



The G-20 and International Economic Cooperation: Background and Implications for Congress

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Summary

Governments discuss and coordinate economic policies using a mix of formal institutions, such as the World Trade Organization (WTO) and International Monetary Fund (IMF), and more informal economic forums, like the Group of Seven, or G-7, and the Group of 20, or G-20. This report focuses on informal economic forums, and, specifically, the role of the G-20 in coordinating governments' responses to the current economic crisis. The members of the G-7 are Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States. The G-20 includes the G-7 members plus Argentina, Australia, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, and the European Union (EU).

Since the mid-1970s, leaders from the G-7, a small group of developed countries, have gathered annually to discuss and coordinate financial and economic policies. Large emerging-market economies such as China started to have more sway in financial markets in the 1990s, and the Asian Financial Crisis in 1997-1998 showed that emerging markets were too important to exclude from international economic discussions. The G-20 was formed in 1999 as an opportunity for finance ministers and central bank governors from both developed and emerging-market countries to discuss financial issues. The G-20 remained a less prominent forum than the G-7, as it involved meetings among finance ministers while the G-7 sessions also involved summit meetings among heads of governments or heads of state.

With the onset of the current financial crisis, the G-7 leaders decided to convene the G-20 leaders for a meeting, or "summit," to discuss and coordinate policy responses to the crisis. To date, the G-20 leaders have held three summits to coordinate policy responses to the crisis: November 2008 in Washington, DC; April 2009 in London; and September 2009 in Pittsburgh. At the Pittsburgh summit, the G-20 leaders announced that the G-20 would henceforth be the premier forum for international economic coordination, supplanting the G-7's role as such.

The G-20 leaders have made commitments on a variety of issue areas. Implementation of some of these commitments by the United States would require legislation. Issues that are likely to influence future policy debates and/or the legislative agenda include: financial regulatory reform, a new international framework to monitor and coordinate economic policies, voting reform at the IMF and World Bank, increased funding of multilateral development banks (MDBs), elimination of fossil fuel subsidies, concluding a new international agreement to reduce greenhouse gas emissions, concluding the WTO Doha multilateral trade negotiations, and meeting previous commitments on foreign aid.

The shift from the G-7 to the G-20 as the premier forum for international economic coordination may raise issues for international economic coordination in the future. Some suggest the shift will foster cooperation, by increasing the legitimacy of the decisions reached and including countries that are big players in the global economy. Others argue that the shift will hinder efforts at cooperation, because such a large, heterogeneous group of countries will have trouble reaching agreements on key issues. Some say the G-20 meetings should be even larger and more comprehensive, to include poor and small nations in their deliberations. Others say that the existing G-20 is already sufficiently diverse and increasing the size would make it too cumbersome and less effective.

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Introduction

The Group of Twenty, or G-20, is a forum for advancing international economic cooperation among developed and emerging-market countries.¹ Since the G-20 was established in 1999, the G-20 finance ministers and central bank governors have met annually to discuss economic and financial issues. In the wake of the current global financial crisis, the leaders of the developed countries decided to convene the G-20 heads of government or heads of state for a meeting, or “summit,” to discuss and coordinate policy responses to the crisis.² The summit, held in Washington, DC in November 2008, was the first time this particular group of leaders had gathered to coordinate economic policies. For the past 30 years, economic discussions among advanced economies at the leader level occurred among the Group of Seven (G-7) nations, a much smaller group of developed countries as shown in **Figure 1**.³

The G-20 leaders convened for two additional summits, in London in April 2009 and in Pittsburgh in September 2009, to continue discussions on policy responses to the crisis. In each of the three G-20 summits, the G-20 leaders made several policy commitments, and the depth and scope of these commitments have increased over time. In Washington, DC, the commitments were focused on short- and medium-term responses to the crisis, including regulatory reform, expansionary macroeconomic policies, and commitments to free trade. In London, the G-20 leaders reached more substantial agreements on crisis management, including increasing the resources of the International Monetary Fund (IMF) and multilateral development banks (MDBs) by \$1.1 trillion. At the Pittsburgh summit, the G-20 pledged commitments on a diverse set of issue areas, including changes in the relative voting power of member countries at the IMF and World Bank, creating a new framework to correct global imbalances, taking new steps to address food security issues, and eliminating fossil fuel subsidies.

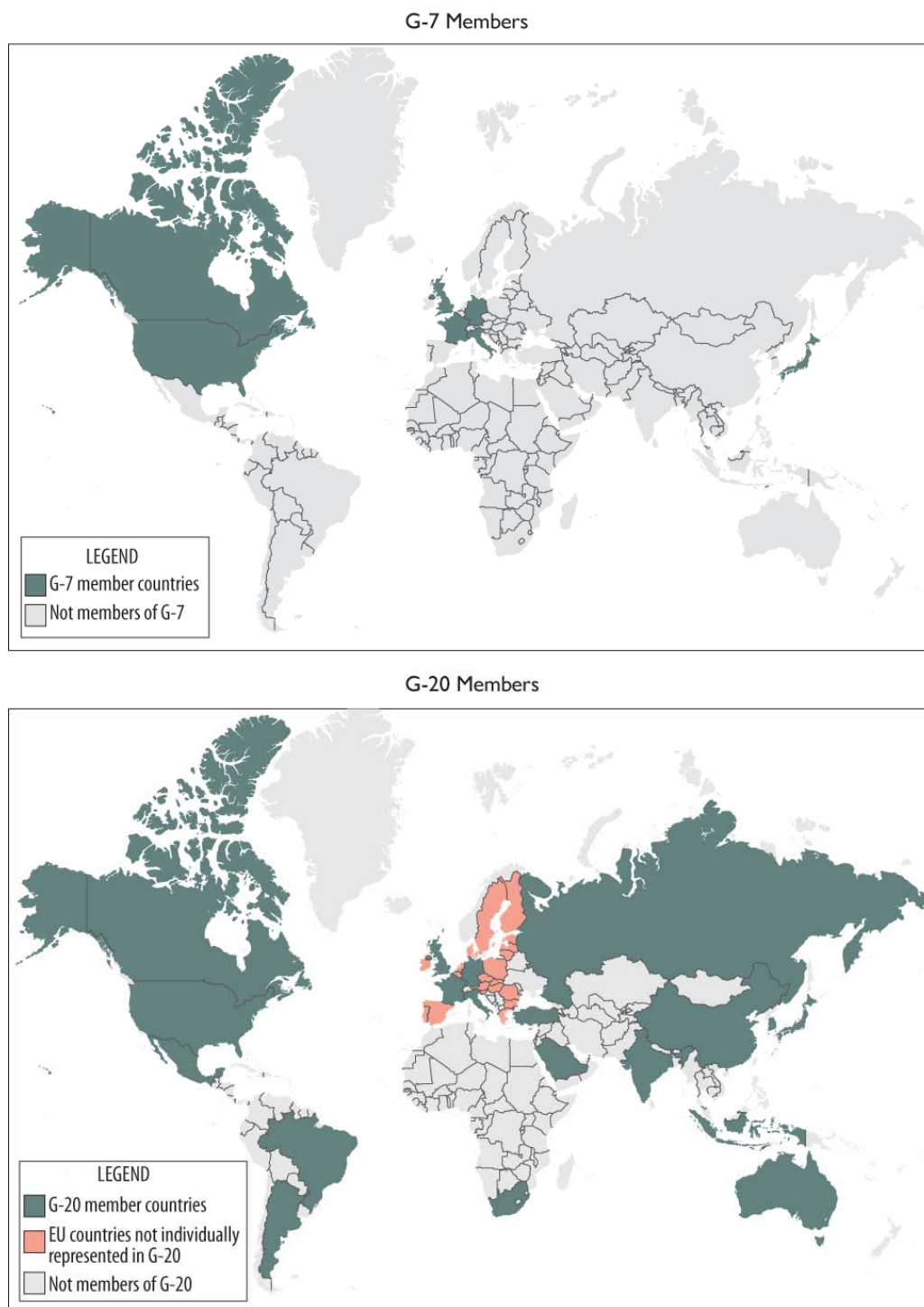
Additionally, the G-20 leaders announced at the Pittsburgh summit that, henceforth, the G-20 would be the premier forum for international economic cooperation, displacing the G-7’s long-standing status as the primary forum for coordinating international economic policies. G-20 discussions are not to cover international relations and foreign policy issues, though this may change in future years. For these issues, the Group of Eight, or G-8 (the G-7 members plus Russia) will likely continue to be the principal forum, though more consultation with other countries is also likely. The transition from the G-7 to the G-20 for economic issues may have a substantial impact on international economic coordination in the future. Some argue that the transition will foster greater cooperation, while others contend these goals could be hindered.

¹ The G-20 includes Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, United Kingdom, and the United States, as well as the European Union (EU). Spain and the Netherlands have also been invited to participate as observers. The G-20’s website is <http://www.g20.org>. The University of Toronto G-20 Research Group is also a good source of information; their website is <http://www.g20.utoronto.ca/>. The G-20 discussed in this report should not be confused with the coalition of developing countries in the World Trade Organization (WTO) formed in 2003, also referred to as the G-20.

² For more on the current global financial crisis, see: CRS Report RL34742, *The Global Financial Crisis: Analysis and Policy Implications*, coordinated by Dick K. Nanto.

³ The G-7 includes Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States. Russia has joined the G-7 meetings at the leader level (summits) as a full participant since 1998, forming the Group of Eight (G-8). With a smaller economy than the G-7 members, Russia does not usually participate in international economic discussions, however, which continued primarily at the G-7 level. For example, Russia is not included in the G-7 meetings at the finance minister level.

Figure I. Expansion of the G-7 to the G-20



Source: G-20 website, <http://www.g20.org>

Notes: The European Union (EU) is a member of the G-20. Pink (for color copies) or medium gray (for black-and-white copies) indicate members of the European Union (EU) that are not individually represented in the G-20.

Congressional interest in the G-20 is, at the least, two-fold. First, implementing many of the commitments made by the Administration at the G-20 summits to date would require reform of U.S. laws and regulations. As a consequence, the agreements reached by the G-20 leaders may influence policy debates and the legislative agenda. Second, the transition from the G-7 to the G-20 may impact U.S. coordination with other countries on international economic issues in the future. To provide oversight of U.S. participation in international economic forums, it is important to highlight the issues raised by the shift from the G-7 to the G-20.

This report addresses the following key issues:

- Context on the emergence of the G-20 as the premier forum for international economic coordination;
- Background on how the G-20 operates, including where and when the G-20 meets and how the G-20 reaches decisions;
- An overview of the three G-20 summits and analysis of how they have evolved;
- Major G-20 commitments that are likely to shape the policy agenda moving forward; and
- Broader issues raised by the shift from the G-7 to the G-20.

The Rise of the G-20 as the Premier Forum for International Economic Cooperation

Economic Coordination in Formal Institutions and Informal Forums

Since World War II, governments have created and used formal international institutions and more informal forums to discuss economic policies. As economic integration has increased over the past 30 years, however, international economic policy coordination has become even more active and significant. Globalization may bring economic benefits, but it also means that a country's economy is increasingly affected by the economic policy decisions of other governments. These effects are not always positive. For example, a country's exports may decline should another country devalue its currency or restrict imports to attempt to reverse a trade deficit or protect domestic industries. Instead of countries unilaterally implementing these "beggar-thy-neighbor" policies, some say they may be better off coordinating to refrain from such negative outcomes. Another reason countries may want to coordinate policies is that some economic policies, like fiscal stimulus, are more effective in open economies when countries implement them together.

Governments use a mix of formal international institutions and international economic forums to coordinate economic policies. Formal institutions, such as the International Monetary Fund (IMF), the Organization for Economic Co-operation and Development (OECD), the World Bank, and the World Trade Organization (WTO), are typically formed by an official international agreement and have a permanent office with staff performing ongoing tasks. Governments have also relied on more informal forums for economic discussions, such as the G-7 and the Paris

Club.⁴ These economic forums do not have formal rules or a permanent staff. This report focuses on informal forums, particularly the G-20.⁵

1970s – 1990s: Developed Countries Dominate Financial Discussions

Prior to the current global financial crisis, international economic discussions at the top leadership level primarily took place among a small group of developed industrialized countries. Beginning in the mid-1970s, leaders from a group of five developed countries—France, Germany, Japan, the United Kingdom, and the United States—began to meet annually to discuss international economic challenges, including the oil shocks and the collapse of the Bretton Woods system of fixed exchange rates. This group, called the Group of Five, or G-5, was broadened to include Canada and Italy, and the Group of Seven, or G-7, formally superseded the G-5 in the mid-1980s. In 1998, Russia also joined, creating the G-8.⁶ Russia does not usually participate in discussions on international economic policy, which continued to occur mainly at the G-7 level. Meetings among finance ministers and central bank governors typically precede the summit meetings.

Macroeconomic policies discussed in the G-7 context include exchange rates, balance of payments, globalization, trade, and economic relations with developing countries. One of the most significant agreements reached by the G-7 was at the first summit in Rambouillet, France, in 1975. The G-7 leaders agreed to a new monetary system to replace the system of fixed exchange rates that unraveled in the early 1970s and set the stage for amending the IMF Articles of Agreement to allow floating exchange rates.⁷ Examples of other significant agreements reached by the G-7 are the Plaza Agreement in 1985 and the Louvre Accord in 1987. The Plaza Agreement aimed to depreciate the U.S. dollar in relation to German Deutsche mark and the Japanese yen, and the Louvre Accord aimed to halt the continued decline of the U.S. dollar. Over time, the G-7's and, subsequently the G-8's, focus on macroeconomic policy coordination expanded to include a variety of other global and transnational issues, such as the environment, crime, drugs, AIDS, and terrorism.

1990s – 2008: Emerging Markets Gain Greater Influence

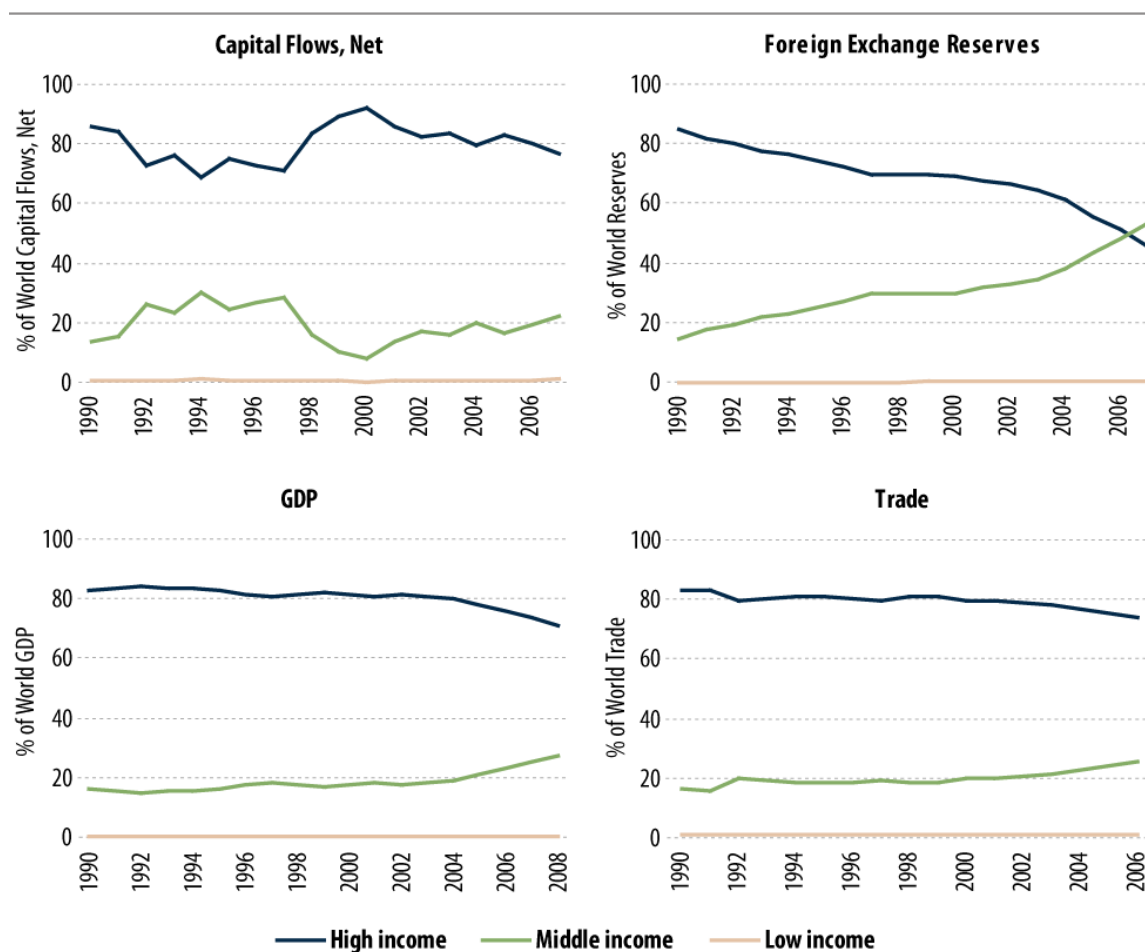
Expanding the G-7 to the G-20 is a significant shift in how international economic coordination has been organized for the past three decades. At the same time, the impetus for this shift has been building as emerging-market countries have become more active in the international economy.

⁴ The Paris Club is an informal group of developed countries. The group provides financial services such as debt restructuring and debt relief to indebted developing countries.

⁵ For more information about formal international institutions, see, for example: CRS Report R40578, *The Global Financial Crisis: Increasing IMF Resources and the Role of Congress*, by Jonathan E. Sanford and Martin A. Weiss and CRS Report RL32060, *World Trade Organization Negotiations: The Doha Development Agenda*, by Ian F. Fergusson.

⁶ While the EU is not an official member of the G-7 or G-8, the EU has participated in meetings since 1977. The EU is represented by the president of the European Commission and the president of the European Council. The EU does not hold leadership positions within the G-8 or host summits.

⁷ Nicholas Bayne, "Reforming the International Financial Architecture: The G7 Summit's Successes and Shortcomings," July 2001, <http://www.g8.utoronto.ca/conferences/2001/rome/bayneRev.pdf>.

Figure 2. Increasing Role of Emerging-Market Countries in the International Economy

Source: World Bank World Development Indicators. Capital includes portfolio investment and foreign direct investment.

Consider **Figure 2**, which examines the proportion of world capital flows (net), foreign exchange reserves, GDP, and trade held by high-, middle-, and low-income countries. In the early 1990s, middle income countries (roughly equivalent to emerging-market countries) started receiving a much larger proportion of the world's capital flows, including portfolio investment and foreign direct investment. Their share dropped during the Asian financial crisis in the late 1990s, but has slowly been rising since 2000. Likewise, middle-income countries' share of world foreign exchange reserves has been steadily on the rise since the 1990s. In recent years, the reserve holdings of middle-income countries has become larger than the reserve holdings of high-income countries. Middle-income countries' share of world GDP and world trade was largely stagnant in the 1990s but has started to increase over the past decade.

Although middle-income countries, or emerging-market countries, have become more active in the international economy, particularly in financial markets starting in 1990, this was not reflected in the international financial architecture until the Asian financial crisis in 1997-1998. The Asian financial crisis in 1997-1998 demonstrated that problems in the financial markets of emerging-market countries can have serious spillover effects on financial markets in developed countries,

making emerging markets too important to exclude from discussions on economic and financial issues. The Group of 22, or G-22, was established as a temporary forum for finance ministers and central bank governors from both advanced industrialized and emerging-market countries to discuss the Asian Financial Crisis.⁸ The G-22 met twice in 1998, and was superseded by the Group of 33, or G-33, to discuss international financial stability and the international financial stability forum.⁹ The G-33 was also a temporary forum that met twice in 1999.

Including emerging-market countries in economic discussions proved to be fruitful, and the G-20 was established in late 1999 as a permanent international economic forum for developed and emerging-market countries. However, the G-20 was a secondary forum to the G-7 and G-8; the G-20 convened finance ministers and central bank governors, while the G-8 also convened leaders in addition to finance ministers.

Emerging markets were also granted more sway in international economic discussions when the G-8 partly opened its door to them in 2005.¹⁰ The United Kingdom's Prime Minister Tony Blair invited five emerging economies—China, Brazil, India, Mexico, and South Africa—to participate in its discussions but not as full participants (the “G-8 +5”). The presence of emerging-market countries gave them some input in the meetings but they were clearly not treated as full G-8 members. Brazil's finance minister is reported to have complained that developing nations were invited to G-8 meetings “only to take part in the coffee breaks.”¹¹

2008 – Present: Emerging Markets Get a Seat at the Table

It is only with the outbreak of the current financial crisis in fall 2008 that emerging markets have been invited as full participants to international economic discussions at the highest level. There are different explanations for why the shift from the G-7 to the G-20 occurred. Some emphasize a recognition by the leaders of developed countries that emerging markets have become sizable players in the international economy and are simply “too important to bar from the room.”¹²

Others suggest that the transition from the G-7 to the G-20 was driven by the negotiating strategies of European and U.S. leaders. It is reported that that France's president, Nicolas Sarkozy, and Britain's prime minister, Gordon Brown, pushed for a G-20 summit, rather than a G-8 summit, to discuss the economic crisis in order to dilute perceived U.S. dominance over the forum, as well as to “show up America and strut their stuff on the international stage.”¹³ Likewise, it is reported that President George W. Bush also preferred a G-20 summit in order to

⁸ The members of the G-22 are the G-8 members plus Argentina, Australia, Brazil, China, Hong Kong, India, Indonesia, Malaysia, Mexico, Poland, Singapore, South Africa, South Korea, and Thailand.

⁹ The members of the G-33 are the G-8 members plus Argentina, Australia, Belgium, Brazil, Chile, China, Côte d'Ivoire, Egypt, Hong Kong, India, Indonesia, South Korea, Malaysia, Mexico, Morocco, the Netherlands, Poland, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Thailand, and Turkey.

¹⁰ Emerging markets had been sporadically invited to a few G-8 summit dinners and events as early as 1989, but their participation was very minor compared to 2005 onwards. See Peter I. Hajnal, *The G8 System and the G20* (Ashgate, 2007), pp. 47-49.

¹¹ Jonathan Wheatley, “G20 Calls for Expanded Role to Combat Economic Turmoil,” *Financial Times*, November 10, 2009.

¹² “After the Fall,” *The Economist*, November 15, 2009.

¹³ “Not a Bad Weekend's Work,” *The Economist*, November 16, 2008.

balance the strong European presence in the G-8 meetings.¹⁴ Some attribute the G-20's staying power to the political difficulties of reverting back to the G-7 after having convened the G-20.

How the G-20 Operates

Frequency of Meetings

The G-8 and G-20 heads-of-state meetings, or summits, are the focal points of the G-8 and G-20 discussions and where the forums' key decisions are announced. However, various lower-level officials meet frequently before the summits to begin negotiations and after the summits to discuss the logistical and technical details of implementing the agreements announced at the summits.

Prior to the current global financial crisis, the G-20 finance ministers and central bank governors have met once a year since the G-20 was established in 1999. The annual meeting of G-20 finance ministers and central bank governors has been preceded by extensive preparation to provide them with up-to-date analysis and insights and to better inform their consideration of policy challenges and options. This includes two deputies meetings each year as well as extensive technical work, including an array of workshops, reports, and case studies on specific subjects.

As economic discussions at the leader level transition from the G-7 to the G-20, it is expected that the G-20 schedule will mimic the G-7's schedule in the past. The G-7 leaders, and Russia, have met annually, and the G-7 finance ministers and central bank governors have met at least semi-annually, and as frequently as four times a year, to monitor developments in the world economy and assess economic policies. The G-20 leaders are scheduled to meet twice in 2010, June 2010 in Canada and November 2010 in South Korea. Starting in 2011, the G-20 expects to hold summits on an annual basis.

At various points in time, usually at the request of the G-8 leaders, the G-7 or G-8 ministers of development, education, employment and labor, energy, ministers, global information and society, health, justice, science, and trade have also occasionally convened to discuss pertinent issues. The G-20 has already, for example, called on the G-20 employment and labor ministers to meet in 2010 to discuss the problem of unemployment.

In addition to the summits and various ministerial meetings, there are also meetings among the leaders' personal representatives, known as "sherpas."¹⁵ Sherpas meet several times a year to prepare for the forthcoming summit, attend the formal summit meetings with the leaders, and hold several follow-up meetings. The sherpa team for each country typically includes a lead sherpa and two "sous-sherpas": a finance sous-sherpa and a foreign affairs sous-sherpa.¹⁶ The

¹⁴ Ibid.

¹⁵ The term "sherpa" is a play on words. Typically, sherpas refer to local people, typically men, in Nepal who are employed as guides for mountaineering expeditions in the Himalayas. Recall that meetings held among leaders are called "summits," which also refers to the highest point of a mountain.

¹⁶ The term "sous-sherpa" is also a play on words, referencing the French term "sous-chef" for under-chef or an assistant to a master chef.

foreign affairs sous-sherpa covers issues outside the purview of finance, such as trade and the environment.

Finally, a variety of task forces, working groups, and expert groups have been established by the G-8 leaders or G-7 finance ministers over the years as well to support the work of the G-8 and the G-7. Examples include the Financial Action Task Force (FATF), the Financial Stability Forum (FSF), the Counter-Terrorism Action Group, and the Global Fund to Fight AIDS, Tuberculosis, and Malaria, and the G-8 Renewable Energy Task Force.

U.S. Representation

Because the G-20 began as a forum for finance ministers and central bank governors, the Treasury Department and the Federal Reserve have traditionally been the primary U.S. agencies involved in the G-20 meetings. As the G-20 has replaced the G-7 on finance issues, the Treasury Department has taken the lead on the G-20 meetings. However, the Treasury Department works closely with other agencies throughout the G-20 process. In addition to the Federal Reserve, the Treasury Department also coordinates with the State Department, the U.S. Agency for International Development, and, increasingly, the Department of Energy to coordinate G-20 issues. The White House, particularly through the National Security Council and the U.S. Trade Representative, is also heavily involved in the G-20 planning process.

The U.S. sherpa for the G-20 is the Deputy National Security Advisor for International Economic Affairs, a position currently held by Mike Froman. The U.S. sous-sherpa for finance issues is the Under Secretary of International Affairs at the Treasury Department, who also represents the U.S. at G-20 meetings at the level of deputy finance minister. Lael Brainard has been designated for this position subject to confirmation by the Senate. The Senate Finance Committee held her confirmation hearing in November 2009 and while a vote on her confirmation has not yet been scheduled, it is anticipated that it will occur soon. Finally, the U.S. sous-sherpa for foreign affairs issues is the Under Secretary for Economic, Energy, and Agricultural Affairs at the State Department. Robert D. Hormats currently holds this position.

Location of Meetings and Attendees

Unlike formal international institutions, such as the United Nations and the World Bank, the G-20 does not have a permanent headquarters or staff. Instead, each year, a G-20 member country serves as the chair of the G-20. The chair hosts the highest level meetings, which before the crisis was among finance ministers but moving forward will be the leaders' summit meetings. The chair also establishes a temporary office that is responsible for the group's secretarial, clerical, and administrative affairs, known as the temporary "secretariat." The secretariat also coordinates the G-20's various meetings for the duration of its term as chair and typically posts details of the G-20's meetings and work program on the G-20's website.¹⁷

The chair rotates among members and is selected from a different region each year. Table 1 lists the previous and current chairs of the G-20, as well as the member country slotted to chair in 2010 (South Korea) and 2011 (France). The United States has never officially chaired the G-20, although the United States has hosted two of the three G-20 summits held to date.

¹⁷ <http://www.g20.org>

Table I. Chairs of the G-20, 1999-2011

Year	Country
1999-2001	Canada
2002	India
2003	Mexico
2004	Germany
2005	China
2006	Australia
2007	South Africa
2008	Brazil
2009	United Kingdom
2010	South Korea
2011	France

Source: G-20 website, <http://www.g20.org>.

In addition to the G-20 members, Spain and the Netherlands have also attended, as observers, the three G-20 summits to date. Several regional organizations and international organizations have also attended the G-20 summits. For example, official participants at the London summit included the leaders of the G-20 member countries as well as representatives from the following organizations:

- the European Commission
- the European Council
- the Association of Southeast Asian Nations (ASEAN)
- the Financial Stability Board (FSB, formerly the Financial Stability Forum, FSF)
- the International Monetary Fund (IMF)
- the New Partnership for Africa's Development (NEPAD)
- the United Nations
- the World Bank
- the World Trade Organization¹⁸

Agreements

All agreements, comments, recommendations, and policy reforms reached by the G-20 finance ministers and central bankers, as well as by G-20 leaders, are done so by consensus. There is no formal voting system as in some formal international economic institutions, like the IMF. Participation in the G-20 meetings is restricted to members and not open to the public. After each

¹⁸ Jenilee Guebert, *Plans for the Third G20 Summit: Pittsburgh 2009*, G20 Research Group, University of Toronto, August 18, 2009, pp. 44-45, <http://www.g20.utoronto.ca/g20plans/g20leaders090818.pdf>.

meeting, however, the G-20 publishes online the agreements reached among members, typically as communiqués or declarations.¹⁹ The G-20 does not have a way to enforce implementation of the agreements reached by the G-20 at the national level; the G-20 has no formal enforcement mechanism and the commitments are non-binding. This contrasts with, for example, the World Trade Organization (WTO), which does have formal enforcement mechanisms in place.²⁰ However, according to the participants, each G-20 meeting reviews the agreements and commitments reached at prior meetings.

Overview of the G-20 Summits

The G-20 has been at the forefront of coordinating responses to the economic crisis. As mentioned previously, the G-20 has held three summits since the onset of the financial crisis: Washington, DC in November 2008, London in April 2009, and Pittsburgh in September 2009. These summits are generally preceded by meetings of finance ministers and other chief economic officials. The G-20 has two summits scheduled for 2010: Canada in June 2010 and South Korea in November 2010. Starting in 2011, the G-20 leaders are expected to convene on an annual basis, though meetings at a financial minister level are likely to occur more often.

After each summit, the G-20 leaders issue a declaration or communiqué detailing the agreements reached among the members.²¹ The types of agreements reached at the G-20 summits have evolved as the crisis has transitioned from economic free-fall to signs of recovery and as the G-20 has solidified as a forum for international economic cooperation at the leader level. With each subsequent summit, the G-20's commitments have become more specific, extended over longer time horizons, covered more issue areas, and emphasized greater participation of emerging-market countries in the international financial architecture.

Washington, DC, November 2008

The Washington, DC summit focused on immediate crisis management. The G-20 pledged to pursue extensive regulatory reforms, including the creation of new international regulatory standards and national level reforms. The G-20 also pledged to use expansionary macroeconomic policies, both fiscal and monetary, to stimulate aggregate demand and encourage economic growth, or at least keep things from getting worse. Finally, the G-20 committed to refrain from protectionist trade policies.

London, April 2009

The London summit occurred several months after the Washington, DC summit, but the G-20 leaders were still in crisis management mode. The G-20 leaders reiterated many of the commitments from the Washington, DC summit and also reached agreement on more specific and far-reaching policy responses to the crisis. One of the biggest commitments from the London summit was the pledge to increase funding for the IMF and the MDBs by \$1.1 trillion, including

¹⁹ <http://www.g20.org>

²⁰ E.g., see: CRS Report RS20088, *Dispute Settlement in the World Trade Organization (WTO): An Overview*, by Jeanne J. Grimmett.

²¹ The G-20 communiqués are posted online at http://www.g20.org/pub_communiques.aspx.

a tripling of the IMF's lending capacity.²² The G-20 leaders also pledged \$5 trillion in fiscal stimulus spending over the next two years and to create the Financial Stability Board (FSB) as the successor to the Financial Stability Forum (FSF) to coordinate and monitor progress on regulatory reforms. The G-20 also emphasized their commitment to concluding the World Trade Organization (WTO) Doha Round of multilateral trade negotiations, which have stalled since 2001, and honoring their foreign aid commitments. Reforming the international financial institutions (IFIs) to increase the representation of emerging-market countries was discussed, but no real specific commitments were put forth.

Pittsburgh, September 2009

The Pittsburgh summit occurred as the global recession was bottoming out, although unemployment was generally still rising in developed countries. The tone of the Pittsburgh communiqué reflects a sense of accomplishment with the G-20's response to address the crisis, while recognizing more work was needed. The G-20 leaders announced the creation of a new framework to coordinate and monitor national economic policies in order to correct the current global imbalances and prevent such imbalances from occurring in the future. The G-20 also announced more specific plans to increase the representation of emerging-market countries at the IMF and World Bank, as well as specific commitments on a host of new policy areas, including economic development and the environment.

Protests at G-20 Summits

Each of the three G-20 summits have attracted protesters. The protesters tend to come from a mix of broad movements, including environmentalists, trade unions, socialist organizations, faith-based groups, anti-war camps, and anarchists.²³ At the Pittsburgh summit, for example, thousands of protestors gathered in the streets, holding signs with slogans such as "We Say No To Corporate Greed" and "G20=Death By Capitalism."²⁴ The protests have primarily been peaceful, although at times tensions between the police and protesters have escalated. In Pittsburgh, protestors began throwing rocks,²⁵ police used pepper gas against a group of students,²⁶ and several protestors were arrested.²⁷

²² For more on the \$1.1 trillion package to increase IFI and MDB resources, and the requisite congressional authorizations, see: CRS Report R40578, *The Global Financial Crisis: Increasing IMF Resources and the Role of Congress*, by Jonathan E. Sanford and Martin A. Weiss.

²³ Carl Prine, "An Overview of Protests Expected in Pittsburgh for G-20," *Pittsburgh Tribune-Review*, September 20, 2009.

²⁴ Michelle Nichols, "Protesters, Police Clash After G20 in Pittsburgh," *Reuters*, September 25, 2009.

²⁵ Daniel Lovering and Michael Rubinkam, "G-20 March Turns Chaotic as Police, Protesters Clash on Streets of Pittsburgh," *AP Newswire (Government Feed)*, September 24, 2009.

²⁶ Michelle Nichols, "Protesters, Police Clash After G20 in Pittsburgh," *Reuters*, September 25, 2009.

²⁷ Dennis B. Roddy and Michael A. Fuoco, "Protests Lead to 19 Arrests Across City," *Pittsburgh Post-Gazette*, September 25, 2009.

Issues on the Horizon

The major G-20 commitments that are likely to influence the policy agenda in the near future are described and analyzed in greater detail below.

Regulatory Reform

Some argue that a major cause of the current global financial crisis was the failure of policymakers to adequately regulate financial markets both domestically and globally. Consequently, proposals for regulatory reform have been central components of each of the three G-20 summits to date. The proposals have generally emphasized the need for new international regulatory standards and the implementation of regulatory reforms at the national level. Examples of the reforms proposed include:

- Creating new global accounting standards,
- Expanding the transparency of complex financial instruments,
- Strengthening and harmonizing capital standards,
- Reassessing banker compensation,
- Regulating all systemically important financial institutions,
- Regulating credit rating agencies, and
- Fighting illicit financial activity.

At the G-20 summit held in Pittsburgh, the G-20 leaders announced several deadlines for some key regulatory reforms. These include:

- Developing new standards for bank capital by end-2010,
- Implementing new capital standards by end-2012,
- Strengthened regulation of over-the-counter derivatives markets by end-2012,
- Addressing cross-border resolutions and systemically important financial institutions by end-2010,
- Converging on new global accounting standards by June 2011,
- Implementing countermeasures against tax havens from March 2010, and
- Initiating a peer review process of non-cooperative jurisdictions (NCJs) by February 2010.

As noted earlier, the G-20 leaders also announced the creation of the FSB as a successor to the FSF. The FSF was founded in 1999, the wake of the Asian financial crisis, to promote international financial stability. The new FSB has a larger membership, including the major emerging-market countries, and a stronger mandate to coordinate and monitor progress in strengthening financial regulation. Secretary of Treasury Tim Geithner considers that, in effect,

the FSB will be the fourth pillar in the architecture of international cooperation along with the IMF, the World Bank, and the WTO.²⁸

The FSB is currently undertaking a project to compare national implementation of regulatory reforms and identify cross-country differences and any need for policy actions to address them. As the FSB itself acknowledges, the FSB can develop coherent policy proposals and monitor progress on implementation, but “only national authorities can assure implementation that is effective and consistent across borders.”²⁹ In the FSB’s analysis to date, the FSB finds that while regulatory reforms are well underway, they are far from complete.³⁰ Given the G-20’s commitments on regulatory reform in the Pittsburgh summit and the FSB’s project to assess the status of national implementation of regulatory reforms, regulatory reform is likely to be a key issue moving ahead and major legislation has been introduced by key committees.

A New Framework to Coordinate and Monitor Economic Policies

Some believe that the United States’ external deficit and China’s external surplus contributed to an unstable imbalance in the world financial system. In order to correct this imbalance, and promote compatible national economic policies in the future, the G-20 announced a new “Framework for Strong, Sustainable and Balanced Growth.”³¹ The Framework would operate in three stages. First, the G-20 members would agree on shared policy objectives, updated as economic conditions evolve. Second, each G-20 member would agree to establish national, medium-term policy frameworks, and the G-20 members would work in conjunction with the IMF to assess the collective implications of national policy frameworks for global growth and financial stability. Third, the G-20 members would, based on the results of the peer review process, consider and agree to actions that are necessary to meet the common objectives.

If the peer review process, or “cooperative process of mutual assessment,” reveals policies that are not consistent with the G-20’s shared policy objectives, the only mechanism currently available for inducing policy change is the threat of “naming and shaming.” This has worked to some extent for the G-7 economic process, but it has worked less well in international organizations. Some question, then, whether the new G-20 Framework will be different than IMF surveillance.³² The IMF has the responsibility to monitor the international monetary system and the economic and financial policies of individual IMF member countries. In recent years, it has also monitored broader global and regional trends. Under its surveillance programs, the IMF can point to weaknesses in an economy but does not have authority to enforce policy changes to address those weaknesses. Countries that do not need to borrow from the IMF have often shrugged off its advice. It is not clear under the current framework for the G-20 how the mutual assessments will translate into policy actions by participating countries on particular key issues such as correcting global imbalances that may require increasing savings in the United States or increasing spending in China.

²⁸ Treasury Department, “Press Briefing by Treasury Secretary Tim Geithner on the G20 Meeting Pittsburgh Convention Center,” press release, September 24, 2009, <http://www.treas.gov/press/releases/tg405.htm>.

²⁹ *Ibid.*, pp. 13.

³⁰ Financial Stability Board. Improving Financial Regulation: Report of the Financial Stability Board to the G20 Leaders. September 25, 2009.

³¹ http://www.g20.org/Documents/pittsburgh_summit_leaders_statement_250909.pdf.

³² E.g., see Chris Giles, “Three-Stage Plan for Growth,” *Financial Times*, September 26, 2009 and Chris Giles, “Spot the Difference,” *Financial Times*, September 23, 2009.

That said, even if the G-20 Framework is in practice similar to IMF surveillance, the G-20 Framework would raise the profile of monitoring economic policies to the leader level and would emphasize the importance of multilateral surveillance. It is also worth noting that “naming and shaming” has at times been an effective strategy for inducing reform. For example, the Financial Action Task Force on Money Laundering (FAFT)’s blacklist of non-cooperative countries and entities was effective in bringing about reforms on anti-money-laundering efforts.

Developing countries are publicly supportive of the Framework, but *The Economist* reports that they are uneasy about formalizing a realignment of global imbalances.³³ *The Economist* speculates that developing countries’ public support for the Framework is driven by suspicions that the policy reforms suggested by the mutual assessments will be difficult to enforce.³⁴ Moreover, some worry that efforts to address the problem of international financial imbalances without simultaneous efforts to address the conditions which caused the imbalances to occur might have unsatisfactory results.

Increasing the Representation of Emerging Markets in International Financial Institutions (IFIs)

There has been frustration among emerging-market countries that the IMF and the World Bank have not been reformed to reflect their increased weight in the world economy. The G-20 pledged a shift of at least 5% of the IMF quota share (which impacts voting power) from over-represented countries to under-represented countries by January 2011.³⁵ The G-20 leaders also committed to increase at least 3% of the voting power for developing and transition countries at the World Bank. Although the G-20 leaders agreed to this voting reform in the abstract, it has yet to be decided exactly which countries would lose or gain voting rights. Taking voting power away from countries is politically sensitive, and negotiations over the specifics of voting reform are expected to be difficult, particularly with European countries who are likely to lose voting shares in the reforms.³⁶ The United States, by contrast, is unlikely to lose voting power in the negotiations, as the United States is actually an under-represented country at the IMF. The United States chose to allow its proportional share to decline in recent decades, partly to make room for new members and partly to lower its financial obligation.

To date, voting reform at the IMF has garnered more attention than the World Bank. Which countries, more specifically, are over- and under-represented at the IMF? There is general agreement that each IMF member’s quota should broadly reflect its relative size in the world economy.³⁷ One way to gauge which countries are over- and under-represented at the IMF is to compare a country’s share of world GDP with its IMF quota share.³⁸ By this metric, countries

³³ “Regaining their Balance,” *The Economist*, September 26, 2009.

³⁴ *Ibid.*

³⁵ IMF quotas determine a country’s maximum financial commitment to the IMF and its voting power, and has bearing on its access to IMF financing.

³⁶ “Money, Votes and Politics,” *The Economist*, October 7, 2009.

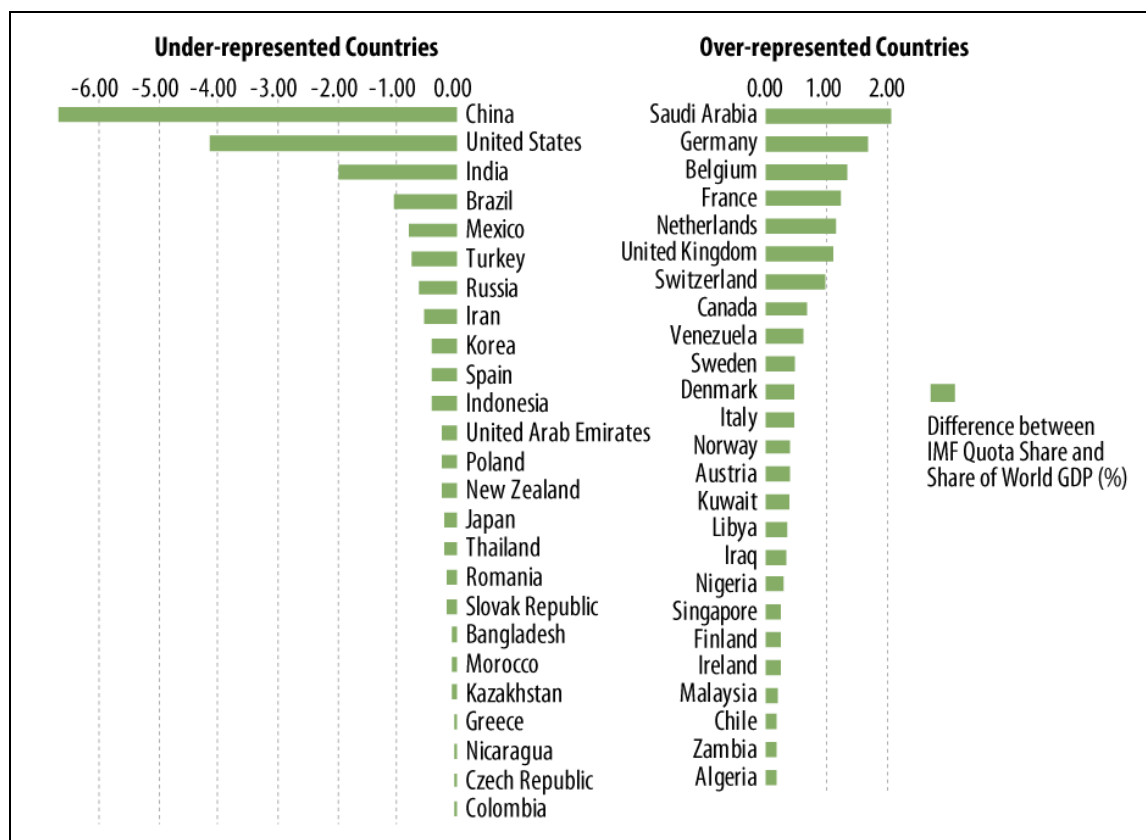
³⁷ E.g., see “IMF Quotas,” International Monetary Fund, October 31, 2009. Available at <http://www.imf.org/external/np/exr/facts/quotas.htm>. Also see “Quota Reform at the G-20,” Reserve Bank of Australia, February 2006. Available at http://www.treasury.gov.au/documents/1102/HTML/docshell.asp?URL=G20_Quota_Reform.htm.

³⁸ GDP used in this section is adjusted for purchasing power parity (PPP). GDP adjusted for PPP means that GDP is adjusted to account for differences in prices across countries. Others argue that market-based GDP, unadjusted for PPP, (continued...)

with quota shares that are larger than their share of world GDP may be considered to be over-represented at the IMF. For example, because Saudi Arabia's quota share in the IMF is 2.93% but its share of world GDP is only 0.71%, Saudi Arabia may be considered to be over-represented. Another example is Belgium, whose quota share is 1.93% even though its share of world GDP is only 0.59%.

By contrast, countries may be considered to be under-represented at the IMF when their quota share is smaller than their share of world GDP. The United States is generally considered to be under-represented at the IMF, with a quota share of 17.67% but 21.82% of world GDP. **Figure 3** shows examples of countries that are over- and under-represented at the IMF.³⁹

Figure 3. Examples of Country Representation at the IMF



Source: Data used in calculations from "Updated IMF Quota Day – September 2009," International Monetary Fund, September 23, 2009. Available at <http://www.imf.org/external/np/fin/quotas/2009/091509.htm>.

Notes: 25 IMF members with the smallest and largest differences between IMF quota share and share of world GDP. GDP is adjusted for purchasing power parity (PPP).

(...continued)

should be used. In the current IMF quota formula, GDP is a weighted average of market-based and PPP GDP, at 60% and 40% respectively. Using market-based GDP does produce slightly different rankings; Figures 3 and 4 are intended as examples and should not be taken as definitive rank orders of under- and over-represented countries.

³⁹ These are examples; see fn. 55.

The G-20 leaders also pledged that the heads and senior leadership of the international financial institutions should be appointed through an “open, transparent, and merit-based selection process.” This may affect the 60-year-old unwritten convention that the Managing Director of the IMF is selected by Western European countries and the President of the World Bank is selected by the United States. However, the wording in the G-20 statement is vague and to date there is no consensus within the U.S. government or internationally on how this would be implemented in practice.

Increased Funding of the Multilateral Development Banks (MDBs)

As the current financial crisis spread internationally during 2008 and 2009, more and more countries turned to the IMF and the World Bank for loans. IMF lending almost doubled from \$17.1 billion to \$32.54 billion between October and December 2008. Expecting a greater demand for IMF loans in the future, the G-20 leaders agreed at the London summit to triple the Fund's lending capacity to \$750 billion as part of a larger \$1.1 trillion package to increase IFI funding.⁴⁰ Specifically, the leaders agreed to increase the resources of the New Arrangements to Borrow (NAB), a supplemental fund that bolsters IMF resources, by up to \$500 billion. To fulfill this commitment, Congress approved the extension of a \$100 billion loan to the NAB in May 2009, included in the FY2009 Spring Supplemental Appropriations for Overseas Contingency Operations (P.L. 111-32). In the end, total new commitments to the NAB are greater than \$500 billion, more than originally expected.⁴¹

At the G-20 summit in Pittsburgh, the G-20 turned their attention to the lending capacity of the multilateral development banks (MDBs). Proposals have been made in all the MDBs in the past year suggesting that substantial increases in their capital stock are needed. There are two general reasons why the MDBs are requesting general capital increases. First, demand for loans is high. The current crisis and the resulting shrinkage in private capital flows is creating a large gap in the external financing needs for developing countries. The World Bank estimates this gap is between \$350 billion and \$635 billion for 2009 alone, and is expected to continue in 2010 and beyond.⁴² Second, it has been noted that the Inter-American Development Bank (IDB)'s request for a general capital increase comes on the heels of a loss of nearly \$1.9 billion in 2008.⁴³

An overview of these MDB proposals for capital increases are provided below:

- **International Bank for Reconstruction and Development (IBRD), a facility of the World Bank:** ⁴⁴ According to a report prepared by the bank's staff, the

⁴⁰ For more information, see: CRS Report R40578, *The Global Financial Crisis: Increasing IMF Resources and the Role of Congress*, by Jonathan E. Sanford and Martin A. Weiss.

⁴¹ International Monetary Fund, *Bolstering the IMF's Lending Capacity*, November 5, 2009, <http://www.imf.org/external/np/exr/faq/contribution.htm>.

⁴² World Bank, *Review of IBRD and IFC Financial Capacities: Working with Partners to Support Global Development*, October 5, 2009.

⁴³ Daniel Bases and Javier Mozzo, "IADB Should Increase Capital by \$150-\$180 Billion," *Reuters*, March 29, 2009.

⁴⁴ The International Bank for Reconstruction and Development (IBRD) is one of two World Bank facilities that lend directly to governments to finance projects and programs. The other facility is the International Development Association (IDA). The IBRD provides middle-income developing countries with loans at near-market rates using funds raised by the World Bank on the international capital markets. While many of these countries can borrow on the international capital markets, and are increasingly doing so, some seek loans from the World Bank to gain access to World Bank technical assistance and advisory services, as well as the prestige and legitimacy that come with World (continued...)

IBRD needs a capital increase in the range of \$2.8 billion and \$8.7 billion.⁴⁵ The IBRD's current capital base is \$190 billion.⁴⁶

- **International Finance Corporation (IFC), a facility of the World Bank:**⁴⁷ According to a staff report, the IFC needs a capital increase of \$1.8 billion to \$2.4 billion.⁴⁸ The IFC's current capital base is \$16 billion.⁴⁹
- **African Development Bank (AfDB):** In June 2009, the Board of Governors of the AfDB began consideration of a proposal to triple the institution's capital base to \$100 billion.⁵⁰
- **Asian Development Bank (AsDB):** On May 12, 2009, the Board of Governors of the AsDB agreed to triple the Bank's capital base, from \$55 billion to \$165 billion.⁵¹ Under the terms of the plan, each country will be eligible to subscribe shares totaling 200% of its current subscription by the end of 2010.
- **European Bank for Reconstruction and Development (EBRD):** The President of the EBRD has recommended to member countries that the institution's capital base be increased by 50% from €20 million to €30 million.⁵² In dollars, this is approximately an increase from \$30 million to \$45 million.
- **Inter-American Development Bank (IDB):** In March 2009, a commission appointed by President Luis Alberto Moreno of the IDB proposed that the financial base of the institution should be tripled through a new capital increase of up to \$180 billion.⁵³

The proposals are in the preliminary stages, and the Treasury Department is currently analyzing the capital needs of the different MDBs to see if any capital increase is warranted, and if so, how

(...continued)

Bank-backed projects. IDA was established in 1960, 16 years after the creation of the IBRD, due to concerns that low-income countries could not afford to borrow at the near-market rate terms offered by the IBRD. Consequently, IDA provides concessional loans and grants to poor countries funded by contributions from donors and transfers from the IBRD.

⁴⁵ World Bank, *Review of IBRD and IFC Financial Capacities: Working with Partners to Support Global Development*, September 29, 2009.

⁴⁶ Japan Credit Rating Agency, Ltd., Affirms AAA Ratings on International Bank for Reconstruction and Development; Outlook Stable, April 25, 2008, http://www.jcr.co.jp/english/top_cont/rat_info04.php?no=08i007&PHPSESSID=f809554a5fc99e428cfd7a0cf5ec7dd.

⁴⁷ The IFC was established in 1956 and promotes sustainable private sector development by financing private sector projects and companies in the developing world, helping private companies in the developing world mobilize financing international financial markets, and providing advice and technical assistance to businesses and governments.

⁴⁸ World Bank, *Review of IBRD and IFC Financial Capacities: Working with Partners to Support Global Development*, September 29, 2009.

⁴⁹ IFC, *IFC 2009 Financials, Projects, and Portfolio*, 2009, p. 4, [http://www.ifc.org/ifcext/annualreport.nsf/AttachmentsByTitle/AR2009_Volume2/\\$FILE/AR2009_Volume2.pdf](http://www.ifc.org/ifcext/annualreport.nsf/AttachmentsByTitle/AR2009_Volume2/$FILE/AR2009_Volume2.pdf).

⁵⁰ "African Development Bank Seeks Additional Capital-Treasurer," *Reuters Africa*, September 23, 2009.

⁵¹ The formal proposal may be found at Asian Development Bank. *Information on Subscription for the Fifth General Capital Increase*. May 2009. See <http://www.adb.org/Documents/Brochures/Fifth-General-Capital-Increase/general-capital-increase.pdf>.

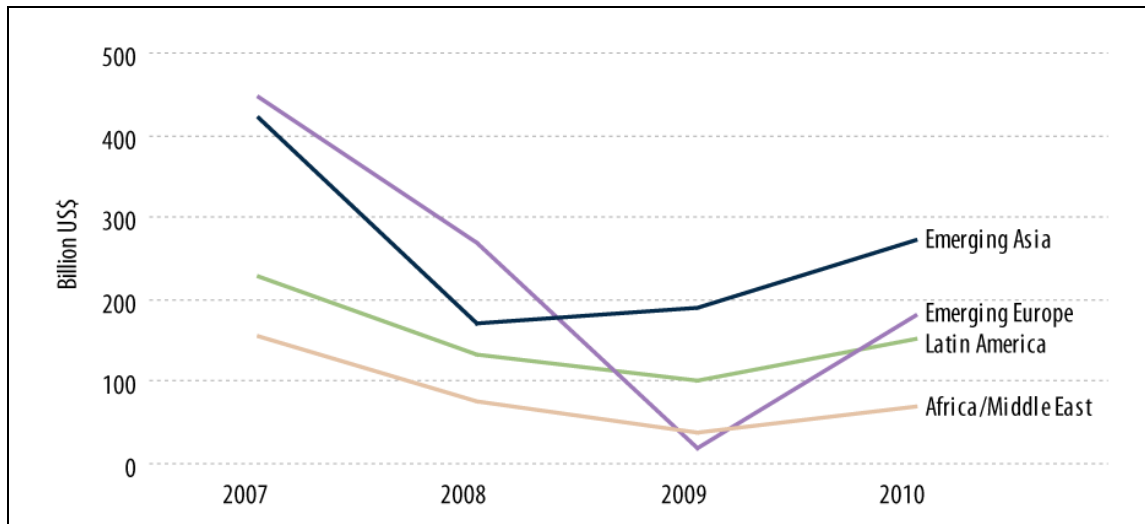
⁵² "EBRD Seeks 50% Increase in Capital," *Financial Times*, September 28, 2009.

⁵³ Joshua Goodman and Helen Murphy, "IDB Seeking Up to \$180 Bln in Capital to Boost Loans (Update2)," *Bloomberg*, March 29, 2009.

much it should be. The G-20 leaders have called on their finance ministers to consider how mechanisms such as temporary callable and contingent capital could be used to increase MDB lending in times of crisis. The current hope is to conclude negotiations on commitments for any general capital increases by Spring 2010. If the United States agrees to participate in a capital increase for any of the MDBs, it is anticipated that this would be included in the FY2012 budget. There is also strong indication that donors would require that a capital increase of any of the MDBs would be accompanied by reforms of the MDBs.

In the view of many, the need and size of any MDB capital increases would depend on the availability of private funds. Prior to the current global financial crisis, in 2007, net capital inflows to emerging markets were at a historic peak of \$1,252 billion in 2007.⁵⁴ Capital flows began slowing in 2008 and fell to \$349 billion in 2009. Capital flows to emerging markets are forecasted to rebound to \$672 billion in 2010. There are some important differences among regions, as shown in **Figure 4**. Capital has returned to emerging markets in Latin America and Asia more quickly than to emerging markets in Eastern Europe, Africa, and the Middle East.

Figure 4. Net Capital Inflows to Emerging Market Economies, by Region



Source: "Capital Flows to Emerging Market Economies," *Institute for International Finance*, October 3, 2009.

Notes: Data for 2009 and 2010 are forecasts. Emerging Europe includes Bulgaria, Czech Republic, Hungary, Poland, Romania, Russia, Turkey, and Ukraine. Latin America emerging markets include Argentina, Brazil, Chile, Poland, Ecuador, Mexico, Peru, and Venezuela. Emerging Asia includes China, India, Indonesia, Malaysia, Philippines, South Korea, and Thailand. Africa/Middle East emerging markets include Egypt, Lebanon, Morocco, Nigeria, Saudi Arabia, South Africa, and UAE.

The new lending capacity generated by new increases in the capital base of the MDBs would not be available to support expanded lending until at least 2012. It cannot be determined at this time whether private flows will have returned to the 2007 levels by that time and whether new loans or guarantees by the MDBs would be needed to attract or enhance such private flows. Also, it is not clear whether the high level of inflows seen before the crisis were sustainable or whether their size actually contributed to the severity of the crisis in some instances when the flow

⁵⁴ Data for this section is from "Capital Flows To Emerging Market Economies," *Institute for International Finance*, October 3, 2009.

precipitously declined. Overall, however, the resurgence of capital flows to emerging markets raises questions about the need for permanent capital increases, and, if reform fatigue sets in, it is unclear how much momentum this issue will have going forward.

Official Development Assistance

Concern about the toll of the current global financial crisis on low-income countries has been a central feature at the G-20 summits. The G-20 leaders have reaffirmed their resolve to meet the Millennium Development Goals (MDGs) and the foreign aid commitments to Africa put forth at the 2005 G-8 summit in Gleneagles, Scotland.⁵⁵ The G-20 also pledged to take new steps to increase access to food, fuel, and finance among the world's poorest. Specifically, the G-20 leaders called on the World Bank to develop the new trust fund to support the new Food Security Initiative for low-income countries that was announced in the summer of 2009. The G-20 also pledged, on a voluntary basis, to increase funding for programs to bring clean and affordable energy to the poorest, such as by providing funding for the Scaling Up Renewable Energy Program and the Energy for the Poor Initiative. The G-20 agreed to support the safe and sound spread of new modes of financial service delivery capable of reaching the poor, building on the example of micro finance. The G-20 also pledged to launch a "G-20 SME [small and medium-sized enterprise] Finance Challenge," which is a call to the private sector to put forward its best proposals for how public finance can maximize the deployment of private finance on a sustainable basis.

There is general concern that pledges to meet existing aid commitments may fall short. The MDG Gap Task Force, created by the Secretary-General of the United Nations to monitor progress on reaching the MDGs, has expressed concern that foreign aid may fall due to the crisis at a time when aid needs to increase in order to reach the MDGs.⁵⁶ Additionally, the MDG Gap Task Force is concerned that the distribution of aid is skewed to a just a couple of countries, specifically Iraq and Afghanistan.

Whether the G-8 will meet the targets for aid to Africa, as promised in Gleneagles, is also in question. According to the organization ONE, which monitors aid commitments and disbursements to Africa, this is primarily caused by shortfalls from a few G-8 members, particularly Italy and France.⁵⁷ Other G-8 members, including Canada, Japan, and the United States, are on track to meet their G-8 Gleneagles commitments to Africa.⁵⁸

Given the difficulty in meeting existing aid commitments, it is unclear as to what extent the G-20 members will take the steps necessary to implement the new programs aimed at increasing access

⁵⁵ The Millennium Development Goals are a series of eight development goals, ranging from halving extreme poverty to halting the spread of HIV/AIDS, to be reached by 2015. The Millennium Development Goals were agreed to by world leaders at the United Nations Headquarters in New York in 2000. In order to help reach the Millennium Development Goals, leaders at the G-8 summit in Gleneagles, Scotland in 2005, committed to doubling aid to Africa by 2010. This agreement is often referred to as the "Gleneagles commitments." Russia did not commit to raising aid to Africa, leading some to refer to the Gleneagles commitments as made by the G-7. For more on U.S. foreign aid see: CRS Report R40213, *Foreign Aid: An Introduction to U.S. Programs and Policy*, by Curt Tarnoff and Marian Leonardo Lawson.

⁵⁶ Millennium Development Goal (MDG) Gap Task Force, *Strengthening the Global Partnership for Development in a Time of Crisis*, 2009.

⁵⁷ ONE, *The Data Report 2009: Monitoring the G8 Promise to Africa*, May 19, 2009.

⁵⁸ Ibid.

to food, fuel, and finance in low-income countries. Some have pointed out that details of the new plans are sparse, contributing to questions about their implementation.⁵⁹

A Green Recovery

As the current financial crisis has begun to seemingly bottom out, the G-20 leaders have turned to other issues, including the environment. The G-20 leaders have committed to eliminating fossil fuel subsidies over the medium-term and reach an agreement on reducing greenhouse gas emissions at the U.N. Climate Change conference in Copenhagen in December 2009.⁶⁰

Support for the ban on fossil fuel subsidies comes from the Obama Administration, who pushed for the G-20 commitment in Pittsburgh.⁶¹ It is estimated that the removal of fossil fuel subsidies by 2020 would reduce greenhouse gas emissions by 10% in 2050, and it is reported that the President views the elimination of fossil fuel subsidies as a “down payment” on the international goal of reducing greenhouse gas emissions by 50% from 1990 levels by 2050.⁶²

In addition to the environmental benefits, eliminating fossil fuel subsidies may also even out the large price swings that have characterized the oil markets in recent years.⁶³ With fossil fuel subsidies, increases in the price of oil are not necessarily passed on to consumers. This means that demand for oil can continue to rise even as oil prices increase and in fact further contribute to the price increase, leading to large upswings in the price of oil. Stabilizing oil prices may prove important as the current financial crisis has led to what some see as under-investment in the energy sector, such as energy companies drilling fewer oil and gas wells. Under-investment in the energy sector may lead to higher energy prices, particularly for oil and electricity, in a few years.⁶⁴ Additionally, elimination of fossil fuel subsidies may ease the budget deficit problems of many countries.

Eliminating fossil fuel subsidies may prove difficult. Governments in low-and middle-income countries, who spend \$310 billion a year on fossil fuel subsidies compared to the \$20-30 billion spent annually by developed countries, may be reluctant for political reasons to eliminate these subsidies.⁶⁵ In 2008, cuts in subsidies in Egypt, India, and Indonesia resulted in street protests and political upheaval.⁶⁶ Eliminating fossil fuel subsidies in rich countries may also face obstacles. The Environmental Law Institute, a think-tank, estimates that the United States spent \$72 billion on fossil-fuel subsidies between 2002 and 2008.⁶⁷ Elimination of fossil fuel subsidies would

⁵⁹ See e.g., "G20 asks World Bank to set up agriculture fund," *Reuters*, September 25, 2009.

⁶⁰ For more information, see: CRS Report R40910, *Status of the Copenhagen Climate Change Negotiations*, by Jane A. Leggett and Richard K. Lattanzio.

⁶¹ Ben Geman, "White House Wants Fuel Subsidy Cuts on G-20 Agenda," *Washington Post*, September 16, 2009.

⁶² "Fossilised Policy," *The Economist*, October 1, 2009.

⁶³ "No Free Lunch: The G-20's Case Against Fossil-Fuel Subsidies," *Wall Street Journal*, September 25, 2009.

⁶⁴ International Energy Agency, *World Energy Outlook 2009*, November 10, 2009.

⁶⁵ "Fossilised Policy," *The Economist*, October 1, 2009.

⁶⁶ *Ibid.*

⁶⁷ Environmental Law Institute, *Estimating U.S. Government Subsidies to Energy Sources: 2002-2008*, September 2009.

require Congressional approval, and it is expected that the oil industry would strongly oppose such legislation.⁶⁸

Reaching an agreement on reducing greenhouse gas emissions, as a successor to the Kyoto Protocol, at the United Nations Framework Convention on Climate Change (UNFCCC) in Copenhagen in December 2009 may also face difficulties.⁶⁹ Some economists estimate that a new international agreement to reduce greenhouse gas emissions would cost \$100 billion a year by 2020, and it is not clear who would foot the bill.⁷⁰ Developing countries susceptible to adverse effects of climate change have also expressed concerns that the size of the cuts in greenhouse gas emissions being discussed are not big enough. Developed countries want more concrete promises from developing countries, and even among developed countries there are disagreements about how much emissions should be cut by.

Preparatory talks held in Bangkok in October 2009 have resulted in leaders downplaying expectations, suggesting that the December 2009 summit will merely lay the groundwork for negotiations in 2010.⁷¹ In mid-November, President Barack Obama conceded at the Asia Pacific Economic Co-operation (APEC) summit in Singapore that it was unlikely that a new agreement on greenhouse gas emissions would be reached at the December summit in Copenhagen.⁷² However, it is reported that President Obama intends to tell delegates at the conference that the United States is committed to reducing its greenhouse gas emissions in the range of 17% below 2005 levels by 2020 and 83% by 2050.⁷³ The 17% reduction is consistent with the legislation passed by the House in June 2009 (H.R. 2454). The Senate has not passed legislation on greenhouse gas emissions; equivalent legislation is pending in the Senate.

Conclude WTO Doha Round of Multilateral Trade Negotiations

The G-20 leaders have also pledged to conclude the WTO Doha Round of multilateral trade negotiations in 2010. Doha negotiations have been stalled since 2001 due to differences among the United States, the European Union, and developing countries on major issues including agriculture, industrial tariffs, non-tariff barriers, and services.⁷⁴

To date, there appears to be a disconnect between the pledges of the G-20 leaders and the lack of specific negotiations on the ground to meet this goal. It is not evident that WTO members have made progress in resolving the stalemate over the Doha negotiations, and the G-20 pledge to get the Doha Round back on track by next year is viewed by many as unlikely to be met.⁷⁵

Confidence might be enhanced if the G-20 discussed the basic controversies deadlocking the Doha negotiations rather than just announcing their intent to reach agreement.

⁶⁸ "Fossilised Policy," *The Economist*, October 1, 2009.

⁶⁹ The Kyoto Protocol is a 1997 climate change agreement that set greenhouse gas emissions targets for industrialized countries. It was never ratified by the United States.

⁷⁰ "United Nations Framework Convention on Climate Change," *New York Times*, accessed October 21, 2009.

⁷¹ "Bangkok Blues," *The Economist*, October 15, 2009.

⁷² Edward Luce, Kevin Brown, and Fiona Harvey, et al., "Obama Damps Climate Hopes," *Financial Times*, November 16, 2009.

⁷³ John M. Broder, "Obama to Go to Copenhagen with Emissions Target," *New York Times*, November 25, 2009.

⁷⁴ For more on the Doha negotiations, see: CRS Report RL32060, *World Trade Organization Negotiations: The Doha Development Agenda*, by Ian F. Fergusson.

⁷⁵ E.g., see "Regaining Their Balance," *The Economist*, 26 September 2009.

This skepticism surrounding Doha is underscored by the fact that G-20 members by and large have not refrained from protectionist trade policies in the face of the current global financial crisis. Data from Global Trade Alert (GTA), an independent and privately funded organization, indicate that G-20 members have implemented a total of 139 policies that almost certainly discriminate against foreign commercial interests between November 2008 and October 2009.⁷⁶ The scope of these measures are also fairly substantial, affecting on average 12 sectors and 77 trading partners. Furthermore, there are an additional 194 policies that the G-20 countries have implemented or announced that are likely or almost certainly discriminatory against foreign commercial interests. A report by the World Bank reports similar movements toward protectionist trade policies, but notes that these measures are believed to have had only marginal effects on trade.⁷⁷ Overall, the protectionist backlash appears to have been much lower than during the Great Depression in the 1930s.

Implications of the Transition from the G-7 to the G-20

Will the Transition to the G-20 Help or Hinder Economic Cooperation?

Fundamental questions for U.S. foreign economic policy are whether the shift from the G-7 to the G-20 will help or hinder efforts at international economic cooperation, and how it might affect US interests. Some argue that the shift will foster international economic cooperation. Including a broader membership, it is argued, will give greater legitimacy to the agreements reached by the G-20, since they are not just decided by the “rich club” of countries. Likewise, emerging-market countries, especially China and India, are big players in international financial markets, and it is argued that they should be included in international financial discussions. Additionally, expanding the G-7 to the G-20 may help the G-7 gain favor with large emerging-market countries, which could facilitate cooperation in non-economic areas such as climate change.

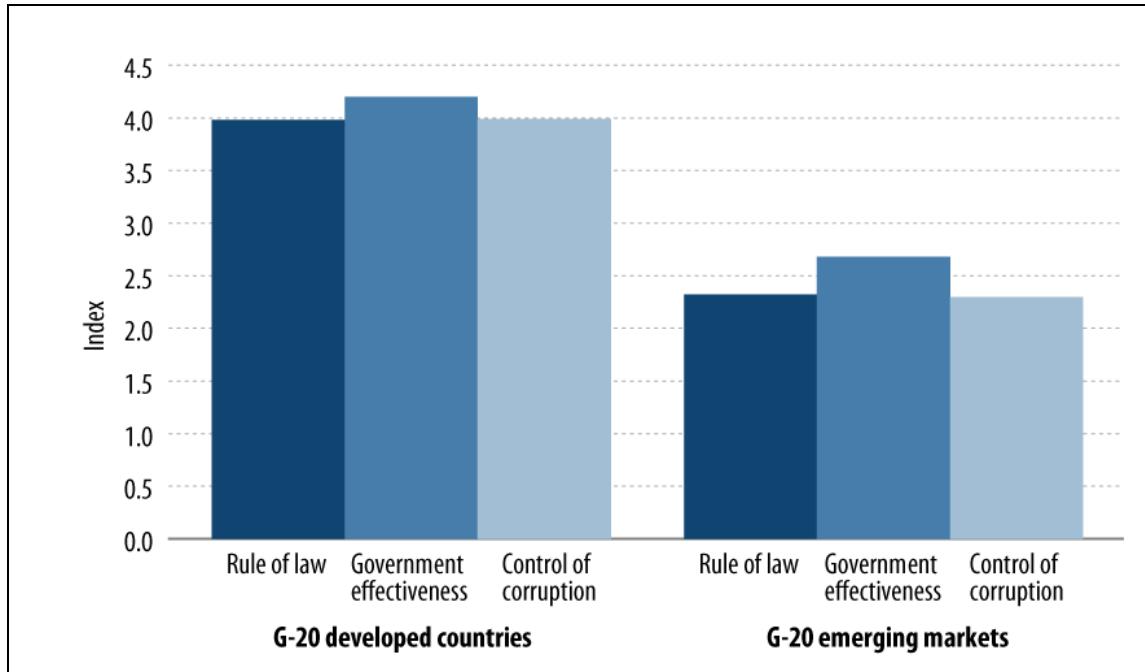
Others argue expanding the G-7 to the G-20 will weaken or undermine efforts at international economic cooperation. The G-20 countries are a heterogeneous group of countries with different political and economic philosophies. Including such a large, heterogeneous group of countries in the same forum, some argue, will limit the scope of the agreements reached, or the ability to reach agreements at all. In the same vein, some argue that record of implementation of the agreements reached by the G-20 will be worse than the implementation record of the G-7. G-20 emerging-market countries look a lot different than G-20 developed countries on a number of factors that could impact implementation, including rule of law, government effectiveness, and control of corruption, as shown in **Figure 5**. Of course, agreement among a homogeneous group of

⁷⁶ <http://www.globaltradealert.org/> Accessed October 20, 2009. GTA is coordinated by the Centre for Economic Policy Research (CEPR) and has been cited extensively in the media, including *The Economist*, *Forbes*, *The Financial Times*, and *The Wall Street Journal*.

⁷⁷ Elisa Gamberoni and Richard Newfarmer, *Trade Protection: Incipient but Worrisome Trends*, International Trade Department, World Bank, Trade Note #37, March 2, 2009. http://siteresources.worldbank.org/NEWS/Resources/Trade_Note_37.pdf.

advanced industrial democracies may not much help resolve world problems if other countries do not participate.

Figure 5. Selected Governance Indicators for the G-20 Developed and Emerging-Market Countries



Source: Daniel Kaufmann, Aart Kraay and Massimo Mastruzzi, "Governance Matters VIII: Governance Indicators for 1996-2008," *World Bank Policy Research*, June 2009.

Notes: Data on a five point scale (re-scaled from 0 to 5), where higher scores correspond to better outcomes. G-20 developed countries include Australia, Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States. G-20 emerging-market countries include Argentina, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa, South Korea, and Turkey. Governance indicators are calculated by Kaufman, Kraay, and Mastruzzi using a large number of individual data sources, including surveys of firms and individuals as well as the assessments of commercial risk rating agencies, non-governmental organizations, and a number of multilateral aid agencies and other public sector organizations. "Rule of law" captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. "Government effectiveness" captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. "Control of corruption" captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as capture of the state by elites and private interests.

Still others argue that international economic coordination will be no different under the G-20 than it was under the G-7. One rationale is that emerging-market countries have been de facto participants in the G-7 for several years and their views had already been incorporated in the G-7. An alternative rationale is that, in practice, the G-7 will dominate the G-20 negotiations and emerging-markets will have less influence over the discussions.

It is worth noting that some of these views are not necessarily mutually exclusive. It is possible to imagine, for example, a situation where the G-20 makes fewer commitments than the G-7, but the commitments that the G-20 does reach are seen as more legitimate than those reached by the G-7.

Is the G-20 the Right Group of Countries?

When the developed countries decided to include emerging markets in discussions on policy responses to the crisis, the G-20 was an expedient choice because it was a well established group that encompassed the G-7 and several large emerging-market countries. The G-20 members were selected by the G-7 when the G-20 was formed in 1999, and the decision on which countries to include reflected a need for broad geographic representation and systemic economic importance.⁷⁸ The membership of the G-20 has not changed since its establishment.

Some argue that the G-20 was the right choice for expanding the G-7, because the G-20 represents two-thirds of the world's population, 90% of world GDP, and 80% of world trade.⁷⁹ A mix of policymakers and academics have long advocated replacing the G-7 by the G-20, or at least making the G-20 a more prominent economic forum.⁸⁰

Others have reservations with respect to whether the G-20 is the right group of developed and emerging-market countries. With the developed countries, there are concerns that European interests are still over-represented in the G-20, with Europeans taking up five of the 20 slots (Germany, France, Italy, the United Kingdom, and the European Union). This problem is exacerbated by Spain and the Netherlands, who have gained attendance to all three G-20 summits even though they are not official members. That said, some maintain that, based on economic weight, Spain is a more justified member of the G-20 than Italy.

There are also questions about the selection of large emerging-market countries. Some argue that several emerging markets are not included in the forum, but should be based on their economic and political importance. Poland, Thailand, Egypt, and Pakistan are typically cited as examples.⁸¹ **Table 2** shows that there are 13 countries that are not members of the G-20 but whose economies are as large as other G-20 members. It is unlikely that any current members of the G-20 would resign or could be pushed out in order to allow new countries to join. One issue that may confront the G-20 in the future is how to balance, on one hand, fair representation in the forum and, on the other hand, keeping the size of the forum manageable.

⁷⁸ Brookings, *The G-20 (Group of 20)*, http://www.brookings.edu/reports/2009/~/media/Files/Programs/Global/backgrounders/G20_backgrounder.ashx.

⁷⁹ Arvind Panagariya, *The G-20 Summit and Global Trade: Restore Credit and Resist Protectionism*, Brookings, March 14, 2009. Trade data includes intra-EU trade.

⁸⁰ For an overview of these proposals, see Peter I. Hajnal, *The G8 System and the G20* (Ashgate, 2007), ch. 12.

⁸¹ "G20 Gains Stature But is Overambitious," *Oxford Analytica*, September 28, 2009.

Table 2. World's Largest Countries and Entities, by GDP

2008 data, billions of U.S. dollars

Rank	G-20 Members	Non G-20 Members	GDP
1.	European Union		\$18,493
2.	United States		14,195
3.	Japan		4,867
4.	China		3,942
5.	Germany		3,653
6.	France		2,843
7.	United Kingdom		2,833
8.	Italy		2,330
9.	Russia		1,699
10.		Spain	1,623
11.	Brazil		1,621
12.	Canada		1,571
13.	India		1,233
14.	Australia		1,047
15.	South Korea		999
16.	Mexico		950
17.		Netherlands	863
18.	Turkey		748
19.		Belgium	507
20.		Sweden	503
21.	Indonesia		488
22.		Switzerland	473
23.	Saudi Arabia		464
24.		Norway	459
25.		Poland	451
26.		Austria	419
27.		Taiwan	409
28.		Iran	364
29.		Greece	362
30.		Denmark	349
31.		Venezuela	335
32.	Argentina		324
33.	South Africa		296

Source: IMF World Economic Outlook.

Notes: The European Union (EU) includes 27 countries.

Beyond the Current Crisis: What Will the G-20's Focus Be?

As the G-20 summits have progressed, the scope of discussions has broadened to include a diverse set of issues, ranging from IFI reform to food security to climate change. Some have suggested that the G-20's agenda has become too ambitious.⁸² When the crisis does wind down, it is not yet clear whether the G-20's focus will return to more traditional economic policy coordination (such as exchange rates and trade) or if the new policy items on the G-20's Pittsburgh agenda will become the primary focus of the forum.

In addition, it is still to be seen how the G-20 will fit in with existing international institutions. Much of the London and Pittsburgh G-20 communiqués is devoted to reiterating commitments made in other venues, such as the WTO (for trade) and the United Nations (for climate change, for example). On one hand, the G-20's focus at the leader level on trade and climate change may provide the jolt necessary to make progress on international negotiations that have stalled for years. Likewise, the G-20 may facilitate trade-offs among major concerns that would not be possible in issue-specific forums. On the other hand, the G-20 may find it difficult to make progress on policy areas that have proven so difficult to get traction on in the past. The G-7 often made decisions which were then taken to the IFIs for implementation, and it is not clear whether the G-20 will have the same leadership capacity.

Finally, it is worth noting that it has been only in the most recent summit that global imbalances have been explicitly addressed in the G-20 communiqués. This is partly due to the fact that correcting imbalances was not an immediate way to "stop the bleeding," but it is also partly due to the fact that global imbalances are politically sensitive. For the reasons discussed above, there is some skepticism that the G-20's proposal to correct global imbalances will carry much weight.⁸³ China is hinting it will be strengthening its currency, the renminbi, which would help correct global imbalances,⁸⁴ although these signals have been mixed. To the extent that further action would be needed, policymakers may need to find other forums, institutions, or bilateral discussions to address these issues. The issue of imbalances has, for example, been acknowledged in bilateral discussions between the United States and China in the "U.S.-China Strategic and Economic Dialogue" (or "S&ED"), although this has not translated into concrete steps or plans of action on this issue. Other countries might be seriously affected by the consequence of bilateral deals, however, and this might complicate settlement of related issues affecting more countries in other contexts.

⁸² Ibid.

⁸³ E.g., see Nouriel Roubini, "A Balanced Global Diet," *New York Times*, October 28, 2009.

⁸⁴ Geoff Dyer, "Chinese Hint at Stronger Renminbi," *Financial Times*, November 12, 2009.

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