think back to the Asian Crisis in 1997-98 to understand why Indonesia has a particular interest in this Working Group. Indonesians cannot forget how then Director of the IMF Michel Camdessus stood with arms folded behind President Suharto, who had been forced on 15.1.1998 to sign an agreement with the IMF. Camdessus's supposedly complacent gesture was interpreted in Indonesia, even by the opponents of President Suharto, as an expression of »neo-colonial arrogance«.

In Pittsburgh, President Yudhoyono was one of the main speakers on the topic of climate change in periods of economic recession. The President hoped to be able to make this topic a central issue at the Pittsburgh summit and called on the participants not to allow »the leaders of the world's leading nations, which are also the largest greenhouse gas emitters, to gather in Pittsburgh without making a clear statement on climate change« (AFP 2009).

Indonesia itself set a good example. The President announced a national action plan, in accordance with which Indonesia's emissions are to be reduced by 26 percent by 2020 from the BAU (Business as Usual) level, and added that, with international help, a reduction of as much as 41 percent was possible (O'Brien 2009). This might be achieved primarily by curbing the loss of forests and peatlands, as well as by a reduction in extensive palm oil cultivation.

Indonesia has so far said nothing about the limits of the G-20's scope of action. For Indonesia, membership of the G-20 is primarily a matter of prestige, in particular because the Asian Crisis set back its development for several years. Foreign policy experts in Jakarta are already talking of a post ASEAN era and are calling for a re-orientation of foreign policy, in which ASEAN will not be favoured over the G-20. Similar rumours concerning Indonesia's future role in ASEAN began to circulate directly after the Pittsburgh summit. The Indonesian president, however, reacted by stating explicitly that Indonesia would never leave ASEAN, not even as a result of its growing importance in the G-20.[7]

7. Available at: http://www.aseanaffairs.com (26.10.2009).

In Pittsburgh, President Yudhoyono proposed that, in future, the rotating ASEAN chair should be invited to G-20 summits. In this way, not only Indonesia's interests would be represented, but also those of ASEAN and other developing countries.[8] At the ASEAN summit in Thailand, which took place in October 2009, the heads of state and government agreed to set up a contact group, consisting of the chair of ASEAN, G-20 member Indonesia and ASEAN's secretary general. This contact group is to coordinate the different positions of ASEAN member states before G-20 summits. ASEAN finance ministers were also obligated to establish ASEAN's position before every G-20 meeting. In addition, the heads of state and government demanded that, besides ASEAN's chair, the secretary general should also be invited to all future summits.

With regard to the future of the G-20, directly after the Pittsburgh summit the Indonesian President declared: »I think this forum will later not only think about the global economy but also become a forum to make the world safer, eliminate conflicts and violence, and create more harmonious relationship among civilizations.«[9]

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9. See http://indonesia-oslo.no/indonesia-hails-g-20s-decision-to-become-permanent-group (28.9.2009).

FILIPPO STELLA

Country Fact Sheet – Italy

1. Italy's crisis-related challenges

Italy has suffered a considerable loss of output due to the crisis (overall minus six percent of GDP in 2008-2009), one of the largest in the G-20, having plunged into recession several quarters before the Lehman Brothers debacle. In 2009, Italy's GDP loss was the same as those of Japan, Germany and the UK (minus five percent).

However, it has shown greater financial resilience than many other countries, in a number of respects. No bank has failed or had to be rescued, thanks to a very limited exposure to US derivatives products, a carefully regulated domestic mortgage market and the inspections of the Bank of Italy. The level of household debt was low (60 percent of GDP compared to 95 percent in the euro-area in 2009), and savings and wealth were relatively high. Despite this, private credit tightened due to general international conditions, and the offer of government support to facilitate bank credit, through so-called »Tremonti bonds«, was not successful. The main causes of falling output in Italy were the collapse of exports (-19.1 percent in 2009), caused by the international crisis, and the decline of domestic consumption (-1.2 percent) and especially of investments (-12.1 percent), due to uncertainty and pessimistic expectations.

Finance Minister Tremonti chose a safe course of action in terms of public finances, minimising economic stimulus, taking into account the high level of public debt before the crisis. He chose to concentrate the limited resources available on the funding of unemployment benefits, social protection and income support, with some additional temporary resources to ease credit and support investment. This choice was initially criticised by some because it provided insufficient stimulus, but this prudent course of action and relatively tight grip on spending was vindicated by the recent focus by markets and EU governments on the risks of growing debt. Italy has managed to remain lower down the list of risky sovereign debt issuers, thanks to a 5.2 percent budget deficit in 2009 (2.7 percent in 2008), less than half the US, British, Spanish, Greek and Irish deficits. As a consequence, government debt as a percentage of GDP grew less rapidly than in most other developed countries (to 115.8 percent in 2009) and is expected to stabilise rapidly. Long-term interest rates on Italian debt, after a period of tension, have started to converge again towards the German benchmark and are now below four percent (April 2010).

Unemployment in Italy has been growing at below the EU average for some time (from 6.7 percent in September 2008 to 8.5 percent in February 2010, in comparison to a euro-area average of 10 percent), but recently the gap has narrowed.

The main concern for a full recovery is the structurally low growth rate of the economy (an average of just 0.6 percent in the past decade, declining from 1.4 percent in the 1990s and 2.1 percent in the 1980s). Italy is highly dependent on exports for its growth and has suffered some deindustrialisation in the past decade, as a consequence of the emergence of Chinese exports and the impossibility of devaluation after joining the euro, while labour costs have been growing more than the EU average and productivity has remained stagnant.

The G-20 Framework for Strong, Sustainable and Balanced Growth is therefore of great importance for Italy, as the country does not have room to increase domestic consumption without a general international recovery and more balanced trade relations in other countries.

2. Relevance and consequences of the G-20 outcomes for Italy's economic policy

So far, Italy has found itself in agreement with most G-20 decisions, without major changes in its economic and financial policy.

On free trade, the issue is delegated to the European Union and Italy has not introduced barriers to trade during the crisis. It has supported further steps to advance the Doha trade round, particularly pushing for it in its capacity as President of the G-8 in 2009. International commitments adopted at the L'Aquila Summit in July 2009 have not yet produced the expected results, since the negotiations have stalled.

In terms of exceptional measures of support to the financial sector, Italy already had a high level of protection of banking deposits, and the government speedily offered guarantees to the banking system. As already mentioned, it introduced limited stimulus spending and

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therefore will not require very large measures to implement an exit strategy from extraordinary support.

With regard to financial regulation, Italy is in line with the EU. It has generally supported the efforts of France and Germany to reinforce financial regulation inside the G-20. The Italian government has not indicated its position in the debate on an international bank tax to cover the costs of the crisis and to put aside resources against future banking problems. However, Tremonti had implemented a limited bank tax in 2008, before the crisis, as part of his »Robin Hood tax« on energy companies and banks.

Italy supported the redefinition of the role of international financial institutions (IFIs), the attribution of new resources and an increased weight for emerging and developing countries within the IFIs. Italy demanded that a decent pace be maintained and that account be taken of which countries had provided and were continuing to provide financial resources to these international institutions, so as not to discourage future contributions.

3. Italy's stance on the role of the G-20

In general, in 2008-2009 Italy's position with regard to the G-20 was ambivalent.

On the one hand, since the Second World War Italy has been a committed supporter of multilateralism and international institutions, the construction of the EU and the UN; it has also always been a close ally of the USA. As such, it has welcomed and supported further international action to coordinate efforts to deal with the global economic and financial crisis which started in 2008, including the enlargement of the old G-8 format in order to involve the main emerging economies.

On the other hand, with much effort Italy had acquired a position in the G-7 and G-8 through the 1970s and 1980s, becoming the fifth largest economy in the world around 1985 and claiming a place at the table of the major industrialised countries. Today, after twenty years of very slow economic growth (1.4 percent per year in the 1990s and 0.6 percent in the 2000s), Italy sees its international relevance declining. It is now in seventh place with regard to GDP at market prices (overtaken by China and the UK) or 10th place in terms of purchasing power parity estimates (overtaken also by India, Russia and Brazil). It is still the seventh largest world exporter of goods.

In the G-7/G-8, Italy carried a larger weight in the decision-making process than it does in the G-20, although obviously never a dominant one in either forum. It is concerned about a further diminution of its influence and status in global terms.

The decision to upgrade the G-20 at the leaders' level in response to the financial crisis, taken by the US in October 2008, largely took the spotlight away from Italy's G-8 presidency in 2009. Indeed, until then, Italian Prime Minister Berlusconi had proposed to preserve the G-8 and to accompany it with a G-13 or G-14, inviting the largest emerging countries already participating in the Heiligendamm Dialogue process launched in 2007 by Angela Merkel (China, India, Brazil, Mexico, South Africa), to which Italy suggested adding Egypt.

Italy is a member of the G-20, but also of several other bodies, from the G-8 to NATO. It sees the G-20 as an important international body, dealing with economic and financial issues but does not seem to support an enlargement of its mandate to other fields, which it considers to be already dealt with appropriately by other bodies. This is the case concerning climate change (discussed at the United Nations Framework Convention on Climate Change and at the Major Economies Meeting), development assistance (the major donor countries are mainly concentrated in the G-8, with the involvement of African countries on an ad hoc basis) and international security and political issues (still discussed in the G-8 and in more flexible associated outreach forums). Italy still supports a complementary role for both the G-8 and the G-20, taking the view that the emergence of one does not necessarily lead to the eclipse of the other, and demanding strong coordination between the two forums.

Both Prime Minister Berlusconi and Finance Minister Tremonti have consistently raised the issue of financial speculation in the G-20. They have stressed its destabilising effects on the prices of some commodities, focusing in particular on speculative bubbles in oil prices and agricultural commodities. Berlusconi has stressed the negative effects in terms of inflation (Italy is highly dependent on oil for its energy) and the purchasing power of those on low incomes, both domestically and in developing countries. Italy has proposed improving transparency and supervision with regard to derivatives, curbing short selling of commodities futures contracts and asking international institutions to report and issue recommendations on the subject. At some point, Tremonti proposed simply abolishing some derivatives, such as Credit Default Swaps, which are too opaque and risky to be permitted.

In response to the ethical causes of the financial crisis, Tremonti also advanced the idea of introducing an international Legal Standard (later renamed the Global Standard or Lecce Framework, after the G-8 Ministers meeting in Lecce in February 2009). The Global Standard would reaffirm a set of principles of transparency, integrity and correctness for economic activity. Such principles have been developed particularly through OECD instruments. The proposal has not proved popular, as many countries do not want to negotiate a legal commitment to a large number of international standards on corporate behaviour, corruption, tax havens and so on. A more limited version of the proposal has now become one of the pillars of the German proposal for a Charter of principles for sustainable economic activity, still in discussion within the G-20 Framework for Strong, Sustainable and Balanced Growth.

Italy has been operating in the G-20 within the coordinated EU framework, especially with France and Germany. On some specific actions, it obtained the support of a number of countries, such as Australia on speculation, ahead of the Pittsburgh Summit, and of Germany on the Global Standard and the Charter.

Finally, Italy has provided a substantial share of the new resources allocated to the IMF in 2009 and therefore expects that the redefinition of quotas and board representation in the IFIs will not unfairly penalise developed countries. Italy wishes to maintain the leadership of a constituency and a seat on the executive board.

ANDREW deWIT

Country Fact Sheet – Japan

1. Japan's crisis-related challenges

Still the world's second-largest economy and a strongly committed member of the G-20, Japan perhaps faces the group's most severe set of economic challenges. Japanese banks were only a small presence in derivatives markets, so the country's financial economy was not heavily exposed to the systemic financial crisis. But the ensuing credit crunch of late 2008 delivered a profound shock to the global real economy and hit Japan especially hard. Japan's mid-2000s recovery from its »lost decade« of the 1990s was centred on external rather than domestic demand. Its growth engine suddenly switched off, Japan's economy plunged at unprecedented rates in late 2008 and early 2009. This precipitous decline bottomed out in spring 2009, and it continues to crawl back up through multiple and massive domestic fiscal stimulus packages, as well as a total global fiscal and financial stimulus of roughly 17 trillion US dollars. However, in early 2010, Japan's »output gap« between supply and demand was an annualised 30 trillion yen, or 6.4 percent of GDP. This is only a moderate improvement from Japan's eight percent output gap in the depths of the global turmoil.

Even so, the return to growth in the Japanese and global economies, driven by history's largest set of economic stimulus programmes, has brought a powerful tide of complacency with regard to G-20 commitments to rectify grave structural faults in the global financial architecture and economic sustainability. In this regard, Japan's position is especially fraught. The country's policy challenges include energy risks, a gross public debt roughly twice GDP, a 44 trillion yen fiscal deficit for the FY 2010 budget that exceeds the 37 trillion yen in total tax revenues, a rapidly ageing and now declining population, a labour force shrinking at 0.5 percent per year while incomes also decline and service-sector productivity remains comparatively low, and an apparently worsening deflation. Accordingly, in March 2010, the OECD projected Japan's growth prospects for 2011 to 2017 as a paltry 0.9 percent per year, the lowest prospects among the major economies. Japan's dependence on exports and public-sector stimulus clearly must, post-haste, be reformed towards robust and sustainable domestic demand in order to get on with fiscal consolidation.

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2. Relevance and consequences of the G-20 outcomes for Japan's economic policy

Against this sobering backdrop, the agreements of the various G-20 summits are crucial for Japan's economic policy. The 24.-25.9.2009 G-20 Summit in Pittsburgh was an important support for the Democratic Party of Japan (DPJ) government, led by former Prime Minister Hatoyama Yukio, which had taken office on 16 September. The DPJ came into office already buffeted by increasing criticism of its policy goals. The summit sought assurance that Japan's prominent G-20 role in implementing stimulus policies stressing collective benefits would not be reduced or reoriented towards export-dependent recovery. Then Prime Minister Hatoyama assured his G-20 counterparts of Japan's continued commitment to G-20 goals, and that his government's revisions to previous Liberal Democratic Party fiscal policy would in fact amplify sustainable domestic demand. Japan's record 92.3 trillion yen FY 2010 budget, with a seven trillion yen floating stimulus fund, continues this commitment to put off fiscal austerity for the time being.

This ability to link domestic policy goals with the post-»market fundamentalism« global governance goals of the G-20 commitments offers important political cover for the DPJ regime. It also clearly helps to keep the DPJ itself focused as it pursues reform in the midst of declining domestic support and a fissiparous opposition, trending towards such unconstructive, »hot-button« issues as nationalism. In addition, Japan has long sought to balance excessive dependence on the US-Japan security alliance with activism in such multilateral institutions as the G-7 and G-8. Although an overall public debate on Japan's role in and expectations of the G-20 has yet to emerge, the new agency provides the Japanese policy elite with a valuable venue for crafting an innovative leadership role in a rising East Asia, as well as maintaining the ever-important relationship with America.

The G-20 focus on sustainable development also dovetails with similar elements of the DPJ's economic policy. The DPJ »regime change« in Japan is aimed at wresting policymaking from bureaucrats and outmoded vested interests, and placing it firmly in the hands of elected politicians committed to transformative, sustainable economy policy. The DPJ continues to receive significant domestic criticism for its ambitious target of reducing CO_2 emissions by 25 percent by 2020, relative to 1990 levels. But the G-20 collectively assert that returning to the economic status quo prior to the crisis is unsustainable due to the pressure on the environment, energy prices and other externalities. The G-20 focus on sustainable economic development therefore affords the DPJ one more lever for overcoming the opposition of vested interests. This capacity to link domestic reform with the G-20 goal of sustainable economic development in the international sphere is one reason Japan's Foreign Ministry is the country's most activist state agency in promoting ambitious environmental policymaking.

3. Japan's stance on the role of the G-20

As with the other G-20 members, Japan is represented in the organisation's four working groups devoted to reinforcing the international regime's rules and institutions of economic governance. Japan is not chair or co-chair of any of the working groups, but by leveraging its human and institutional resources within the very porous network of G-20 statecraft, Japan has sought to make significant contributions to crafting more rigorous policies and getting them implemented.

Japan has, for example, played a very important role in redefining accounting measures. The 2.4.2009 London Summit of the G-20 emphasised developing and implementing global standards for the valuation of financial instruments in illiquid markets. The need for comprehensive and credible rules was identified in the recommendations of the G-20 working groups one and two (respectively titled, »Enhancing Sound Regulation and Strengthening Transparency« and »Reinforcing International Cooperation and Promoting Integrity in Financial Markets«). The G-20 are committed to achieving global standards in accounting by the middle of 2011. But there is a sharp difference of opinion between EU and American interests with regard to how »fair value« should be assessed. Lack of progress on this point saw, on 10.3.2010, the leaders of Canada, France, South Korea, the UK and the US send their counterpart G-20 leaders a letter reiterating the need for progress in financial-sector reform in general, and especially on international accounting standards. As of the same date, however, Japan began making a compromise package (International Financial Reporting Standards 9) available for voluntary use by selected Japanese firms. This key G-20 commitment thus appears likely to be furthered by Japan's early-mover decision to introduce the »fair value« international accounting rule.

Japan is also leading through cooperation in G-20 Working Group 4 and its focus on reforming international financial institutions. Japan has long sought a more managed international financial architecture, especially in the Asian region. Among other initiatives, it made the largest ever single-member contribution to the IMF on 3.2.2009, when it extended the organisation a 100 billion US dollar line of credit to help cope with the unfolding crisis. Japan has also since taken the opportunity to bolster efforts to redefine financial governance with a more Asian character. Working with China and South Korea in particular, as well as via APEC, ASEAN +3 and other multilateral institutions, it has continued cooperating on building regional institutions to shore up financial stability. In March 2010, the 2000 Chiang Mai Initiative bore fruit as the 120 billion US dollar Chiang Mai Initiative Multilateralization Agreement. This agreement advances the goal of securing a regional financial safety net and shifting Asia more towards demand-led growth. In tandem with this regional cooperation, former Director-General of the International Bureau at the Japanese Ministry of Finance, Naoyuki Shinohara, as Deputy Managing Director of the IMF, is encouraging flexibility and reduced conditions for IMF assistance. The Japanese see such moves as crucial to coaxing the rapidly growing Asian region away from self-defensive reserve accumulation, a powerful factor in creating the conditions for the financial crisis.

Another G-20 functional area that has been the focus of Japanese activism is the linkage of climate and energy concerns. The G-20 is seeking sustainability and transparency in energy markets, and has essentially subcontracted this task to relevant multilateral institutions, such as the OECD. Prime among these agencies is the International Energy Association, headed by Tanaka Nobuo, a former official of Japan's Ministry of Economy, Trade and Industry. Asian energy demand is the locus of global demand growth, with profound implications for prices and other aspects vital to the health of the global economy. Tanaka and the IEA have redoubled their efforts to enhance regional cooperation on energy security, efficiency and alternative energy, and are now seeking to bring China into the IEA.

Japan is thus using its traditional role as a leader in energy and climate policy to open up opportunities for further regional and global cooperation. Indeed, Japan has already determined that climate and energy issues will be a focus of the APEC Leaders' Summit, set to meet in Yokohama on 13 and 14 November. This meeting will follow hard on the heels of the G-20 Summit in Seoul on 11 and 12 November. The coincident timing is part of the fruit of Japan's efforts to coordinate with South Korea in connecting the G-20 and APEC as much as possible, as well as aggregate outlooks from countries not represented in these bodies.

Japan is also emphasising a human security dimension in APEC, including food security and counteraction of infectious diseases. This concern for the »most elementary forms of confidence« that are key to economic confidence-building indicates where Japan sees the limits of the G-20's present focus on constructing a new financial architecture and promoting balanced economic growth to overcome the present global crisis.

VICTOR M. GODINEZ

Country Fact Sheet – Mexico

1. Mexico's crisis-related challenges

The principal challenge currently faced by the Mexican economy is the need to make a sustainable exit from the major recession in 2009. Three essential sources of revenue and growth have been severely dented by the international crisis: manufacturing exports, tourism and the remittances sent home by workers abroad. Oil exports, not only another vital source of income but also a decisive factor in public budgeting, have also been limited by a decline in output linked to the structural investment deficit in this strategic sector.

In a context in which re-emerging inflationary pressures will restrict the recovery of real domestic income and to some extent provoke tougher monetary and budgetary policies, Mexico's economic performance in 2010-11 will depend largely on that of the United States. As growth picks up in the latter – with a number of industrial sectors rebuilding their inventories – Mexico's manufacturing exports will feel the gain, but it will not be enough to ensure a vigorous exit from recession. The decline in US consumer spending (combined with perceived security issues in Mexico) will prevent international tourism from returning to pre-crisis levels in 2010. Family remittances (which account for two percent of GDP) will fail to recover fully, due to persistently high unemployment in the United States and tougher controls on incoming flows of immigrants.

There are a number of structural and political circumstances restricting the government's leeway in designing measures to boost the domestic economy and consolidate recovery. The pick-up will be slow: after contracting by 6.7 percent last year, there are hopes that GDP might grow by between 2.5 percent and fourpercent in 2010. That growth will not be enough to offset the loss of jobs and income produced by the recession. Factors that could stimulate domestic spending will remain weak. Although the costs of capital will still be low, consumer credit will have little impact, as the levels of penetration achieved by the banking system are inadequate. Public spending will likewise be relatively restrained as a consequence of limited government revenues.

In sum, prospects for a resumption of growth in Mexico depend heavily on the strength and durability of economic recovery internationally, and in particular in the United States. This circumstance is reflected in various ways in the government's response to international economic questions.

2. Relevance and consequences of the G-20 outcomes for Mexico's economic policy

In light of this, for the present Mexican government (which still has almost three years to serve), the most relevant aspect of G-20 participation relates to the conditions for moving out of global recession. Because the economy is so exposed to fluctuations in world markets, the most pressing concern is how and when the rich nations will abandon the monetary and fiscal stimuli they introduced in order to stem the fall in demand. If spending in these countries, where private consumption is still at a historical low, were to be throttled early, this would make the process of recovery in Mexico more difficult in every respect. However, if these stimuli are maintained indefinitely, there is a danger of an untenable proliferation of fiscal imbalances and levels of public debt. That is why, in the longer term, the Mexican government also wants to see the advanced economies consolidate their public accounts and adjust their macroeconomic conditions in a gradual, coordinated manner.

The response to the global crisis is probably the area in which the principal link has crystallised between the major issues discussed and agreed within the G-20 and the general orientation of Mexican economic policy. The application of countercyclical economic policies and reform of the financial institutions are proposals that sit well with the economic measures adopted in Mexico during and – in some cases – before the international crisis. Another theme of convergence relates to combating the dangers of trade protectionism. (It is worth remembering that Mexico was one of the few countries to reduce tariffs, barriers and customs duties in international trade following the crisis unleashed in September 2008.)

From the Mexican perspective, there are two central issues on the current G-20 agenda and its own agenda for participation: (i) coordination between the developed nations, the emerging economies and the multilateral financial institutions in confronting the current economic and financial crisis; and (ii) restructuring the international financial order.

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In addition, the Mexican government has proposed including other matters of global interest on the working agenda for the G-20. It has suggested the creation of a »Green Forum« to examine and put forward viable financial instruments in response to the need to combat and mitigate the effects of climate change.

Another issue raised by Mexico for consideration on the G-20 agenda is the need for action by the Group's members to ensure that the global economic crisis does not put a brake on achieving the Millennium Development Goals. It has proposed boosting support for the poorest countries so that they can step up their efforts in this field.

The G-20 has set up four working groups, each co-chaired by an emerging country and an industrialised nation, with a view to maintaining a balance when identifying problems, assessing implications and formulating a consolidated vision. The theme for Working Group 2 is »reinforcing international cooperation and promoting integrity in financial markets«, and it is headed by Germany and Mexico. This task force has four key objectives: (i) to monitor actions and develop proposals to enhance international cooperation in the regulation and oversight of international institutions and financial markets; (ii) to strengthen the management and resolution of cross-border financial crises; (iii) to develop proposals to protect the global financial system from illicit activities and uncooperative jurisdictions; and (iv) to strengthen collaboration between international bodies.[1]

It should be noted that, after the G-8 Summit in Heiligendamm in 2007, to which the G-5 countries were also invited, dialogue between the so-called emerging economies and the more industrialised countries took a significant leap forward. This improved exchange facilitated the »North-South« agreement within the G-20, and in this context an important role was played by Mexico's coordination efforts during its presidency of the G-5, which also includes Brazil, China, India and South Africa. Designating a coordinator allowed the G-5 to advance its positions more directly and to greater effect, vis-à-vis not only the G-8, but also the G-20.

1. The co-chairs of Working Group 2 are the Deputy Minister of Finance (Alejandro Werner) and the State Secretary at the German Federal Ministry of Finance (Jörg Asmussen).

3. Mexico's stance on the role of the G-20

Mexico attaches great symbolic and strategic importance to its participation in the G-20, as this provides it with a presence and scope for action that it has never enjoyed before within the framework of a significant platform for deliberation and decision-making of global reach. This is one factor among several that have motivated Mexico to help consolidate the G-20 as a »steering group for the world economy«.

For Mexico, the G-20 is a platform where it can establish itself as an important player in the international arena. At the same time, this enables the country to consolidate its own image as a partner in dialogue which, apart from perceiving and maintaining a certain »special relationship« with the United States, is also capable of interacting with other significant international players on matters of global, and not merely regional interest. In some respects, the G-20 is a window of opportunity for diversifying Mexico's economic relations with the rest of the world, which previously were focussed too strongly on North America.

At recent G-20 summits, Mexico has specifically sought to contribute to the definition of an ambitious, all-round agenda for rethinking and restructuring the international financial order. One of its priorities has been to broaden the participation and weight of developing countries in the decision-making process and in establishing global economic and financial rules. As the President of Mexico told the national Congress, the country's primary motive here is to »strengthen the participation of the emerging economies in the international financial institutions«.

In this respect, »democratising« the IMF and the World Bank is a demand that Mexico has endorsed fully at the G-20, along with other emerging nations, notably Argentina and Brazil, with whom there has been some coordination of views. In a number of coordination meetings and ad hoc working groups, these countries have asked that the reform process, at least for the IMF, be brought forward from 2013 to 2011. They have also insisted on the need to increase their representation in the governance and decision-making of this multilateral body (in return for increased contributions). Mexico and the other Latin American countries in the Group also advocate a capital increase for the Inter-American Development Bank (IDB). At the Pittsburgh Summit, this demand was already agreed in principle, although the language is vague, and – as the Mexican Minister of Finance pointed out – it requires »a specific plan which is expected to be delineated in mid-2010«.[2]

Another issue championed by the Mexican government is the implementation of new financial instruments geared to emerging and developing economies. One important step in this direction was the IMF's Flexible Credit Line, worth 250 billion US dollars, adopted at the London Summit, 47 billion US dollars of which were offered to Mexico without any conditions attached to strengthen its international reserves.

There has not been an open, pertinent debate in Mexico about the positions the country is adopting in the G-20, nor about the limitations of this grouping and its relations with multilateral and regional bodies. In March 2009, a group of organisations representing civil society, employers and labour handed the government a document[3] demanding that it incorporate a social perspective into the G-20 agenda. The government's reply to this demand contains a key to its own perceptions of the limits and scope of the G-20: while recognising the importance of this perspective, it sought to persuade the civil organisations that the G-20 is not currently in a position to tackle social problems in an integrated fashion, and that its activities were focused on technical aspects of the economy and international finance. Ultimately, from the initiatives that the government has promoted in G-20 working groups and summit sessions, Mexico does not appear to recognise any incompatibility between action by the G-20 and action by the multilateral and regional institutions. Indeed, these initiatives clearly indicate that the Mexican government sees the G-20's relations with these institutions as characterised by coordination and complementarity.

2. Agustín Carstens, 23.9.2009, on the eve of the G-20 Summit in Pittsburgh.

3. »Organismos de la Sociedad Civil ante el Encuentro del G-20«, 26.3.2009.

MAXIM V. BRATERSKIJ

Country Fact Sheet – Russia

1. Russia's crisis-related challenges

As a result of the economic crisis, Russia is among the countries whose economic indicators turned out to be furthest from expectations. Before the crisis Russia was expected to achieve 6.5 percent growth, but at the end of 2009 the figure turned out to be -7.9 percent. Excessive budgetary expenditure targeted towards support of the banking system, major companies and social programmes followed, leading to a budget deficit for the first time in ten years. Russia had to spend a significant part of its accumulated reserves to make up for the budget deficit and is thinking of returning to the international bond market in 2010.

The crisis made Russia rethink its assessment of the role of foreign capital in the national economy. It now distinguishes between foreign direct investment, which is seen as healthy for the national economy, and the inflow of short-term speculative capital, which is seen as often destabilising.

Another lesson Russia has learned from the crisis is the urgent need to minimise its reliance on the international financial markets and the outsourcing of financial services.

A third lesson is the need to develop a mechanism for minimising Russia's vulnerability to international price shocks.

Russia's growth is moderating after a period of overheating and excessive borrowing. GDP is expected to rise by around five percent this year. Russia has not faced any serious budgetary constraints, but rather institutional constraints – a challenge that is regarded as more important by the ruling elite. Hopes of gradual institutional transformation rose as increasing growth via easy money became increasingly difficult.

- Inflation fell to 6.5 percent year-on-year in February 2010, with a good chance that it will remain at around six percent for the year as a whole. More discount rate cuts are expected.

- As the global economy is no longer »overheating«, Russia has been forced to adjust to the new environment. Disinflation is helping to restore confidence in the rouble.

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- In contrast to monetary policy, which has improved significantly since the Central Bank abandoned exchange rate targeting in February 2009, fiscal policy is expected to become less generous in 2010.

2. Relevance and consequences of the G-20 outcomes for Russia's economic policy

It must be noted that, from the very beginning of the G-20 process, Russia made it clear that it would not forgo its national interests in support of global collective action with regard to the economic crisis. Russia raised import duties on several dozen items and provided preferences and subsidies to a number of industrial and agricultural producers and some exporters. In comparison, China initiated 19 protectionist policies, India four, and the EU, Vietnam and South Korea two each. Notwithstanding G-20 decisions, Russia has instituted a large number of protectionist measures.

Russia has pursued an expensive programme in support of the financial sector and key strategic companies, which was in line with the G-20 philosophy, as well as a programme to stimulate domestic demand by increasing social spending. There was some public criticism because of the lack of transparency in the allocation of support funds, but generally this programme is viewed as moderately successful.

3. Russia's stance on the role of the G-20

Initially, Russia viewed the G-20 as potentially a strong instrument, capable of adapting the world financial system to the new circumstances and helping Russia to achieve some of its goals:

(1) making the Russian economy less prone to shocks in the international financial system by:
– increasing the scope for the use of the national currency (rouble) in foreign trade;
– increasing the volume of the rouble market and making it more stable;
– redirecting the borrowing of Russian companies from foreign currency sources to rouble sources;
– managing the volatility of the Russian stock market which suffers from rapidly fluctuating capital in- and outflows;

(2) improving the effectiveness of domestic monetary policy (and political sovereignty in the economy) by decreasing the pressure on the rouble.

With these goals in mind Russia came up with a number of proposals for the London summit.

Regulating macroeconomic and budgetary policies

Russia is concerned by the variance between the national interests of the countries issuing reserve currencies, as reflected in their macroeconomic and budgetary policies, and the interests of the »consumers« of reserve currencies. As a result of this variance, the macroeconomic and budgetary policies of the former often go against the latter, including Russia. To resolve this controversy, Russia has proposed the development and adoption of internationally agreed standards which would be mandatory for leading global economies, including countries issuing reserve currencies. This proposal is highly unrealistic, but it reflects the Russian vision of the ideal situation in the global currency system.

Boosting domestic demand during the crisis

The Russian position on the need of governments to support national financial systems does not contradict the G-20 resolutions. Russia supported the plans to reduce the pro-cyclical character of monetary and credit policies and measures aimed at keeping a balance between reserves and borrowings. Russia agreed on the need to pay particular attention to short selling and other unsecured and marginal transactions

It should be noted that this sector of the financial market is relatively underdeveloped in Russia, and while the Russian financial market supervision has come up with additional regulations in this field, no large-scale measures were required.

Regulation and supervision

Russia supported further development of global financial markets with the strong participation of private financial institutions but feels that modern financial instruments are becoming too complex and thus non-transparent. Private and institutional investors – whose number is increasing – find themselves incapable of properly assessing the nature of new instruments and thus cannot properly assess the risks associated with them. For this reason Russia suggested that the role of governmental and supranational financial market regulators should be enhanced, specifically in making financial instruments more transparent. Russia supported the conclusion of an international agreement that would set global standards for the regulation and supervision of the financial sector, the Standard Universal Regulatory Framework (SURF).

Reforming the international monetary and financial system

This proposal is central to Russia's international financial agenda and practical policy. The core of the Russian approach includes a call for the diversification of the list of currencies used as reserve ones, and the introduction of a supranational reserve currency to be issued by international financial institutions. For the latter Russia proposed to reconsider the role of Special Drawing Rights (SDR) issued by the IMF and to re-establish elements of the gold standard.

One of the mechanisms Russia suggested as a vehicle for implementing this idea was the development of new regional financial centres; another was the introduction of new currencies into the reserve baskets of central banks. Russia is pursuing this idea by attempting to establish a regional financial centre in Moscow in conjunction with regional economic integration schemes, and by introducing the Canadian dollar and possibly the Chinese yuan in its reserves in future.

This ambition has drawn a lot of criticism from economists in Russia, but is quite popular politically.

Reforming international financial institutions

This part of the Russian agenda is in line with the general debate at the G-20 and includes short-term, medium-term and long-term goals. Russia is calling for the reform of quotas in the IMF in favour of emerging economies and developing countries, and for changing the quota formula. Russia would like to see IMF recommendations and rules as more universal, applicable not only to the recipients of IMF support, but other countries too. The Russian agenda includes a further transformation of the IMF as a vehicle for development. This position is shared by many countries. One point which is specific to Russia (and a few other countries) is the idea of establishing regional funds to finance economic development and to resolve crises with capital to be provided by the countries in a given region. Russia has established such a fund – worth 10 billion US dollars – for the Eurasian Economic Community, a Russia-led economic integration scheme which includes Russia, Belarus, Armenia, Kazakhstan, Tajikistan and Kirgizstan.

Another important – and irresolvable – issue is the management of the international monetary system.

As principles of a new international financial architecture Russia has suggested the following:

- compatibility of the activities and standards of national and international regulatory institutions;
- democracy and equal responsibility for decision-making;
- achieving efficiency through the legitimacy of international coordination mechanisms;
- transparency of all participants' activities;
- fair risk distribution.

Russia's fields of activity within the G-20 process include participation in G-20 Working Group 1: Enhancing Sound Regulation and Strengthening Transparency (Federal Service for Financial Markets); Working Group 2: Reinforcing International Cooperation and Promoting Integrity in Financial Markets (Andrey Shinaev, Bank of Russia); Working Group 3: Reform of the IMF (Andrey Lushin, Alternate Executive Director for Russia, IMF). No information was available on Russia's participation in Working Group 4: The World Bank and Other Multilateral Development Banks.

In addition, a number of meetings and consultations were held with the political, financial and monetary authorities of BRIC countries. Specific arrangements were made with China and Turkey (wider introduction of national currencies in bilateral trade in place of the US dollar).

With regard to the scope and limits of the G-20, Russia views it as potentially the major global financial and economic forum, while the G-8 is seen as focusing primarily on geopolitical questions. The G-20 will increase the role of BRIC countries in global economic decision-making, but will limit Russia's role in this process.

The effectiveness of the G-20 is viewed as limited because G-20 countries differ in their ambitions, interests and approaches with regard to the current international financial system. Technically, the G-20 has not demonstrated much effectiveness so far and President Medvedev has noted that the G-20's progress in resolving the questions of financial regulation, accounting and auditing has been modest.

Concerning the G-20's relations with other regional and multilateral organisations, it may contribute to the development of regional financial centres and the diversification of reserve currencies. Another perspective will be the establishment of specific regional mechanisms which could contribute to the reduction of exchange rate volatility.

Another mechanism is the establishment of regional funds and mechanisms to finance economic development and resolve crises, with capital to be provided by states in a given region. Those funds could be used to provide loans, while the IMF, the World Bank and regional development banks could be involved in co-financing.

ECKART WOERTZ

Country Fact Sheet – Saudi Arabia[1]

1. Saudi Arabia's crisis-related challenges

Saudi Arabia is the only OPEC member of the G-20 and a major Muslim power in the organisation, along with Indonesia and Turkey. It sees itself as an aspiring emerging market that needs continuous economic development to create jobs for a rapidly growing population. With free movement of capital and a convertible currency it has a relatively open economy, and since its WTO accession in 2005 the country has also liberalised its investment regime.

Saudi Arabia is exposed to international financial, energy and food markets in a particular fashion. It is the world's largest oil exporter, its food imports are rapidly increasing and it holds substantial overseas assets.

The rise in oil revenues in recent years has turned Saudi Arabia – a net debtor in the 1990s – into a major international investor. It is an important financier of the US current account deficit, alongside other oil exporters and industrialising Asia. It has accumulated more than 400 billion US dollars worth of overseas assets, which it holds mainly in US dollar denominated fixed income instruments. As a result of this conservative approach to asset management, it has passed through the global financial crisis relatively unscathed and was able to repatriate over 50 billion US dollars to finance countercyclical stimulus programmes. Other Arab Sovereign Wealth Funds in Abu Dhabi, Qatar and Kuwait had a much higher equity exposure and suffered considerable losses.

Saudi Arabia was reluctant to contribute to international bailout funds when approached by the UK and others. It is not inclined to give away funds unless they are spent within the framework of broader international deals that come with tangible returns.

2. Relevance and consequences of the G-20 outcomes for Saudi Arabia's economic policy

When it comes to international economic cooperation, four issues have been of particular concern for the Kingdom: (i) the future of the US dollar as a reserve currency and possible alternatives; (ii) reform of the IMF and increased voting rights for emerging market countries, such as China and India; (iii) the effects of the current recession on oil demand and the possible implications of international climate change agreements; and (iv) the global food crisis of 2007-2008 and temporary food export restrictions imposed by food exporters such as Vietnam, India and Argentina.

Saudi Arabia is naturally worried about the value of its overseas assets. It has endorsed efforts to enhance the regulation and stability of international markets; at the same time, it has been a steadfast supporter of the dollar as a global reserve currency. It did not question the country's dollar peg when dollar weakness prompted debates in the Gulf about imported inflation in 2007 and 2008. The proposal by China and Russia regarding the use of the IMF's Special Drawing Rights as an alternative international reserve currency has been discarded as impractical by the governor of the Saudi Arabian Monetary Authority (SAMA), Muhammed Al Jasser. At the Jeddah Economic Forum in February 2010, he pointed out that SDRs would lack liquidity and depth. However, he sees room for an increasingly multilateral global currency system with the euro playing a more prominent role.

Saudi Arabia was granted an increase in voting rights and a director's post with the IMF in 1978, when its international financial role increased tremendously in the wake of the first oil boom. Petrodollar recycling had become vital in financing the growing US trade deficit and the US was ready to endorse the Kingdom's upgraded IMF role in exchange for an agreement to refrain from pricing oil in SDRs instead of dollars, which was being debated at that time in OPEC circles. As a result of this IMF reform in the 1970s, Saudi Arabia has a relatively high share of voting rights compared to its GDP. Paradoxically, it thus stands to lose from possible IMF reform – discussed at the G-20 Pittsburgh Summit – that would grant emerging market countries, such as China, Brazil and India, more voting rights, because its share could be reduced along with other overrepresented countries, such as Argentina. While Saudi Arabia endorses IMF reform, it opposes any reduction of its voting rights, arguing that the transfer of voting rights would need to come from developed countries. It might be forced to compromise, however; currently,

1. As public debates are rare in this autocratic country, it is difficult to obtain a clear picture of its approach to the G-20, also because G-20 gatherings are not public. For the purpose of this article, well-known international policy stances of Saudi Arabia have been taken as a proxy for official policy initiatives at the G-20 and have been related to the national interests of other G-20 members.

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it holds 3.16 percent of voting rights, while India and China, with much larger economies, hold 1.9 percent and 3.7 percent, respectively.

3. Saudi Arabia's stance on the role of the G-20

While Saudi Arabia enjoys the prestige that comes with G-20 membership it has not played a visible role so far and probably deems established international organisations, such as the WTO or the IMF, more important as they have a clear mandate and permanent institutionalised structures. Traditionally, it has taken a quiet approach to international diplomacy. Another problem is that Saudi Arabia's bureaucracy is segmented along clientelistic lines and its capacity to proactively engage with international institutions and their regulatory frameworks is limited. This became apparent during its accession to the WTO.

Saudi Arabia's interests and positions in the G-20 are likely to be informed by its main international policy concerns, mentioned earlier.

In that regard, the importance of oil revenues for the Saudi economy can hardly be overestimated. Despite attempts at diversification, they still constitute about 40 percent of GDP, three-quarters of government income and 90 percent of exports. Declining oil prices in the 1980s and 1990s led to sluggish economic development and indebtedness. Saudi politicians are anxious that history could repeat itself and fear that overshooting oil prices could lead to demand destruction and the development of alternative fuels. Saudi Arabia looks at President Obama's push for US energy independence from the Middle East with suspicion. Such policy prescriptions have been a fixture in US campaign politics since the Nixon administration and fly in the face of the obvious energy interdependence between the largest oil consumer and the largest oil exporter of the world. In a widely noticed op-ed in Foreign Policy, Prince Turki al-Faisal, former Saudi Ambassador to the United States and the UK, has stressed this relationship and underlined Saudi Arabia's role as a swing producer that has enough spare capacity to balance markets and reduce volatility. Apart from the short interlude of the Arab oil boycott in 1973-74, Saudi Arabia has arguably played a constructive role in world oil markets and has not let political considerations interfere with production decisions.

Saudi Arabia has blamed Western financial speculators for the speculative exuberance in oil markets that led to prices close to 150 US dollars in 2008. At that time, OPEC had essentially lost control and was unable to cool markets for lack of spare capacity. Currently, the picture looks better due to demand destruction in the wake of the recession and new investments in production capacity in Saudi Arabia and elsewhere. King Abdullah has stated that Saudi Arabia is aiming at an oil price of around 75 US dollars. This seems to be regarded as a fair middle ground that balances the interests of producer and consumer countries and leaves Saudi Arabia with comfortable room to manoeuvre, as its budget is approximately balanced as long as oil prices stay above 50 US dollars a barrel.

In the climate change debate, Saudi Arabia has played a rather obstructive role alongside large consumer nations, such as the US and China. It has opposed curbs on emissions and has argued that it should receive financial compensation for revenue losses that might be caused by constraints on emissions and corresponding falls in oil sales. Its lead climate negotiator at the Copenhagen summit, Mohammad Al-Sabban, has argued that climate change is not man-made, but rather a result of natural variability: restrictions on greenhouse gases, therefore, are not warranted.

On the other hand, Saudi Arabia is ready to concede that renewable energies have a role to play in satisfying growing energy demand alongside hydrocarbons. While he is highly critical of subsidised biofuels, oil minister Ali Al Naimi has said that he could imagine that one day Saudi Arabia might export electricity from solar power instead of oil. Saudi Arabia has also signed the Kyoto protocol; but this does not entail an obligation to reduce emissions, as the country is classified as a developing country. As such, the Kyoto protocol comes without cost to Saudi Arabia, although it has one of the highest per capita hydrocarbon footprints in the world. It can even sell carbon credits by implementing projects under the Clean Development Mechanism (CDM).

Saudi Arabia's dependence on food imports will rise, fuelled by population growth and a decline in domestic agriculture. By 2016, subsidised wheat production will be phased out for lack of water. The global food price hikes in 2007 and 2008 led to worries in the country, especially after food exporters such as Argentina, Vietnam and India announced export restrictions out of concern for their own food security. Consequently, Saudi Arabia has announced investments in agricultural projects overseas and the implementation of a strategic food reserve. Cooperation with food exporters among the G-20 countries, such as the US, Canada, Brazil, Australia, Argentina, France and Russia, will be of increased importance in the future. Saudi Arabia is also open to international initiatives to promote agricultural production and it has an interest in an open investment environment for agricultural investments. A WTO member since 2005, it will possibly lobby against a repetition of food export restrictions, as seen in 2008.

BRENDAN VICKERS

Country Fact Sheet – South Africa

1. South Africa's crisis-related challenges

Compared to many other countries, South Africa has been spared the worst of the global financial crisis. Due to prudent financial regulation, the country's banks emerged relatively unscathed from the crisis. However, the global recession has had a harsh impact on key sectors of the real economy, including mining, manufacturing and cyclical labour-intensive industries. As a result, in 2009 the South African economy entered its first recession in 17 years, shrinking by an estimated 1.8 percent. Mining output fell by about seven percent and manufacturing by over 12 percent. During this time, the economy shed almost 900,000 jobs, pushing the official unemployment rate up to nearly 25 percent.

In response to the crisis, the government forged a »development contract« with business, labour and other social partners, aimed at stimulating the economy. The latter included a strong public infrastructure investment drive; countercyclical macroeconomic policy; social and employment support measures; and industrial and trade policies, including potential rescue packages for vulnerable sectors (for example clothing, textiles and cars).

With the resumption of economic growth in the third quarter of 2009, South Africa formally exited its recession. The growth expectation for 2010 is 2.3 percent, rising to 3.6 percent by 2012. However, the country's growth prospects are still heavily dependent on the pace of global recovery (for example, Chinese demand for raw materials), since domestic demand is still low. The economy is presently benefiting from a countercyclical fiscal policy, supported by the sound fiscal position prior to the crisis. Capital inflows into South Africa have also resumed, with a net foreign investment inflow of over 15 billion US dollars during 2009.

Notwithstanding signs of improvement and confidence in the domestic economy, South Africa's recovery faces several challenges. The immediate challenge is to maintain financial stability and improve financial regulation. The National Treasury is presently strengthening and extending the scope of prudential oversight, as part of the G-20.

The second challenge is to arrest the further »deindustrialisation« of the real economy, particularly productive capacity in key industries and sectors. In this regard, the government has released the second iteration of its Industrial Policy Action Plan, which aims to expand production in value-added sectors with high employment and growth multipliers.

The third challenge involves job creation and increasing labour absorption in the economy. In South Africa, high levels of unemployment – aggravated by the global crisis – are linked to grinding levels of poverty, social squalor and inequality.

In the wake of the crisis, the South African government has admitted the need for a new economic growth path. Like the United States, South Africa's recent growth trajectory has been debt-driven and consumption-led. While the contours of this new growth path are still being debated, there are calls to discipline financial capital, while strengthening the productive capacity of the economy through industrial policy interventions, skills development, public infrastructure programmes and a rural development strategy.

2. Relevance and consequences of the G-20 outcomes for South Africa's economic policy

The government is committed to the principles and proposals adopted by the G-20 summits. There is a range of key issues for South Africa's domestic economic policy, three of which seem particularly pertinent: (i) regulatory reform to prevent similar crises from occurring in the future, (ii) balanced global growth (iii) and proscriptions on trade protectionism.

Given the country's existing prudential oversight of the financial industry, South Africa has not faced much pressure from the G-20 to introduce greater regulation. The National Treasury has nonetheless proposed a range of reform initiatives, including:

- strengthening the framework for accountability, coordination and performance of financial regulators, possibly including the establishment of a formal council of regulators;
- reviewing the country's adherence to global regulatory standards in banking, insurance and securities markets;
- amending the Basel II framework once the impact assessment is completed;

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- expanding the scope of regulation to include hedge funds, private equity and credit rating agencies.

The centrepiece of the Pittsburgh summit was an agreement to promote strong, sustainable and balanced growth to forestall a resurgence of imbalances. Domestically, the South African government is committed to implementing responsible fiscal policies, despite pressure for more populist spending to address the country's dire social challenges. Externally, a stable and recovering global economy will be growth-pulling for South Africa, given the country's dependence on trade and capital inflows. Moreover, with its floating currency and strong desire to boost industrial growth through exports, G-20 pressures for Asian currency reform may also benefit the economy in future.

South Africa is one of the few G-20 countries to respect the »standstill provision« on protectionist measures. By April 2009, many of the G-20 countries had introduced trade-distorting measures supported through fiscal stimulus and new forms of subsidies. South Africa has argued for a broad definition of protectionism, encompassing not only traditional trade and investment barriers but all country-specific measures that countries can take, within World Trade Organisation (WTO) discipline and beyond, which impose costs on others and distort international trade and capital flows. South Africa has therefore called on industrialised countries to provide leadership in resisting protectionism. But South Africa also argues that developing countries have a legitimate case in being able to use all WTO-compatible measures to provide support to their industries in the context of the crisis.[1] Developing country measures are likely to have less systemic impact and will pale in significance when compared to the measures being taken by the industrialised countries.

3. South Africa's stance on the role of the G-20

South Africa ascribes great importance to the G-20 as a major player in global governance. The country's G-20 positions are premised on the recognition that the impact of the financial crisis has been severe in emerging and low-income countries; that their recovery lags that of their developed counterparts; and that these countries do not have the fiscal space to introduce countercyclical measures.

As the only African country in the G-20, South Africa is expected to represent the views of the continent, in addition to representing itself. This places a special responsibility on South Africa and underscores the importance of its positions in a number of thematic areas. A major priority for South Africa is comprehensive reform of the international financial institutions (IFIs) in order to increase their efficiency and enhance their accountability, credibility and legitimacy. This reform agenda includes strengthening the IFIs' staff diversity and discarding the geographical conventions guiding the appointment of the IMF and World Bank heads. Within the G-20 process, South Africa co-chairs the working group on reforming the IMF.

The South African government also supports proposals for introducing a robust and comprehensive framework for global regulation and oversight of financial markets. Given that these new banking regulations are technically complex, South Africa has called on the G-20 for additional capacity support to low-income countries. In addition, South Africa would welcome a process to broaden the participation of low-income countries in Financial Stability Board (FSB) decision-making, possibly through bilateral engagements between the FSB and regional groupings.

A third priority for South Africa is to ensure that the social and economic architecture of a more inclusive globalisation (including development challenges) is placed more firmly at the centre of the G-20's agenda. South Africa thus argues that the G-20 must urgently implement all commitments in meeting the needs of low-income countries. These include the G-8 Gleneagles commitment to double aid to Africa to 50 billion US dollars by 2010. South Africa has also called upon the G-20 to reaffirm the basic objective of the Doha Development Round, which is to rebalance the global trading system in favour of developing countries (rather than setting a new deadline or repeating commitments on protectionism).

As one of the smallest G-20 countries, South Africa has limited influence over the G-20's decision-making, which is still hierarchical. Partners within the G-20 are

1. In October 2009, following an application by the Southern African Clothing and Textile Workers' Union, South Africa raised customs duties on a range of garments and textiles from the applied rate of 40 percent to the WTO-compatible bound rate of 45 percent.

naturally Brazil and India. The India-Brazil-South Africa (IBSA) Dialogue Forum has provided a mechanism for South Africa to exchange views and caucus with its Southern partners. Apart from bilateral engagements with larger G-20 countries, the G-8's Outreach Process (G-8+5) provides another platform for South Africa to develop its G-20 positions through informal consultations with Brazil, China, India and Mexico. Within the G-20 process, South Africa may even leverage its position as a middle power »bridge-builder« to facilitate agreement between the industrialised and emerging market economies.

Outside the G-20, South Africa's engagement with Africa is crucial, whether to develop a continental perspective or for Africa to review the G-20's work plans. In this regard, the African Committee of 10 (C10) has been established, drawing in finance ministers and central bank governors from the Southern, Eastern, Northern, Western and Central African regions. Also included are the three Pan-African institutions: the African Union, the African Development Bank and the United Nations (UN) Economic Commission for Africa.

It is still unclear how to incorporate Africa into the G-20 process, since the continent's participation is at the behest of the rotating chair. It was only at the London and Pittsburgh (not Washington) summits that an additional »Africa« chair was assigned, with the participation of the African Union Commission, the African Development Bank and the New Partnership for Africa's Development (NEPAD), one person at the table and two behind. Since there is no permanency to Africa's participation in the G-20, South Africa's role has variously shifted between representing itself, Africa and the world's poorest countries in general.

But there are limits. For South Africa, the G-20 is still too hierarchical and deliberations are dominated by the G-7 core. In addition, there are dangers of mandate creep (for example, climate change and energy). It also seems sensible to South Africa that membership may need to be broadened further in a transparent manner, particularly if the G-20 is to become an effective, representative and legitimate global steering mechanism. This may require including countries that are »systemically significant« politically, beyond issues of finance.

AHMET FARUK AYSAN

Country Fact Sheet – Turkey

1. Turkey's crisis-related challenges

The global crisis has affected Turkey via three channels: trade, finance and expectations. These channels are fairly similar across the world, despite the fact that some are more important for certain countries. For Turkey, however, all the channels are important. Turkey's exports have been reduced dramatically. Capital flows have ceased and capital outflows have accelerated. Due to frequent crises in the 1990s and early 2000s, the adverse effects of the expectations channel have also been felt strongly, in spite of the successful structural reforms in the Turkish economy since the 2001 national financial crisis. The collapse of Lehman Brothers towards the end of 2008 has often been identified as the beginning of the global financial crisis. In the last quarter of 2008, the Turkish economy experienced negative growth after 27 consecutive periods of positive growth, but still attained a positive annual growth rate for the year overall. The first three quarters of 2009 were not much different from the last quarter of 2008. The Turkish economy contracted by 4.9 percent in 2009. Economic growth in the last quarter of 2009 was announced recently, turning out to be positive and better than expected. This highly positive growth rate fosters hopes that Turkey will experience a rapid recovery from the global crisis.

Turkey felt the effects of the crisis fairly quickly and keenly; at the same time, the recovery appears to have come swiftly and strongly. In the first few quarters of the global crisis, the government was heavily criticised by some for not responding in a timely and commensurate fashion. Countercyclical fiscal measures generally started to be implemented in the second quarter of 2009 to lessen the adverse effects of declining economic activity. To boost domestic demand, temporary tax cuts were introduced, while some tax payments were deferred. To reduce rising unemployment, some employment packages were adopted. Increased investment and employment incentives were also introduced. Credit and guarantee arrangements for producers and exporters were provided, while infrastructural project investment opportunities were improved.

The Turkish Central Bank (hereafter: Central Bank) was given more statutory independence during the restructuring of the economy after the 2001 crisis. On this basis, the Central Bank took a number of monetary policy measures to combat the crisis. The Bank cut overnight rates by a total of 10.25 percentage points to 6.5 percent in the 13 months through November 2009. This exceeded any other emerging market economy operating within an inflation-targeting framework. The borrowing and lending rate band has been gradually decreased in order to alleviate fluctuations in overnight interest rates. The market's liquidity needs in local currency have been met in a timely fashion. Foreign exchange reserves have been used primarily to support the banking system. The Central Bank acted as a blind broker in the foreign exchange market between the financial institutions and bore the counter-party risk to facilitate the flow of foreign exchange liquidity in the system. The maturity of the foreign exchange deposits borrowed by banks from the Central Bank in the foreign exchange deposit markets was extended and the lending rates reduced. Additional foreign exchange liquidity was provided to the banking system through reductions in the foreign exchange required reserves ratio.

In contrast to many countries, Turkey's financial sector remained resilient in the face of the global crisis. Turkey's financial markets were among the few which did not need government help. The strength of the financial sector in Turkey is due mainly to the banking sector restructuring programmes put in place after the 2001 crisis. Since then, state banks have been restructured, while eradicating their duty losses and partisan motives. A strong capital structure for banks was established. Cost effectiveness and better corporate governance have been achieved. Furthermore, an effective surveillance and supervision structure was built, while market discipline and transparency were attained. These reforms after the 2001 crisis represent the state of the financial sector before the global crisis. More importantly, however, financial market regulators adopted proactive regulatory practices by drawing on their experiences from previous crises. Hence, the regulators had already taken pre-emptive safety measures against excessive risk-taking before the global crisis, but relaxed some requirements during it to alleviate its adverse effects on the financial sector.

Due to the conditions before the crisis erupted and the policy measures taken during it, the Turkish economy appears to be quite resilient, as illustrated by the early signs of rapid and strong recovery in the economy. However, this does not mean that the country has been fully rehabilitated. The main challenge today remains unemployment. Certainly, this has long been the case, despite the high and sustained growth rates between the 2001 crisis and the global crisis. After the onset of the latter, the unemploy-

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ment rate leaped to 16 percent and is likely to stay there for a while, despite the rapid recovery of the economy. Turkey is also still facing structural problems. In spite of the strength of the financial sector during the crisis, SMEs and households are still facing major difficulties in obtaining finance. Turkish financial markets are still underdeveloped with regard to lending to these groups. While the international liquidity conditions are not expected to be relaxed any time soon, the access of these groups to finance is further delayed while the country is mainly obliged to use its own resources for financial development. Another challenge facing the Turkish economy is its exit strategy from the global crisis. During the crisis, Turkey has managed to reduce inflation, while interest rates have fallen. As the economy starts to recover, stabilising price levels appears to be a tough job. Furthermore, the exit strategies of the developed countries may also disrupt emerging market economies such as Turkey if they are put into effect in a short period of time. Besides, sudden jumps in energy prices are likely to pose balance sheet problems for Turkey, given its high energy dependence.

2. Relevance and consequences of the G-20 outcomes for Turkey's economic policy

The agreements reached at G-20 summits so far have focused on the immediate concerns arising from the global crisis. Regulation of financial markets has been at the top of the agenda. The G-20 has established six working groups to develop concrete policy measures: (i) Strong, Sustainable and Balanced Growth; (ii) IMF Reform; (iii) Financial Safety Nets; (iv) Financial Inclusion; (v) Energy; and (vi) Climate Change.

The first three working groups are concerned with immediate changes in the international financial architecture, while the policy proposals of the others have a longer term focus. Turkey is actively involved in all these working groups. However, the first three appear to be more important at the moment. Turkey is actively sharing its experiences of the crisis and financial market regulation at G-20 meetings.

Financial market regulation appears to be a particularly pressing issue. However, Turkey has already enacted strong and proactive financial market regulations since the 2001 crisis. Hence, some of the regulatory reforms under discussion are not new to Turkey. With regard to the other proposed modifications, Turkey is eager to cooperate in the adoption of financial market regulations proposed by the G-20. This means that G-20 agreements have yet to affect Turkey. Turkish Finance Ministry and Central Bank representatives are the main participants in G-20 meetings and working groups, but other financial market regulators and ministries also contribute to the working groups, depending on the subject. By and large, the G-20 meetings have not yet become an issue of public debate. It is still mainly a technocratic issue, dealt with largely by bureaucrats. However, the government presents Turkey's active involvement in G-20 meetings as another indicator of the country's resurgence in the international arena in recent years.

3. Turkey's stance on the role of the G-20

Turkey is likely to chair a G-20 summit in a couple of years. Inevitably, the country can be expected to be even more active in proposing new working groups. Given the workloads of the existing groups, however, many countries may be unwilling to take on new responsibilities.

Since G-20 membership is relatively small in comparison to, for example, the WTO, alliances or blocs have not developed so far. Certainly, when countries seek to present new proposals, they approach countries with similar interests for their support. However, it is too early for the emergence of stable coalitions among G-20 countries.

The G-20 has yet to prove itself. It has managed to implement some policy measures during the crisis, but has yet to be tested in more contentious areas. It appears that the United States and other developed countries are at present more eager to share power and responsibilities in reshaping the new international financial architecture. Certainly, if this impetus fades without major accomplishments, the limits of the G-20 will be drawn.

Multilateral and regional organisations appear to be gaining importance at G-20 meetings. For example, in establishing international financial safely nets, a particular role has been attributed to the IMF in providing new instruments to buffer short-term fluctuations in the financial markets. Its Flexible Credit Line facilities are one mechanism designed to alleviate self-insurance risk for individual countries. Similarly, regional organisations are also expected to provide multilateral and bilateral swap lines or expand lending in the face of sudden economic downturns.

ANN PETTIFOR

Country Fact Sheet – United Kingdom

1. The United Kingdom's crisis-related challenges

Although the UK has now officially exited recession, with growth of 0.3 percent in the last quarter of 2009, total output had fallen for six consecutive quarters before that – the longest period since quarterly figures were first recorded in 1955. In 2009, output fell by around five percent – the largest fall since 1931.[1] National income in 2009 was around 10 percent below the level it would have reached in the absence of the financial crisis. In money terms, that represents a loss to the UK of 140 billion pounds.[2] Private and public investment collapsed by 32 percent in 2008-2009.[3]

In coordination with G-20 central bankers, the Bank of England lowered the official bank rate to 0.5 percent on 5.3.2009 – the lowest rate in 315 years – and has held that level for 12 months. In addition, the Bank injected 200 billion pounds of »quantitative easing« into the financial system.

In addition to this substantial, indirect support for the banking sector, direct governmental support for the financial system was swift and massive, amounting to nearly three-quarters of GDP.[4] The cost of this intervention continues to bear down on the government's finances. Public spending is set to increase to 48.1 percent of national income in 2010-11.[5] The primary source of the deterioration in public finances is the collapse in tax receipts.[6]

Britain's unemployment (2.5 million) is lower proportionally than, for example, that of the US, at 7.8 percent in January 2010. However, ongoing falls in full-time employment are a challenge.[7] The number of inactive people of working age (including thousands of students) reached a record high of 8.16 million in January 2010.[8] Unemployment has been held down, in part, by the acceptance of pay freezes.[9] In spring 2009, more than 60 percent of employers froze pay.

The »easy credit« boom burdened households and companies with excessive debt. As interest rates normalise across the G-20, servicing debts will prove costly, and may further damage bank balance sheets. Sterling has depreciated by 25 percent since the middle of 2007, helping with global re-balancing. Unfortunately, exporters responded to the depreciation by expanding profit margins rather than cutting prices.[10] The stall in the recovery of the Euro area poses a major challenge to Britain as Europe is the destination of around half of UK exports.

2. Relevance and consequences of the G-20 outcomes for the United Kingdom's economic policy

The UK and its private financial sector have benefited from the G-20 agreement on global monetary easing and from the »5 trillion US dollars fiscal expansion«[11] of G-20 countries. As a result of the agreement, monetary policy around the world has been loosened dramatically, and direct support for the financial system has been large, at a quarter of global GDP.[12] This has led to a dramatic recovery in the financial sector, including banking. From their trough almost a year ago, the recovery in equity prices for UK global banks has been dramatic, rising 140 percent.[13]

As noted above, there are also signs of economic recovery.

1. Mervyn King, Governor of the Bank of England in Speech, 19.1.2010. Available at: http://www.bankofengland.co.uk/publications/speeches/2010/speech419.pdf

2. »The $100 billion question«, speech by Andrew Haldane, Executive Director, Financial Stability, Bank of England, 30.3.2010. Available at: http://www.bankofengland.co.uk/publications/speeches/2010/speech433.pdf

3. Office of National Statistics (ONS): Business investment, fourth quarter, 2009, 26.3.2010. Available at: http://www.statistics.gov.uk/pdfdir/bi0310.pdf

4. »The debt hangover«, speech by Andrew Haldane, Executive Director, Financial Stability, Bank of England, in Liverpool, 27.1.2010. http://www.bankofengland.co.uk/publications/speeches/2010/speech422.pdf

5. Data from the Institute of Fiscal Studies: Public Spending under Labour, 2010 Election Briefing. Available at: http://www.ifs.org.uk/bns/bn92.pdf

6. UK Treasury databank, Available at: http://www.hm-treasury.gov.uk/

7. Office of National Statistics 17.3.2010. Available at: http://www.statistics.gov.uk/cci/nugget.asp?id=12

8. Ibid.

9. CBI Press Release: Tough Pay Restraint Ahead. Available at: http://www.cbi.org.uk/ndbs/press.nsf/0363c1f07c6ca12a8025671c00381cc7/e820ef4f16ede4bc802576630045d98e?OpenDocument

10. Charles Bean, deputy governor of the Bank of England, 16.3.2010. Available at: http://www.bankofengland.co.uk/publications/speeches/2010/speech429.pdf

11. No. 10 Downing St.: G-20: Top Ten Outcomes, 3.4.2009. Available at: http://www.number10.gov.uk/Page18933

12. »The debt hangover«, speech by Andrew Haldane, Executive Director, Financial Stability, Bank of England, in Liverpool, 27.1.2010. http://www.bankofengland.co.uk/publications/speeches/2010/speech422.pdf

13. Andrew Haldane, as above.

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The G-20 consensus on international tax transparency has also benefitted the UK. According to the TUC, tax avoidance costs Britain 25 billion pounds a year, and tax evasion costs 70 billion pounds a year,[14] so increased international regulation and sanctions against tax havens would be welcomed by the Exchequer.

However, dissent within the G-20 over the extent of internationally-agreed financial regulation of cross-border financial institutions has hindered British interests in relation to the financial sector. A concern that banks would move to offshore jurisdictions meant that national regulation could be effective only in the context of international agreements, the former British Chancellor argued.[15]

But the British government finds itself at odds with its partners in the EU over regulation of the City of London, hedge funds and other private financial institutions. Furthermore, it is in disagreement with the US over President Obama's call for new restrictions on the size and scope of banks and other financial institutions.

As a result, with the exception of reforms to bank remuneration,[16] global and national regulation of the financial sector has scarcely been strengthened since the onset of the crisis. Some question whether the lessons of the 2007-2009 crisis have been learned by Britain and the G-20, and worry that excessive monetary easing and stimulus within the context of continued financial deregulation has, in the meantime, blown up further asset bubbles.

There is growing anxiety amongst British policy-makers with regard to the timing and pacing of the withdrawal of the G-20 fiscal stimulus, and the return of normal rates of interest. Because Britain's households, companies and banks have a massive debt overhang (from 1990 to 2008 UK debt ratios doubled from just over 200 percent to around 450 percent of GDP) there is a concern that a rise in global rates would increase debt servicing costs and tip the UK economy back into recession.

14. TUC, The Missing Billions, 2008. Available at: http://www.tuc.org.uk/touchstone/Missingbillions/1missingbillions.pdf

15. Alastair Darling, 4.9.2009. Available at: http://uk.reuters.com/article/idUKLAL00429720090904

16. UK Treasury: City of London banks agree to support G-20 bonus reforms, 14.10.2009. Available at: http://www.hm-treasury.gov.uk/press_92_09.htm

3. The United Kingdom's stance on the role of the G-20

Britain's need for and the importance it attaches to G-20 leaders' summits can be explained by:

- its open economy and strong financial sector; and
- the failure of existing international financial governance (the IMF, the G-8, the World Bank and the post-'99 G-20) to collectively provide early-warning of impending global economic failure.

According to Lord Turner of the UK Financial Services Authority, in a speech critical of the IMF, this failure was due in large part to a complacent collective mind-set within international institutions. »The predominant view in policy-making circles was not only sanguine about increased financial intensity and financial innovation, but positive. What we saw in respect to capital flow liberalisation in the 1990s .... was the assertion of a self-confident ideology, which also happened to be in the direct commercial interest of major financial services firms ...«.[17]

However, the British government continues to prioritise the interests of the City of London, and capital flow liberalisation, albeit on the basis of »responsibility, transparency and integrity«.[18] In a September 2009 speech, then Prime Minister Gordon Brown called for a »smooth transition path to what one might call the mature phase of globalisation«.[19] For this purpose, new global institutional arrangements were deemed necessary. These, it is hoped, will help ameliorate the current crisis, prevent future crises and promote »mature« globalisation, from which Britain's economy is expected to benefit.

This is the source of British enthusiasm for the G-20 leaders' summits and the Financial Stability Board, set up to »spot risks«, and succeeding the Financial Stability Forum (set up in 1999 by Gordon Brown, among others, to assess risks after the crisis of 1997-98).

17. Lord Turner, speech to the Reserve Bank of India: »After the Crises: Assessing the Costs and Benefits of Financial Liberalisation«, 15.2.2010. http://www.rbi.org.in/SCRIPTS/BS_PressReleaseDisplay.aspx?prid=22076

18. Prime Minister's Speech to G-20 Finance Ministers, London, 5.9.2009.

19. Gordon Brown's speech to G-20 Finance Ministers, 5.9.2009.

Britain hosted and invested considerable political capital in the September 2009 G-20 London Summit. So committed was Gordon Brown to the G-20 process that at the Pittsburgh Summit he won agreement to despatch one of his closest advisers, Baroness Shriti Vadera, to support and act as unpaid liaison between G-20 members and the current chair of the G-20, South Korea. The UK set up four working groups, but does not chair any. It is concerned to reinvigorate the Doha Trade Round, and to achieve a global agreement on climate change.

However, it is clear that global coordination is not easily achieved. At a conference in December 2009, Baroness Vadera is reported to have warned bankers that the G-20 process was »like herding cats«. One of the key problems with the group of the world's wealthiest nations was that they did not want to give up national sovereignty and coordinate their behaviour.[20]

She explained that the G-20 was »not a treaty, not the WTO, not even a system of air traffic control«. Rather, countries use the G-20 process to exert peer pressure on one another as part of the negotiation process.

Substantial differences between G-20 members have arisen over the European Union's proposals for regulating the hedge fund industry through the »Alternative Investment Fund Managers directive«. This directive will create a »black list« of countries deemed insufficiently regulated and, according to some, will significantly restrict the ability of funds based in offshore tax havens (e.g. the Cayman Islands) to raise money from EU investors. To avoid the black list, countries must have, amongst other laws, regulations against money laundering and terrorism financing.

The former British Labour government, supported by the US Treasury Secretary, described the measure as »protectionist«, as does the British Conservative party. The previous Labour government has lobbied on behalf of the hedge fund industry and tried to block progress of the directive. As this briefing goes to press, the issue has been passed from the European Parliament to the EU Council of Ministers. It continues to drive a wedge between the Anglo-American alliance and the European members of the G-20.

20. Baroness Vadera warns European banks to »come clean«, The Times, 8.12.2009. Available at: http://business.timesonline.co.uk/tol/business/industry_sectors/banking_and_finance/article6948569.ece

SARAH ANDERSON

Country Fact Sheet – United States

1. The United States' crisis-related challenges

President Obama has struggled with a highly polarised Congress and formidable corporate opposition to his key economic policies. The country is also still reeling from the economic crisis.

When Obama chose Pittsburgh as the site of the September 2009 G-20 summit, he hoped that, by showcasing a reinvigorated former rustbelt city, he might send a hopeful message to a world in crisis. As the Toronto summit approaches, the US financial sector is on the rebound, with most top banks returning to profitability, repaying their direct bailout support and handing out fat executive bonuses. For ordinary Americans, however, the crisis is still severe:

- Unemployment is expected to average 10 percent for 2010, with the underemployment rate (including jobless workers who have given up looking for work and part-time workers who want full-time jobs) closer to 17 percent.[1]

- Foreclosures are continuing to rise, with an estimated 4.5 million families facing the threat of losing their homes this year.[2]

- Many state and local governments are slashing social spending, and at least 10 states are facing possible bankruptcy.[3]

2. Relevance and consequences of the G-20 outcomes for the United States' economic policy

Although it was his predecessor, President George W. Bush, who hosted the first G-20 summit, President Barack Obama has never questioned this body's role as the premier forum for international economic cooperation.

Obama's Treasury Secretary, Timothy Geithner, is a former official of the International Monetary Fund. Thus, it was hardly surprising that, at the April 2009 London summit, the first of the Obama presidency, the United States enthusiastically endorsed the G-20's decision to allocate massive new funds to the IMF, despite widespread concerns about the Fund's failure to prevent – or even predict – the crisis, as well as its long-time advocacy of financial deregulation. Geithner, who left a top post in the US Federal Reserve System to join the administration, was also a natural supporter of the decision to strengthen the club for G-20 central bankers, the Financial Stability Board, as the standard-setter for international financial regulations. The G-20 also offered Obama the opportunity to show a limited degree of support for multilateralism, without having to face antagonistic governments in the United Nations or other more inclusive forums.

These domestic pressures account, at least in part, for the Obama administration's mixed progress towards meeting even the modest commitments of the G-20.

Financial Reform

In June 2009, President Barack Obama announced a package of financial reforms that, as of this writing, are still pending in the US Congress. Like the G-20 commitments, the Obama proposals do not call for breaking up the »too big to fail« banks, banning the riskiest forms of derivatives or other similar far-reaching reforms. What they do call for is more or less in synch with some important G-20 priorities, such as strengthening consumer protection, increasing the transparency of some derivatives and developing resolution tools for systemically risky financial institutions. In other areas, however, the Obama administration has preferred to forge its own path. Financial sector taxation and executive compensation are two examples.

Financial Sector Taxation

In January 2010, as public outrage exploded over reports of massive new Wall Street bonuses, President Obama announced a plan for a levy on top banks.[4] Just a few months earlier, G-20 leaders had assigned the International Monetary Fund the task of studying various options for financial sector taxation. German Chancellor Angela Merkel was reportedly upset that Obama had jumped the gun and announced his own preferred option rath-

1. Available at: http://www.epi.org/publications/entry/jobs_picture_20100305/

2. Available at: http://www.bloomberg.com/apps/news?sid=aVYxPZ56vjys&pid=20601087

3. Available at: http://www.pewcenteronthestates.org/report_detail.aspx?id=56044

4. Available at: http://news.bbc.co.uk/2/hi/8458689.stm

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er than waiting for the G-20 as a whole to review the IMF report and develop a coordinated approach. She, along with the leaders of France, the UK and several other European countries, had been pushing for international coordination of financial transaction taxes (FTT), tiny levies on trades of stocks, derivatives, currency and other financial instruments, as a way to curb speculation and generate revenues for public investment.

Although the FTT and bank levy proposals are not mutually exclusive, in the months following Obama's announcement Merkel and several other leaders appeared to tone down their support for FTT (which the Obama administration has not endorsed) and announced their own plans for Obamaesque bank levies. Thus, by the time the IMF delivered a first draft of its financial sector taxation report to G-20 finance ministers in April 2010, many G-20 governments were already moving ahead with various versions of the bank levy. IMF Managing Director Dominique Strauss-Kahn expressed concern that, if national governments moved too quickly with unilateral reforms, they would undermine the chances of global coordination. Treasury Secretary Geithner countered by stating that the United States would set a good example by going ahead with a bank tax and he expected other nations would follow.[5]

Executive Compensation

In September 2009, the Financial Stability Board, which the G-20 had established only six months earlier, issued guidelines recommending that 40-60 percent of bonuses for financial executives be deferred and paid over a period of years, as a way of discouraging the »short-termism« that had contributed to the crisis.[6] The leaders' statement from the Pittsburgh G-20 summit »fully endorsed« the FSB's compensation standards. Within a month, however, the US Federal Reserve rejected the FSB's »formulaic approach«.[7] The Fed's own guidelines remain vague, while executive compensation provisions in the pending financial reform bills focus not on directly restricting pay but on increasing shareholder accountability and board independence.

5. Available at: http://online.wsj.com/article/SB10001424052748703709804575202562114524430.html?mod=WSJ_WSJ_US_World

6. Available at: http://www.financialstabilityboard.org/publications/r_090925c.pdf

7. Available at: http://edocket.access.gpo.gov/2009/pdf/E9-25766.pdf

Trade and Investment

G-20 leaders have repeatedly committed to expanding trade and investment liberalisation. For the US government, these declarations appear to be perfunctory. President Obama campaigned on a promise to change US trade policy to address widespread concerns that existing deals had elevated the interests of large corporations above those of workers, communities and the environment in the United States and around the world. While Obama has not officially abandoned the free trade agenda, he has not pushed Congress to approve bilateral trade pacts negotiated by the Bush administration nor invested significant political capital in the Doha round of the WTO. On investment, Obama announced plans to expedite talks with China over a bilateral investment treaty, but thus far there has been no sign of serious negotiations.

The Obama administration does have an intense interest in persuading China to revalue its currency, with the hope that this might help reduce the crushing US trade deficit. Since China's export juggernaut has affected several other G-20 countries, one might expect this to be an obvious matter for multilateral coordination. The G-20's Framework for Strong, Sustainable and Balanced Growth suggests as much by including a commitment to »undertake monetary policies consistent with price stability in the context of market oriented exchange rates that reflect underlying economic fundamentals«. However, in early 2010, the Chinese government warned that international pressure over currency manipulation would only backfire. As a result, G-20 finance ministers would not even confirm whether the issue was discussed at their April 2010 meeting.

Aid and Debt

While the United States still lags far behind the global goal of 0,7 percent of GNP devoted to development assistance, the President has requested significant foreign aid increases in each of his annual budgets, despite the difficult fiscal situation. These funds are still dwarfed, however, by the massive resources the G-20 has allocated to the IMF for new loans, which will add to developing country debt burdens. As a Senator, President Obama was a strong supporter of expanded debt cancellation, as an efficient means of helping the poorest countries achieve the Millennium Development

Goals. Since taking office, however, he has not yet made this a high priority.

Sustainable Energy

Environmentalists were encouraged when President Obama reportedly played a leadership role in persuading the G-20 leaders to commit to phasing out fossil fuel subsidies in their September 2009 statement. Thus far, however, Obama has not had much success in persuading his own Congress. His proposed 2011 budget would eliminate several fossil fuel subsidies, but lawmakers rejected similar cuts last year. Moreover, the US Executive Director to the World Bank undercut these efforts in April 2010 when he declined to oppose a 3.75 billion US dollar loan to South Africa for a giant coal-fired power plant. The US Export-Import Bank has also continued to finance fossil fuel projects.[8]

3. The United States' stance on the role of the G-20

The global crisis has created major opportunities to transform a failed international financial system. The government of the United States, the epicentre of the crisis, has a major responsibility to lead these efforts. Thus far, however, the Obama administration has used the G-20 to advance only modest reforms, without fundamentally challenging the rules and institutions that failed to protect the world from disaster. Nearly two years into the crisis, the »too big to fail« US banks are even bigger. The IMF, once weakened by its poor track record in crisis prevention and mitigation, is now more powerful than ever. The international financial regulatory framework is still full of holes. Thus, in the next phases of the G-20 process, the Obama administration and its partners will have a great deal to do to build the international financial architecture needed to support stable, sustainable development.

8. Available at: http://priceofoil.org/2009/09/16/money-for-nothing-and-your-climate-for-free/

Appendix

United Nations A/64/706

General Assembly

Distr.: General
11 March 2010

Original: English

Sixty-fourth session
Agenda item 51 (b)
Macroeconomic policy questions: International financial system and development

Letter dated 11 March 2010 from the Permanent Representative of Singapore to the United Nations addressed to the Secretary-General

I have the honour to transmit to you on behalf of the informal Global Governance Group (3G), comprising the following States Members of the United Nations: the Commonwealth of the Bahamas, the Kingdom of Bahrain, Barbados, Botswana, Brunei Darussalam, Chile, Costa Rica, Guatemala, Jamaica, the Principality of Liechtenstein, Malaysia, the Principality of Monaco, New Zealand, Panama, the Republic of the Philippines, the State of Qatar, the Republic of Rwanda, the Republic of San Marino, the Republic of Senegal, the Republic of Singapore, Switzerland, the United Arab Emirates and Uruguay, a document entitled, "Strengthening the Framework for G-20 Engagement of Non-Members" (see annex).

On behalf of the 3G, I would be grateful if you could circulate the present letter and its annex as a document of the General Assembly.

(*Signed*) Vanu Gopala **Menon**
Ambassador and Permanent Representative

10-26893 (E) 150310

Annex to the letter dated 11 March 2010 from the Permanent Representative of Singapore to the United Nations addressed to the Secretary-General

Strengthening the Framework for G-20 Engagement of Non-members

1. The global economic crisis has underscored the need for more effective global governance mechanisms for economic policy coordination. The G-20 represents a significant step in that regard. The G-20 process and the swift, decisive actions that it brought about helped to avert a global economic depression in the last year. For the G-20's deliberations to be translated into effective actions on a global scale, they will need to be more consultative, inclusive and transparent. This will require the development of appropriate mechanisms to engage and consult a wider range of countries.

2. In this regard, the informal Global Governance Group (3G)[1] would like to propose the following approach for strengthening the framework of engagement between the G-20 and non-G-20 members:

- The United Nations is the only global body with universal participation and unquestioned legitimacy. The G-20 process should recognize and reflect this reality. The G-20 process and its actions and decisions should complement and strengthen the United Nations.
- It is important that the G-20 engages with the United Nations and its Member States through predictable and regular channels, including consultations with the wider membership before G-20 Summits. This will allow all States, especially smaller States, which constitute the majority of United Nations Members, to raise issues of concern to them and have their voices heard. In addition, the hosts of the G-20 Summits should provide the rest of the United Nations membership with an update after the meetings.
- The participation of the United Nations Secretary-General and the United Nations Sherpa at G-20 Summits and preparatory meetings, respectively, should be formalized. While the Secretary-General cannot represent our individual national positions, he is nevertheless in a position to convey the broad sense of the membership.
- There should be sufficient flexibility in the G-20 process to provide for the participation of non-G-20 members in discussions on specialized issues. It could take on a "variable geometry" configuration to allow non-G-20 States to participate in Ministerial gatherings and other working groups involving senior officials/experts on issues of specific concern to them. Variable geometry has been practised in many multilateral settings and the 3G subscribes to it in its approach.

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[1] Commonwealth of the Bahamas, Kingdom of Bahrain, Barbados, Botswana, Brunei Darussalam, Chile, Costa Rica, Guatemala, Jamaica, Principality of Liechtenstein, Malaysia, Principality of Monaco, New Zealand, Panama, Republic of the Philippines, State of Qatar, Republic of Rwanda, Republic of San Marino, Republic of Senegal, Republic of Singapore, Switzerland, United Arab Emirates and Uruguay.

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- While we applaud the inclusion of some regional organizations (e.g., APEC, ASEAN, AU Commission, EU, NEPAD) in the last two G-20 Summits, the participation of these and other established regional organizations in future G-20 Summits should be regularized. These regional organizations should fully participate in the G-20 and its associated processes.

3. The 3G believes that the above approach would bring greater transparency and inclusivity to the G-20 process, which in turn would strengthen the process and build wider support for G-20 actions.

Imprint

Friedrich-Ebert-Stiftung

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ISBN 978-3-86872-358-8